

NEW ZEALAND ASSOCIATION OF ECONOMISTS (INC.)
P.O. BOX 568, WELLINGTON, NEW ZEALAND

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ASymmetric information

A newsletter to promote the exchange of information, news and ideas among members of the New Zealand Association of Economists (Inc).

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Hopes Dashed

EDITORIAL

We had hoped to include a response to the last issue's article by Veronica Jacobsen which asked, "Is economics a profession?" We wanted someone to state that: i) economists are hired for their expertise, but there are no clear guidelines as to what is acceptable; ii) that people are not safeguarded by the corporate market being the main employer in "David and Goliath" situations; iii) that it is no more acceptable to rely on judges to determine which economist expert witness to believe than it is to have, as a judge a French oratory contest, someone with no knowledge of French; and iv) that in some areas of law at least, "expert's" are required to belong to a professional body with an acceptable complaints procedure - but it was not to be.

Another item on our wish-list was people declaring their availability for seminars elsewhere in the country. Not only would this provide useful networking, but it would be most beneficial for newly arrived economists wishing to meet colleagues and see some of the country. Our hopes were dashed by the lack of response. It may be that these people are too shy. Perhaps seminar organisers should scour the web pages of organizations that employ economists to see whom they can entice out into the open.

by Stuart Birks and Gary Buurman, Massey University

Editors' Mailbox

One interesting pointer sent in recently was to the web page for *Economic Intuition* at: <http://www.economicintuition.com/>. As it says, it is "a quarterly publication which turns long and technical research articles into concise and easy-to-grasp executive summaries". There are some gems there. The article on limits to growth argues that we are now well able to generate ideas, and are constrained by our ability to process those ideas. Another article considers why German firms are willing to provide general training to their workers whereas American firms would be afraid of poaching. There are other free sample articles available, and subscription is cheap.

Someone else suggested the World Bank's site on social capital at: <http://www.worldbank.org/poverty/scapital/index.htm>. To quote: "**Social capital** is defined as the norms and social relations embedded in the social structures of societies that enable people to coordinate action to achieve desired goals." As they say, "This web site is the World Bank's link with external partners, researchers, institutions, governments and others interested in understanding and applying social capital for sustainable social and economic development."

Quingliu Li is an Associate Professor at Hebei Agricultural University in China. He wishes to further his research on foreign direct investment, Pacific Rim economic development, international economics, or related fields as a Visiting Fellow. For a copy of his CV and additional details, email K.S.Birks@massey.ac.nz.

We invite members to submit a brief article on any issue of interest to NZAE members, and/or comments and suggestions. Enquiries and contributed articles should be sent to Stuart Birks and Gary Buurman [K.S.Birks@massey.ac.nz]. Views and opinions expressed in these articles are those of the authors, and do not represent the views of the New Zealand Association of Economists.

NZAE CONFERENCE 2000

DATES: Wednesday 12th – Friday 14th July inclusive

VENUE: Quality Hotel, Willis Street, WELLINGTON

(If booking accommodation with hotel please state it is for the 'Economist Conference' – to receive the negotiated room rate of \$105.00 plus gst per night)

REGISTRATION FEE and other charges will be detailed in our registration form which is being sent to all members with this newsletter.

Peter Hartley (Rice University) will be one of the Guest Speakers, while he is in New Zealand with the Business Roundtable.

PLANNED and PROPOSED THEMED SESSIONS:

- Short Term Outlook for the NZ Economy
- Strategic Issues for the NZ Economy
- Teaching Economics- Workshop
- Consultants Corner workshop for economic consultants
- Law and Economics Association session

The programme is still very much at the planning stage but we will be aiming to inform and foster a dialogue between working economists and others interested in economic issues – there will also be sessions to accommodate papers offered on other topics.

REQUEST FOR PAPERS:

You can help by:

- organising a themed session
- reporting on completed research
- reporting on work in progress
- offering to chair sessions or discuss papers

The format for Themed Sessions is up to the organisers. There is some flexibility as to the structure for presentations in categories 2 and 3, but guidelines are as follows:

- Total time per paper 40 minutes maximum
- Presentations should be limited to 20 minutes to allow for questions
- If you are using visual aids, please make sure the audience can read them! (font size 18pt. or larger!)
- We'd welcome your suggestion for a discussant - one will be assigned to each paper and allowed 10 minutes.
- Presentations should be designed to encourage participation. Remember the audience are informed but non-specialist economists

The Announcement and Call for Papers together with Procedures for the Submission of Abstracts are being posted out together with this issue of Asymmetric Information.

Please address preliminary enquiries to:

**Val Browning
Administrator
NZ Association of Economists (Inc)
P O Box 568
WELLINGTON**

**Phone: 04 801 7139
Fax: 04 801 7106
E-mail: economists@nzae.org.nz**

PRIZE FOR BEST PRESENTED STUDENT CONFERENCE PAPER

Entry to the **Jan Whitwell Prize** for 'best presented Student Conference Paper' is open to persons who are either engaged currently in full time study or have completed a thesis or full time study during the preceding eighteen months.

Participants must enter for the award at the time of their registration for the Conference of the New Zealand Association of Economists, with solo authored papers only being eligible for the award.

Judging will be conducted by a panel appointed by the President and Vice-President of NZAE, with judging being based on the oral presentation only, taking into account:

- the clarity of the objectives
- empathy with the audience
- quality of the economic analysis
- clarity of the presentation

The winner of the Jan Whitwell Prize will receive \$350.

STUDENT MEMBERS WILL RECEIVE FORMAL NOTIFICATION WITH THEIR NOTIFICATION OF THE ANNUAL CONFERENCE

Non-members who qualify may obtain information on NZAE, the Annual Conference and the 'Jan Whitwell Prize' from:

Val Browning
Administrator
NZ ASSOCIATION OF ECONOMISTS (Inc)
P O Box 568
WELLINGTON
Tel. 04 801 7139
Fax.04 801 7106
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Email. economists@nzae.org.nz

NZAE National Survey of Members and Students

The survey was mailed to 380 members, of whom 56 responded. At about a 15% response rate, this is better than the 10% that is apparently be expected with surveys of similar organizations. There was a draw from the respondents' names and the \$50 book voucher was won by Evan Roberts of Wellington.

Overall, respondents were satisfied with the operation of the Association, although the range of interests (about 25 distinct subject areas were suggested) meant that it would be hard to please everyone.

It seems that most respondents' employers encouraged continuing professional development (yes 44, no 4, no response 8). Some respondents suggested that the Association offer short courses on topical issues, and this is being considered.

A few people suggested an email list as a means of networking among members.

There is a clearly expressed need for an organization such as the NZAE, which should have active members involved in policy debate and sharing their knowledge. The constraint is the wide range of areas in which members work.

From the 2BRED File

By Grant M. Scobie (grant.scobie@treasury.govt.nz)

Welcome to the 2BRED File. For many years I have kept a file of things I would like to read – and sometimes I even succeed. It includes interesting bits and pieces (of the sort “that are bound to come in handy”), snippets for teaching, new books, an essay from a web site, a newspaper or magazine article. Economic history, politics, law, sociology, biology, management, philosophy – all go in my grab bag.

I have always enjoyed Bernard Saffran's column "Recommendations for Further Reading" in the *Journal of Economic Perspectives*. With that in mind as a model, I have agreed with the editors of *Asymmetric Information*, to do a somewhat similar, but much shorter, column in each issue of this newsletter. It would have a NZ flavour, but not be limited to things published in NZ or about NZ - rather it would aim at things that might interest Kiwi readers.

So this is a plea for your help - when you stumble on something interesting, a bit different, a good book, an article, a web site essay, an editorial column -could you send me your suggestions.

Why nations or races developed when they did and in the manner they did, has always struck me as one of the more challenging questions, which economics can take on. In meeting that challenge it needs all the help it can get from other disciplines. The neo-imperialism of economics has but a limited place in trying to address these really big questions. I find that works which blend history, politics, economics, law and cultural anthropology to mention but some ingredients, provide a rich grist that makes for insights; and if they are well written to boot we have a recipe for stimulating and enjoyable reading. Let me mention three such books that to my mind have achieved this wonderful blend of the disciplines, combined with fine penmanship.

David S. Landes, Emeritus Professor of History and Economics at Harvard has produced a veritable tome: *The Wealth and Poverty of Nations: Why Some Are So Rich and Some So Poor* (W.W.Norton & Co, New York: 1998). He notes that the gap between the richest and poorest nations is today some 400 to 1; yet just 200 years ago this was possibly no more than 5 to 1. That fact alone is enough to drive the quest for understanding of the differences between rich and poor. The work is a sweeping survey of development, richly footnoted and referenced (the bibliography runs to 68 tightly printed pages) - not a casual read, but the persistent will be rewarded.

No less scholarly but more of the "good read" is the Pulitzer Prize winning book *Guns, Germs and Steel: The Fate of Human Societies* by Jared Diamond (W.W.Norton & Co, New York:1997). This time a

Professor of Physiology at the UCLA School of Medicine shares his insights gleaned from evolutionary biology and the interactions with human societies. In the author's words: "history followed different courses for different peoples because of differences among peoples' environments...". He spends a third of the book on the domestication of plants and animals and its influence on human development. I found fascinating his contrast between the Chatham Islands and the New Zealand mainland as a natural experiment in historical development.

The same rich multidisciplinary fabric is used by Daniel Cohen (Professor at Sorbonne) to cut out another work on this theme. This time a very small, short but brilliantly written book: *The Wealth of the World and the Poverty of Nations* (MIT Press, Cambridge: 1998). Translated from the original French, it addresses modern issues of globalisation, immigration, employment and poverty in 125 A5 pages, many of which were so full of gems I went back over them several times.

As a postscript, I would add to these three, a golden oldie. When one reads in this broad area, I never tire of the blend of economic theory and rich historical illustration that Mancur Olson achieved in: *The Rise and Decline of Nations* (Yale University Press, New Haven: 1982). Along with Douglas North, Olson helps us understand the role of institutional change and rent seeking. What a shame his recent death deprived us of more works like this.

In introductory courses, economists commonly stress the limitations of national aggregates such as GDP, explaining why they are poor measures of a society's well-being. Standard reservations include the impact of externalities, war, and natural disasters, and the focus on market activities. Those who would wish to read more than is warranted into the measures, and the critics who want the measures to cover more than they do, may like to note the following minor irritations.

The variety of activities are aggregated through the use of price. In the ideal situation, price equals the value of the marginal unit, and total value is price times quantity. In other words, all units of a good or service are counted at the value of the marginal unit. This can cause problems. Imagine a good with an inelastic demand produced in a competitive market. What if it experiences a rightward shift in its supply curve? More would be consumed, people might be assumed to be better off, but there is a fall in total revenue.

On a broader level, the omission of unpaid work in national accounts has been criticised. The reasoning is oversimplified. It is unclear what a measure inclusive of unpaid work would actually tell us. It would not be a measure of total output because it is only measuring the labour component of unpaid work - there is no recognition of the capital used (washing machines, ovens, lawn mowers, etc.). It would not be a measure of the contribution of labour, paid and unpaid, because GDP-type measures include not only payments to labour, but also the return to capital. It would not be a measure of efficient use of labour because, even if labour markets operate efficiently, the unpaid work sector has more in common with traditional subsistence sectors where disguised unemployment can occur. It would not be a measure of output - unpaid work is measured as an input, not in terms of outputs produced. Nor would it be a measure of welfare, because the values of leisure and "personal care" (as used in the much publicized Time Use Survey) are not included, although these are valid alternatives to paid and unpaid work.

These problems extend to questions of income distribution. If aggregate measures of income are inappropriate measures of overall well-being, then it is equally inappropriate to use the components of these measures to assess relative well-being. We can identify several specific problems.

It is notable that paid work is measured in terms of income, without regard for effort expended, whereas unpaid work is measured in terms of time spent (a

crude measure of effort), without regard for the value of things produced. Time is a particularly poor measure when people are simultaneously engaged in two or more activities, as is observed in time-use studies.

For comparisons of men's and women's incomes, the basic unit is commonly the individual. Analysts may then use the results to indicate relative well-being and access to resources. This ignores intra-family transfers and income-sharing within a household. Even wealth comparisons consider recorded wealth without regard for unrealised entitlements to partners' assets such as superannuation under the Matrimonial Property Act. The proceeds of unpaid work are also overlooked.

Even where studies report on families as the basic unit of analysis, there are inaccuracies. This is highlighted by the use of the term, "sole parent family". Unless a parent is dead, children have two parents. The problem arises from the definition of family. In both the census and the Time-Use Survey, for example, families are subsets of households, and data are gathered for households. There is no consideration that families may be spread over two or more households. This causes problems with consideration of membership and of household income. A child's time with a non-custodial parent is not considered in the assessment of either household. Inter-household transfers are also poorly measured in these two studies. For example, tax-free child support receipts by the custodial parent's household count as gross household income, and the liable parent's household income makes no allowance for its child support payments from after-tax income. We see a similar problem with superannuation, where lump-sum payments can be made from one individual/household to another after separation on the basis of someone's future superannuation entitlement, although income figures are not subsequently adjusted. The problems arise because data are collected on the basis of outdated assumptions of family stability.

While criticizing the current system, Marilyn Waring has said of the Time Use Survey that, "*This will be the single most exciting information base established as a vehicle for change in my lifetime*". Her claim may be exaggerated. The Child Support office of the Inland Revenue Department estimate that there could be 545,000 people on their customer base by 2005. There is an urgent need to redefine "family" in our data-gathering.

Web-sites for economists

Having three years of experience with internet job sites for economics, I thought I would use this opportunity to share what I found to be five of the more useful sites.

The main source of international jobs on the internet is *Job Openings for Economists* (JOE) at <http://www.eco.utexas.edu/joe/about.html>.

Universities of any significance that are recruiting internationally will advertise here as well as just about all employers planning to interview at the ASSA meetings in the United States. The internet version is the same as the paper version but makes copying and pasting addresses to covering letters much easier and does not have the delay of waiting for the paper version. JOE has recently expanded from being a bimonthly publication to almost monthly updates (January and July being the exceptions) and comes out around the 5th of every month. When the big September, October and November issues are first updated you can expect delays in accessing the site as demand is high. Thus, when you are lucky enough to get through it is best to take advantage of the opportunity and save the files to your hard drive right away. Unlike the other sites I will review this one has a significant number of non-academic jobs in a separate section.

The *Chronicle of Higher Education* is the second major source of American job advertising (it also has the occasional non American job). There is a lot of overlap between the American section of JOE and the Chronicle. However, a lot of liberal arts colleges bypass JOE and only advertise in the Chronicle. Similarly, many major research institutions don't advertise in the Chronicle. One nice thing about the Chronicle is that it includes a number of advice columns on academic job hunting. These include an Ann Landers style column called "Ms. Mentor" as well as more traditional job hunting advice columns. The free version is available at:

<http://chronicle.merit.edu/free/jobs/faculty/sscience/econ/links.htm> and is updated every Friday morning (Eastern Standard time). If you have a paid subscription you can get the job advertisements appearing in the following week's issue at <http://chronicle.merit.edu/jobs/>. I have not tried this second service.

Continuing with North America, we have the *University Affairs* web site at <http://www.aucc.ca/en/uaoindex.html>. It primarily has Canadian jobs with the occasional American job. You should note that the categories vary. Thus, besides checking out the economics category you should glance at the other categories as at times categories like "business economics" will appear once never to be seen again. Supposedly the publication date roughly coincides with the paper version but I have found that there are often significant delays in updating the web page. In general, I suspect that most Canadian universities willing to go through the immigration hassles of hiring nonresidents would also advertise in JOE.

Another good source for international jobs is *Inomics* at:

http://www.inomics.com/query/job_search. As far as I know there is no paper version available. Given that it used to be *European Job Openings for Economists* it is an especially good source of European jobs. I have found it to be a particularly well organized site. It allows you to search by date, continent, type of institution and position and JEL category. In addition, you can have it send you weekly e-mail updates of new postings according to the above categories. If only all economic job sites were as well organized!

One site that is not as well organized (although it has improved) is the Times Higher Education Supplement (THESIS) at:

<http://www.jobs.thes.co.uk/>. THESIS is updated every Tuesday. It is likely the best source of UK jobs but it does also have non-UK jobs. Indeed, I think it was an advertisement in THESIS that led to my current position. Since it does not separate jobs by disciplines, if you don't want to click every job to find if it is in economics you are forced to do keyword searches. Entering "economic" and "economics" will often produce different results. Both will result in advertisements outside of economics that use the words economic or economics in their advertisements. Given that the University of Glasgow still calls its department a department of political economy, its advertisements would only appear if it used the words somewhere in its advertisement such as "public economics".

**Institute of Policy Studies
Victoria University of Wellington
THE HENRY LANG RESEARCH FELLOWSHIP**

Applications are invited for the 2000 Henry Lang Research Fellowship. One fellowship is available each year to be awarded to a scholar undertaking original research in an area related to the work of the Institute of Policy Studies, Victoria University of Wellington. The successful applicant is expected to set aside a period of 3 to 6 months to work full-time on an agreed research project and to complete a body of work publishable as an Institute of Policy Studies monograph. The affiliation attributed to the author for this work will be the Institute of Policy Studies. Preference will be given to people who will conduct the work at the IPS.

Scholars, from any discipline, working on issues relating to the following fields, are especially encouraged to apply:

- **The Role of the State:** Particularly the ethical underpinnings of the role of central and local government in New Zealand; social capital; and interaction of the state with Maori.
- **Income Distribution & Social Policy:** Particularly issues of labour market, education, and social assistance programmes, with explicit recognition of Maori.
- **Savings & Taxation Policies:** Particularly superannuation & taxation policy in New Zealand.
- **New Zealand & Asia:** Particularly comparative policy experiences of New Zealand, Australia and East Asian countries.

The value of the fellowship is \$35,000. Of this, a sum of \$7,000 is set aside to cover publication costs. The remaining \$28,000 is available to the successful applicant to cover time and expenses associated with the research. The successful applicant will be required to begin the research during 2000 and to have completed a monograph of publishable quality by June 2001. Payments will be made in two instalments: half (\$14,000) on taking up the fellowship, and half after completion of a publishable manuscript.

Applications should be made to the Director, Institute of Policy Studies, Victoria University of Wellington, PO Box 600, Wellington, with the following materials:

- Complete Curriculum Vitae
- Detailed Research Proposal
- Names of at least two referees who may be approached by the IPS
- Estimate of time to be spent conducting the research, and timing of completion.

Applications must be received by 31 May 2000. These will be considered by an IPS panel, and applicants will be notified of the Institute's decision by 30 June 2000.

******Evaluation, socio-economic determinants of health, health economics******

Public Health Association Conference, Palmerston North, 24-26 July 2000

The Manawātū Wanganui branch of the Public Health Association of New Zealand will host **The Millennium Conference** in Palmerston North, 24-26 July 2000. The theme is "**People in Public Health**" building on the theme of last year's conference in Wellington, "*Strengthening The Public In Public Health*".

The aim is to foster debate on the future direction(s) of public health from achievements made. Reviewing public health from the first ten years of The Smoke Free Environments Act, the past one hundred years of the Public Health Act, and a millennium of Māori health, speakers will be invited to plot a new course for public health over the next millennium with people in public health. Australasian Faculty of Public Health Medicine: Members of the New Zealand branch will present papers and a training session is planned.

Speakers confirmed to date are Mason Durie, Julie Leibrich, David Seedhouse, George Salmond, Papaarangi Reid, Richard Wilkinson, Lisa Jackson, Arthur Chesterfield-Evans, Gillian Durham. The late Ken Newell Session will be honored in a session in the afternoon of the first day for his important contribution to public health in New Zealand.

- *Registration:* \$ 325 members, \$ 360 non-members, *Late Registrations* after 31 May 2000. (\$ 395 members/ \$450 non-members)
- *Queries and abstracts* to **P O Box 5485, Terrace End, Palmerston North, phone 06-3505-799 X2423.**

From our foreign (and not so foreign) correspondents

Morningstar Managed Funds Conference 2000, Auckland, February 22-23

**By Donal Curtin
(economicsnz@xtra.co.nz)**

It's not an academic conference, but the managed funds conference that Morningstar puts on each year is nonetheless of interest to economists interested in finance and in the outlook for the various financial markets (at home and overseas) over the coming year.

Morningstar (formerly FPG Research) is a company which provides quantitative and qualitative assessments of both fund managers and their managed funds in a 'star' format, with 'five star' being best in class. Associated with US ratings company Morningstar Inc, it operates here and in Australia. The ratings are principally used by the investment advisory industry.

Each year Morningstar organises a conference, attended by anywhere from 250 to 350 people (typically subscribers to the ratings service). This year's has just been held on February 22-23 in Auckland. The format is interesting: Morningstar assembles an 'expert panel' of experienced fund managers, comprised of both Australians and New Zealanders, at Chief Investment Officer level. The panel is chaired by an independent outsider not affiliated with a funds manager (currently myself). This panel then listens to presentations by industry participants on the outlook for each of five asset classes - international equities, international fixed interest, local equities, local fixed interest, and local property, where 'local' means both Australia and New Zealand. After that the panel retires to derive a consensus view on the outlook for each of these asset classes over the next year, and in the light of that to present a 'tactical' asset allocation (as compared to the long-term or 'strategic' asset allocation an investor of a given risk profile might maintain over a twenty year savings time frame).

The merits or otherwise of tactical asset allocation remain a matter of vigorous theological dispute among finance theorists. Over time the conference output will

accumulate enough results to place one small bit of evidence on one of the altars - the conference in its present expert panel format has not been running long enough to deliver a verdict yet. For what it's worth, the 1999 expert panel's tactical positioning slightly underperformed (after tax) a 'leave your long term asset allocation alone' strategy, but the underperformance was more than fully explained by a decision to hold higher than usual levels of defensive assets (cash, fixed interest) going into the Y2K transition at the end of the year.

The conference is of interest to anyone involved with the financial markets. As well as the outlooks for the various asset classes and the viewpoint of the expert panel, the conference also tends to feature keynote speakers of some academic interest. This year featured Dr Jack Gray, whose PhD in pure mathematics has in recent years been applied to investment management (he is with Grantham Mayo van Otterloo, a Boston based investment manager). His entertaining speech focussed on what the findings of behavioural finance can add to the traditional but limited capital asset pricing model.

As a final aside, the lineup of the speakers at the conference showed how the managed funds sector may well now be the principal employer of business economists in New Zealand. As sharebrokers have consolidated and commercial banks have downsized, fund managers have taken over - a random sample of economist conference speakers includes Craig Stobo (with BT), Andrew Bascand (back from the UK, now with AXA), Graham Ansell (Armstrong Jones) and Paul Dyer (AMP). Perhaps the 'cult of the equity' will have faded by the time the current generation of undergraduates hit the labour market for economists, but for now taking all the finance options available still looks like a good bet.

Declaration of interest - through my company Economics New Zealand I have a consulting relationship with Morningstar.

**Pacific Rim Allied Economic Organisations
Conference, Sydney, 11-16 January, 2000**

By Stuart Birks
(K.S.Birks@massey.ac.nz)

Australasian economists missed an opportunity with this conference. PRAEO organizes an annual conference in North America and another conference every other year in another location. They have been twice in Hong Kong and once in Bangkok. This time they tried Sydney, but they are unlikely to be back for some time. Local attendance was poor, with only two attendees from New Zealand. It was an opportunity not only to mix with economists from around the world, but also to hear and meet some well known people. Speakers included Gordon Tullock, William Niskanen and Oliver Williamson.

I enjoyed Gordon Tullock's approach in particular. It illustrated to me that the most valuable points are often simple and, once heard, appear obvious. Having for years included the paradox of voting in some of my courses, I noted his observation that we don't commonly observe additional options being raised so as to change the result of a voting process. On reflection, this would be a more high-risk option than behind-the-scenes lobbying to get the numbers before a vote is taken. His other presentation was a nice piece on the bonobos, reflecting his participation in the newly emerging area of bioeconomics (for the journal, see:

<http://www.wkap.nl/journalhome.htm/1387-6996>).

Another speaker who caught my attention was Yanis Varoufakis from the University of Western Sydney. His experimental economics paper explored how discrimination can emerge through initially random allocation of characteristics to individuals in groups. These characteristics can then become identified with the groups and further reinforced through subsequent behaviour. This is yet more reason for us to be careful about the groupings we take for analysis - not only are we observing, but also we may be shaping the environment we are studying. I can provide copies of the paper by email if anyone is interested.

**The New Zealand Econometric Study
Group (NZESG), Summer Meeting 2000,
Wellington, 3-4 March.**

By Claudio Micheleni
(C.Micheleni@massey.ac.nz)

About 35 people gathered to hear 15 papers presented over two days, including participants from Australia and the United States. The meeting was organized by John Haywood of Victoria University in Wellington (John.Haywood@vuw.ac.nz) and papers are available at the meeting website, accessed through: <http://www.vuw.ac.nz/economics/>.

It was encouraging to see papers presented by graduate students, and there was a useful mix of issues and applications considered, including economic policy issues for the New Zealand economy, analyses of the business cycle and related Time Series econometric techniques - including cointegration, VAR and Lag models - Investment and Labour Market models, and problems associated with the analysis of income distribution. Discussants were provided with copies of the papers prior to the meeting, this helped to give depth to the discussion following the papers presentation.

The group has two or three meetings a year. The next meeting will be in July at the University of Canterbury and organized by Alfred Haug (a.haug@econ.canterbury.ac.nz) from the Department of Economics.

Maxwell Fry

It is with regret that we report the recent death of Maxwell Fry, of the University of Birmingham and former Director of Central Banking Studies, at the Bank of England. Many of you will remember him from his visit in 1998 when he was keynote speaker at the annual conference in Wellington.

research in progress...

Continuing our series on the research projects currently underway in Economics Departments and Economics Research Units throughout New Zealand, in this issue we profile the research currently being undertaken by economists at **Auckland University**. The objective of this section is to share information about research interests and ideas **before** publication or dissemination - each person was invited to provide details only of research that is **new** or **in progress**.

... in the Economics Department of the University of Auckland as at March 2000.

Compiled by Tim Hazledine. Email addresses and personal webpages for members of the department can be found on the department's website: <http://www.econ.auckland.ac.nz>

Reiko Aoki has ongoing research into the economics of patents, analysing strategic use of patents, including decisions to patent or not, to license and to litigate. Her most recent research expands the analysis to other ways of protecting new ideas. Other than patenting, firms can use trade-secrets and also intentionally publish information in order to prevent others from claiming intellectual property. This research is motivated by empirical evidence that US and Japanese firms seems to behave very differently in this regard. Reiko also has an on-going project with John Small about number portability and switching costs, and is starting two projects related to e-commerce. One is about the effects of e-commerce on competition: would e-commerce promote competition or increase concentration? The second issue is the effect of business methods patents on development of e-commerce: is the concept too wide and will it deter development of the market or will it promote new applications of e-commerce? Both projects give partial answers to the question: "what should New Zealand be doing about e-commerce"?

Debasis Bandyopadhyay has a research program broadly in the area of macroeconomic growth and income distribution. His special emphasis, however, is on the role of past distribution of human capital on the current and future economic growth and income inequality. A Marsden Grant awarded by the Royal Society of New Zealand has supported his research program. Also, the December '99 Marsden Newsletter had published an article about the essential findings generated from the above research programme.

The specific issues that his research focuses on include growth-inequality relationship, theories of total factor productivity, optimal redistributive taxation and simultaneous effects of fiscal and monetary policies on economic growth. Recently, he has also applied his special human capital based

models to understand the interindustry earning structure in New Zealand and to examine how that relates to the pattern of the industry specific distribution of human capital.

Tony Endres lists his current research interests as:

1. Completing a book for Cambridge University Press entitled: "International Organisations and Economic Policy 1919-1950: Analysis of Selected Institutions" CUP Historical Perspectives on Modern Economics Series (Due for completion June 2000). This book compares and contrasts the research work and economic policy advice of the International Labour Organisation, the League of Nations Economic Secretariat, the Bank for International Settlements, the IMF and various United Nations development agencies for the period stated;

2. Working on papers concerning the intellectual history of international money, international monetary relations and schemes articulated for designing the global monetary system. The period under review is from Bretton Woods to the mid-1970s. Research papers completed in the last 18 months have considered the work of R Nurkse, M. Friedman, Frank Graham, Alvin Hansen, H Simons, John H Williams, R Triffin. A book manuscript is expected as the natural outlet for this research output.

Tim Hazledine is continuing his research program investigating the causes of New Zealand's poor economic performance relative to other countries and earlier periods. He is focussing on governance and transaction cost concepts to supplement the orthodox growth accounting framework, using disaggregated industry data for census years.

Tim is also developing a 'world' version of his book, *Taking New Zealand Seriously: the Economics of Decency*.

John Hillas works in the area of game theory, mostly on the theory of strategic equilibrium. One

part of his research deals with the theory of strategic stability, and in particular with the relation between various requirements for a definition of stability and the different ways that have been proposed to define strategic stability. He is also interested in the relation between different weaker refinements of strategic equilibrium.

Another part of his research deals with the epistemic or knowledge-based approach to strategic equilibrium and its refinements. He also has a number of smaller projects on more technical aspects of game theory, such as the use of real algebraic geometry in the theory of finite games and aspects of the theory of repeated games with imperfect monitoring.

Ian King's current research is on:

1. The theoretical underpinnings of the matching problem between workers and employers. The aim is to understand how frictions such as coordination problems, heterogeneity, and imperfect information contribute to unemployment (with Benoit Julien).
2. The effects of taxation on migration, growth and unemployment in small open economies.
3. Skill obsolescence in the face of technological change.

Sholeh Maani's current research projects are in three areas: 'School leaving, labour supply and demand for higher education by young adults' is a project that utilises the 1977-1991 longitudinal surveys of the youths in the Christchurch Health and Development Survey, and examines the 'ability' versus 'economic constraints' hypotheses of demand for post-compulsory education. A second project on 'Maori educational attainment and relative income levels', utilising individual level data from the 1996 and 1986 censuses, examines the link between educational attainment, and relative income and employment of Maori over time. Working papers on these projects are electronically available on the Treasury Working Papers Web site. A third policy project is examining the effects of tertiary fees and the loan scheme on student demand for higher education and welfare.

Tim Maloney is currently working on several projects using data from the Christchurch Health and Development Study. The CHDS is a longitudinal study of approximately 1,200 children born in Christchurch area hospitals in 1977. A substantial amount of information has been gathered over time on both these children and their families. One project, with Michael Boozer at Yale University, will estimate the determinants of growth rates in cognitive achievement of these children between the ages of 8 and 13. Another project will

examine the income dynamics and transitions into and out of low-income spells with these panel data between 1978 and 1991. By the end of the year, Tim expects to begin updating and extending some of his earlier work on labour supply trends and the effects of the minimum wage on youth employment in New Zealand.

Mia Mikic lists three on-going research projects:

In search for a new trading arrangement: European Union and the Pacific Island Countries. In 1997 the European Commission announced a proposal for a successor regime to the then existent Lome Convention IV (the trade and aid regime between the European Union and more than 70 countries in Africa, the Caribbean and the Pacific - the ACP countries). The EU is planning to base this new regime on a set of regional free trade agreements (or regional economic partnership agreements). Pacific island countries are the least prepared out of the ACP countries for a change in a trading regime. They even do not have a regional preferential trading system among themselves. This paper will review the economic and developmental effects of the preferential trading system of Lome for the PIC, and will suggest possible alternative routes.

Who are natural trading partners for the Pacific Island Countries?

To facilitate economic development the Pacific Island Countries should also use trade in a more efficient manner than in the past. In a period of several years to come they will have to make decisions with respect to preferential trading arrangements within their region and between themselves and the European Union. This paper looks into welfare effects of the alternative "partnerships".

Characteristics of the export sector in a small economies during trade liberalization

There are claims that export sectors, because they provide better jobs, investment, stability etc, also contribute more to overall economic growth. The intention of this paper is to identify the main differentiating features of the export sector vis-a-vis the non-export sector for NZ during the trade liberalization episode (1985-1998) in order to test the claim.

Peter C. B. Phillips has underway an automated macroeconomic modeling project for the New Zealand economy. The econometric methods rely on data-based model determination and lead to single equation and multiple equation empirical models. These models allow for cointegrating links and can be used for ex ante forecasting and policy analyses. A web version of the models is now under development and will be available online later this

year. Watch the Auckland University Economics Department web site (<http://www.econ.auckland.ac.nz/>) for details.

Peter is also working on some other projects. One of these involves the development of descriptive tools for studying nonstationary economic time series. These methods allow an empirical researcher to construct and interpret such things as empirical hazard functions for potentially nonstationary data like inflation. They are also being used to construct new estimators of nonlinear diffusion models of the type now used in finance. Another project involves the tricky issue of finding whether there are technical limits to our empirical understanding of the unknown (and likely unknowable) probability laws governing time series data. Some work on panel data problems fills in the remaining hours.

Alan Rogers' current research interests lie in theoretical econometrics, and specifically concern the behaviour of alternatives to ordinary least squares estimators in regression models where the error distribution exhibits non-standard characteristics at its centre, as well as, possibly, in its tails. This work builds on and complements recently completed work on least absolute deviations estimators under such conditions in a variety of regression contexts, including autoregressive models with and without a unit root.

Matthew Ryan writes:

All of my current research concerns applications of non-expected utility theory. I have several papers which attempt to develop non-expected utility foundations for game theory. These are all available from my website: <http://www.econ.auckland.ac.nz/mryan/>. I also have two papers with Luca Rigotti (Tilburg University) which attempt to endogenise firm formation and labour contracting within a general equilibrium framework. Both employ non-EU models of entrepreneurial decision-making, and one may be downloaded from my website. In addition, I am also currently working with Rhema Vaithianathan (University of Auckland) on modelling health insurance markets with non-EU consumers. A draft of this latter paper may be found at Rhema's website (<http://www.econ.auckland.ac.nz/rhema/>).

Rob Scollay is leader of a multi-disciplinary research team from the University of Auckland working on a project on "APEC and New Zealand's Competitive Advantage", with funding from FORST. He is also working on a case study on impediments to trade in food products in the APEC region, and is participating in an APEC Study

Centre research network engaged on assessing implementation of APEC commitments.

In addition he is working on a number of projects relating to regional trading agreements, including treatment of agriculture in regional trade agreements, analytical issues in regional trading agreements between developing countries, trade policy issues raised by the proposal for a free trade area among the Pacific Forum island countries, implications of the proliferation of regional trade agreement proposals in the APEC region, and assessment of welfare effects of liberalisation under the ASEAN Free Trade Area (with John Gilbert).

Basil Sharp writes:

My research programme is centred around property rights and natural resources. Three aspects are of great interest to me right now. The first concerns the efficiency of tradable rights in the marine environment. Econometric analysis of trades in quota markets reveals some interesting results. In well-behaved fisheries, there has been a general convergence between the rate of return in quota markets and the opportunity cost of capital in the economy. This trend is not evident for fisheries with fundamental problems relating to stock, catch limits and governance. In January this year I met with an international group of economists with the view to undertaking a comprehensive review and analysis of the outcomes associated with rights-based management. The second limb of my research in progress examines structure of quota markets. There is reasonable amount of theoretical literature on market power and tradable rights. We are looking for evidence of market power in one of New Zealand's quota markets. Finally, the focus of our Public Good Science Fund research is on trade liberalisation in seafood products and governance.

John Small is working on several projects with real option models as popularised by Dixit and Pindyck in their (1994) book *Investment Under Uncertainty*. One project derives an adjustment that is sufficient to give a regulated firm the incentive to invest. A related strand of work tries to characterise what regulators should mean when they speak of "dynamic efficiency".

A third project revisits the vexed area of macroeconomic investment theory. Other interesting applications of real options, include estimating the (time-varying) cost of hydro-electric power, and analysing the implications for predatory pricing.

Susan St John is engaged in research that contributes to policy design. A current research question concerns the use of annuities in the NZ tax neutral pensions environment. Other countries

believe that private pensions and annuities should have a major role in retirement income planning. New Zealand has a declining share of retirement income from this source and a number of major impediments relating to regulatory, tax, custom, and thin market factors. Have we got it right while the rest of the developed world got it wrong? If there are social advantages to annuities, should they be encouraged and if so how?

The research activity of **Julian Wright** is primarily concentrated on two ongoing research programmes. He writes:

In the first, I study (jointly with Graeme Guthrie from Victoria University), issues of monetary policy implementation and their implications for the dynamics of market interest rates. For instance, in "The Optimal Design of Interest Rate Target Changes" we study the optimal design for central bank interest rate targeting. In particular, we look at the issue of timing and scale of interest rate target changes. We find a very simple optimal rule for when and by how much central banks should change their target rates, that explains the dynamic properties of interest rate target changes in the United States. In a related paper ("Interest Rate Dynamics and Interest Rate Targeting") we show that incorporating this interest rate targeting rule into standard models of interest rate dynamics provides for new and more successful empirical models of interest rates. We find that the spread between the market interest rates (such as the 90-day bank-bill rate) and the central bank's current target rate is important in not only predicting the direction of future interest rate movements, but also in predicting changes in volatility of interest rates.

In my second area of ongoing research, I am studying how firms/networks interconnect, and the welfare and regulatory implications of such interconnection. In four separate papers, I have been working on interconnection between mobile and fixed-line telecommunication providers, between international telecommunication firms, between local and long-distance telecommunication providers (jointly with Michael Carter at the University of Canterbury), and between internet access providers (jointly with Iain Little at NECG). In each case, the firms face different incentives to use interconnection pricing strategically. Consequently, the welfare implications of regulating access differs depending on the specific type of interconnection under consideration.

Jun Yu is currently working on two main research projects. In the first project, he estimates time series models via the empirical characteristic function when the maximum likelihood method is infeasible. Three working papers on this research are available.

The second project is involved with modelling interest rate dynamics and the relevant estimation problems, which include: (a) nonparametric estimation of continuous-time models, (b) estimation of two-dimensional diffusion processes, (c) tests for structural breaks in two-dimensional diffusion processes, and (d) estimation of two factor models with one factor unobserved (see Yun, Guthrie and Wright, *NZEP* July).

A third project, for which two working papers are available, is on the question of the adequacy of finite variance distributions to model daily stock returns.

...about NZAE

The New Zealand Association of Economists aims to promote research, collaboration and discussion among professional economists in New Zealand. Membership is open to those with a background or interest in economics or commerce or business or management, and who share the objectives of the Association. Members automatically receive copies of New Zealand Economic Papers, Association newsletters, as well as benefiting from discounted fees for Association events such as conferences.

Membership fees: full member: \$90

graduate student: \$45

If you would like more information about the NZAE, or would like to apply for membership, please contact:

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[NOTE THE NEW EMAIL ADDRESS]

Welcome! to the following people who have recently joined NZAE...

Tim Groser (Ministry of Foreign Affairs & Trade); **Peter Hamilton** (Ministry of Foreign Affairs & Trade); **Gregory Horman** (The Treasury); **Leslie Hull** (Victoria University of Wellington); **Suzi Kerr** (Motu Economic Research); **Derek Pyne** (Massey University, Palmerston North)