

Asymmetric information

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PAST ISSUES

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New Zealand Association of Economists Inc.

Stuart Birks Editor

email: k.s.birks@massey.ac.nz

<http://www.nzae.org.nz>

“The real mystery, it could be argued, isn’t why we make so many poor economic choices but why we persist in accepting economic theory.”

[Elizabeth Colbert, New Yorker, 25 February 2008

http://www.newyorker.com/arts/critics/books/2008/02/25/080225crbo_books_kolbert]

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9 - 11 July 2008

Markets and Models

Policy Frontiers in the AWH Phillips Tradition

- The 49th Annual Conference of the New Zealand Association of Economists
- The Australasian Meeting of the Economic Society

<http://www.phillips08.org.nz/>

<http://www.nzae.org.nz>

EDITORIAL

Making their mark

Stuart Birks (k.s.birks@massey.ac.nz)

It has just struck me that this issue of *Asymmetric Information*, coming just before the conference to acknowledge the contribution to economics of a New Zealand economist, Bill Phillips, also notes recent recognition of some current economists from New Zealand. While there is a distinction between domestic product and national product, hopefully this reflects a lively and productive economics scene here in the country.

That being said, and to misquote Milton, they also serve who do the less prominent work. Coincidentally, this is a useful way to introduce mention of another's efforts.

Val Browning, the Association's secretary/manager will be well known to many of you through her friendly and efficient service at our annual conferences, where she could be found at the Association's desk. Now, after nearly nine years with the Association, we are losing her services. This is particularly sad for us because the main reason for her resignation is the state of her health. Val has always set high standards for herself, and I know that she was disappointed when prevented from delivering as she would wish.

Those of us who have worked closely with her know of the solid contribution she has made to the Association behind the scenes. Emails received by *AI* from current and former council members have highlighted some of the results. As one past president wrote, "She is going to be a huge loss to the Association and will be sorely missed. Val was always fantastic to work with very helpful and great with the Council and members. She helped to streamline the administration of the association and computerise it, which was no mean task." Another past president did not exaggerate when writing of her, "outstanding support of annual conferences, she ran them virtually single handed." Thank you, Val, for all your efforts. The Association is stronger as a result of your input. Very best wishes for the future.

Meanwhile congratulations are in order for our president, **Frank Scrimgeour**, who has been appointed dean of the University of Waikato Management School. We wish him well in his new position. There are more details at: <http://www.mngt.waikato.ac.nz/newsroom/Article2943.asp>

And on a slight tangent, there is a "New Zealander makes good" story. **Robert Wade**, expatriate New Zealander and professor of political economy and development at the London School of Economics, has been jointly awarded the 2008 Leontief Prize for Advancing the Frontiers of Economic Thought. For more details, see: <http://www.lse.ac.uk/collections/pressAndInformationOffice/newsAndEvents/archives/2008/LeontiefPrize2008.htm>

Individuals should be commended for their achievements. They are noteworthy under any circumstances. We should also note that success depends, in part, on a community's ability to nurture and recognise its talent. We can showcase that at the conference in July. It would be good to see many of you there.[]

THE ECONOMETRIC SOCIETY'S FRISCH MEDAL GOES TO...

A New Zealander - Congratulations to Dean Hyslop

Labour market economist Dean Hyslop has won the prestigious Frisch Medal of the Econometric Society for an article co-authored with David Card, University of California at Berkeley. The medal is awarded every two years to an applied article (empirical or theoretical) published in *Econometrica* during the past five years.

The successful article, from the November 2005 issue of the journal, is titled "Estimating the Effects of a Time-Limited Earnings Subsidy for Welfare-Leavers."

In the early 1990s the Canadian government funded a 10-year randomised social experiment, the Self Sufficiency Project (SSP), to test whether a generous time-limited earnings subsidy for long-term welfare recipients could have long-lasting effects on reducing welfare dependency. The subsidy was available for up to three years for any month a recipient was working fulltime and off-welfare, but only to those who found fulltime work and left welfare within the first year.

Card and Hyslop explored the impact of two incentives from the project – an "establishment" incentive to find work within the first year, and a subsequent "entitlement" incentive to choose work over welfare for the three years a recipient had eligibility. They developed an econometric model to separate the two incentives and create a time-profile of the subsidies' effects.

The judging panel for the award describe the paper as "a model of careful, insightful empirical work." The panel note that the authors' random-effects model "provides a good fit to the behaviour of the group that achieves eligibility and provides a compelling distinction between selection and treatment effects for that group."

Dean Hyslop is a Principal Advisor in the State Sector Performance Group at The Treasury and an Affiliate at Motu Economic and Public Policy Research. He is currently working on the Linked Employer-Employer Database (LEED) at Statistics New Zealand.

The official announcement for this award, along with a list of previous winners, is on the Econometric Society's website: <http://www.econometricsociety.org/frischmedal.asp> []

Members are invited to submit brief articles on any issue of interest to NZAE members, and/or comments and suggestions. Enquiries and contributed articles should be sent to Stuart Birks [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

Would Giving The Governor Power To Vary The Excise Tax On Fuel Reduce The Amplitude Of Exchange Rate Fluctuations?

By Don Brash, Former Governor of the Reserve Bank, 1988 to 2002

About a month ago, I was prompted to write an article for the *New Zealand Herald*¹ by two questions asked of me by an exporter: why are New Zealand interest rates so high compared to those in the rest of the developed world, and why doesn't the Reserve Bank reduce the interest rate which it controls to get the exchange rate down, for the benefit of exporters?

Most readers of *Asymmetric Information* will understand why our interest rates are high compared with those in other developed countries – inflation pressures are also stronger than those in other developed countries, and the Reserve Bank is leaning against those pressures in the only way it can, by maintaining a relatively high OCR.

But how do we deal with the strong exchange rate? Indeed, is there anything at all we can or should do to reduce the high exchange rate, to the benefit of exporters and those competing with imports? Nobody seriously doubts that at current levels the exchange rate is putting quite severe pressure on most export sectors, with the obvious exception of the dairy industry, which has been protected against the effects of the high exchange rate by historically very high international dairy prices.

To the non-economist, the solution is simple: just have the Reserve Bank drop the OCR and all those nasty types investing in the New Zealand dollar will take their money elsewhere and the New Zealand dollar will fall. But of course economists know that that is no answer at all. With inflationary pressures already strong, dropping the OCR would simply intensify those pressures. In no time, exporters who might now regard a New Zealand dollar equal to 65 US cents as very attractive would be complaining that, because of higher inflation in New Zealand than in our trading partners, they need a still lower exchange rate – perhaps one equal to 55 US cents. What matters, in other words, is the level of the real (inflation-adjusted) exchange rate, not the nominal exchange rate, and dropping the OCR in the face of strong inflationary pressures is most unlikely to reduce the real exchange rate other than very temporarily.

1 Brash D (2008, 7 February) "Vary tax on petrol to help exporters", *The New Zealand Herald*, P.A17

2 A Proposal for the next macro-economic reform, Victoria University of Wellington Foundation, 11 November 1996. In my 7 February 2008 Herald article on this subject, I wrongly attributed to Professor Ball the suggestion that GST be varied as a way of moderating swings in the exchange rate: in fact, he rejected that idea, and I apologise to him for this error

It is worth noting that, contrary to the popular myth, the exchange rate is not always tightly linked to New Zealand interest rates. It is not even always tightly linked to the difference between New Zealand interest rates and those in other countries. In 2000, I well recall that the OCR was increased from 4.75% at the beginning of the year to 6.5% in October, while the New Zealand dollar fell steadily throughout the year to its lowest level ever against the US dollar (below 39 US cents). To be sure, US interest rates were relatively firm at that time also, but Japanese rates were then, as now, very close to zero. Both the Reserve Bank of Australia and the European Central Bank had a similar experience in 2000, with rising interest rates associated with weakening currencies.

Clearly, other factors are also at play, including in particular market expectations of future movements in interest rates. If the market expects interest rates to be lowered in the near future, almost whatever their absolute level, the exchange rate is likely to start depreciating, and vice versa.

So how do we change expectations of future interest rates? One way would be to aggressively increase the OCR to make it unambiguously clear that the Reserve Bank was deadly serious about eliminating inflationary pressures. It is at least quite possible, and I believe probable, that far from pushing the exchange rate even higher that would have the effect of starting the New Zealand dollar on a downward track as markets recognised that it would not be long before the Bank was forced to start reducing the OCR again.

Another way would be to take the heat out of current inflationary pressures by tightening fiscal policy. But any general tightening of fiscal policy is difficult to do at any time, and must be regarded as a political impossibility in an election year.

Could there be scope for some new instrument? The Treasury and the Reserve Bank have canvassed various possibilities, and none creates huge enthusiasm. The idea of a mortgage levy was suggested as one way of pushing up the cost of borrowing without making the New Zealand dollar still more attractive to international investors, but the suggestion went down like a lead balloon, not least because of the way it was sold: the public saw the suggestion as an additional cost of borrowing, rather than as an alternative to still higher interest rates.

Some years ago, Federated Farmers suggested varying the GST rate as a way of supplementing changes in interest rates. Professor Lawrence Ball noted at that time² that increasing GST in an attempt to reduce spending would have the disadvantage of actually pushing up measured inflation, and so further inflaming inflationary expectations. But to me, the bigger objections to active use of the GST

to reduce or increase domestic spending are different: frequent changes of the GST rate would greatly increase the compliance costs involved in that tax, and could lead to destabilizing fluctuations in spending as consumers tried to anticipate changes in the tax.

Professor Ball suggested that the power to make temporary changes to the income tax rate be delegated to an independent body he called the Macro-economic Policy Committee, possibly chaired by the Governor of the Reserve Bank, and he felt that that would moderate the swings in the exchange rate caused by the sole reliance on interest rates to control inflation. On the face of it, that would indeed moderate the swings in the exchange rate, but even frequent changes in the income tax rate would, in my view, involve quite substantial compliance costs.

As an alternative, I think we should give serious consideration to giving the Governor authority to vary the excise tax on fuel. Demand for fuel is highly inelastic in the short run, so that fluctuations in the price of fuel would not lead to big fluctuations in the volume of fuel actually sold. But precisely because demand for fuel is highly inelastic in the short run, changes in the price of fuel would drive changes in other consumer spending. Consumers forced to pay more for petrol would to some extent be obliged to cut back on their spending on other goods and services, not unlike they are obliged to do when interest rates go up.

Since the Herald published my article suggesting this, a number of objections have been raised. One person assumed that I was recommending that interest rates no longer be used as a monetary policy instrument, or indeed should be reduced to zero. On the contrary, interest rates would continue to be used, but if the excise tax were used as well, it should be feasible to reduce the amplitude of interest rate movements, with a consequential reduction in the amplitude of exchange rate swings.

Others expressed concern about the constitutional implications of giving authority to the Governor to vary a tax. I agree with those concerns, and there would clearly need to be tight constraints around any such authority, perhaps by insisting that over a specified number of years the fiscal impact of such variations in the excise tax would need to be neutral. In other words, any revenue raised when there was a need to restrain inflationary pressures would need to be offset by revenue “lost” when inflationary pressures were weak. It is worth recalling that for many decades, in New Zealand and most other developed countries, the idea of giving authority to vary interest rates to a non-elected person would also have been looked at askance, and yet that is now regarded as absolutely sensible in a situation

where we recognise that monetary policy is tailor-made for the cynical politician intent on winning election every three years.

Letters to the editor have expressed concern that increasing the excise tax on fuel would particularly hurt low-income New Zealanders. Certainly, low-income New Zealanders would be adversely affected by such a move, but then of course they are also hurt when the Reserve Bank is forced to raise interest rates, both directly and, if they work in export industries, indirectly. We are not comparing an added tax on fuel with a situation where interest rates remain unchanged: we are comparing the impact of an increase in the price of fuel on the one hand with the impact of higher interest rates on the other.

Still others have objected to the fact that my proposal is an “intervention”. Well, yes, it is of course. All monetary and fiscal policy moves are “interventions”. The challenge is to find those interventions which do the maximum of good and the minimum of harm. To me, giving the Governor authority to vary the excise tax on fuel would reduce the need to move the OCR quite so aggressively, and would therefore have the huge benefit of moderating swings in the real exchange rate.

Professor Ball might well object that increasing the excise tax on fuel would increase measured inflation, and so inflationary expectations. And that is certainly true – indeed, that was a problem we had in New Zealand when the CPI as measured by the Government Statistician included changes in interest rates: when interest rates were increased to reduce inflation, the measured inflation rate actually increased for a time.

But if somebody has a better idea, let’s hear it!

Don Brash. Former Governor of the Reserve Bank, 1988 to 2002.[]

Imperfect information

– incomplete or inaccurate?

“Throughout this thesis, we assume that no false (i.e. factually incorrect) information exists...”

- Anthony Downs

[P.46 of Downs, A. (1957). *An economic theory of democracy*. New York: Harper]

Why the special conference in 2008?

In November 1958, *Economica* (LSE's economics journal) carried an article by A.W.H. (Bill) Phillips: "The Relation Between Unemployment and the Rate of Change of Money Wage Rates in the United Kingdom, 1862-1957". Phillips, then LSE Economics Professor, had already made path-breaking contributions in the fields of stabilisation policy and economic modelling. He regarded his 1958 article (a "wet weekend's bit of work") as of only passing interest. Nevertheless, the 1958 article led to a re-shaping of macroeconomic policy for decades to come.

Fifty years on, this year's conference is being held to honour Bill Phillips' contributions to economics. The conference will be forward-looking. It will specialise in fields pioneered by Phillips, including all matters of stabilisation policy. It will also examine fields that interested Phillips in later life, especially developments in China and other Asian economies.

As Phillips was a New Zealander, it is only fitting that we make a special effort to acknowledge his work. It is not solely a New Zealand effort, however. The conference is being jointly hosted by the New Zealand Association of Economists and the Econometrics Society (Australasian region). The conference has attracted some of the most famous names in modern economics, including Tom Sargent who will present a paper. Several Nobel prize-winners sit on its International Advisory Board, which is headed by Dr Alan Bollard, Governor of the Reserve Bank of New Zealand.

The conference is being supported by LSE. Professor John Sutton sits on the International Advisory Board and Nicholas Barr is on the Programme Committee. LSE Professors and *Economica* have each supported the conference financially. Several LSE alumni are active on the organising committee.

Phillips' career was remarkable. He was born in 1914 on a farm, 200 kilometres from Wellington. His father experimented with technology, and built a small hydro-electric plant on a stream running through his property. Phillips had an adventurous youth, travelling through Australia (where he ran an outback movie theatre). Unusually for the time, he also travelled through South East Asia.

He trained as an electrician. However, his civilian life was interrupted by the Second World War. He was captured and held as a Japanese prisoner of war. Unlike many of his cohort, he survived; his character appears in the book *Night of the New Moon* (on which the film *Merry Christmas Mr Lawrence*, starring David Bowie, was based).

Arriving in London after the war, Phillips wanted to understand more about the world. He decided to study economics, and attended classes at LSE. Despite a rather undistinguished under-graduate career, he was invited to study for a post-graduate degree. Phillips was fascinated with the interactions of sectors across the economy. Using his engineering knowledge, he built a hydraulic model of the economy. His machine, the MONIAC, consisted of flows of water from one container to another, representing monetary flows - e.g. from consumption to income and thence, via an accelerator mechanism, to investment. "Leakages" to imports were included, and multiple models were built to represent multiple countries - interlinked by pipes. In practice, the models also suffered real leakages and demonstrations could be a damp affair!

James Meade, LSE Nobel prize-winner, was a keen collaborator with Phillips in this enterprise. *Punch* magazine even ran a special cartoon on the ingenious inventions. Today, only a few of the hydraulic models survive. LSE Model #1 is housed at the Reserve Bank of New Zealand (courtesy of NZIER); Model #2 is housed at the South Kensington Science Museum.

Phillips left London after the 1968 student riots and returned to Australasia, holding posts first at Australian National University and then at University of Auckland. He became one of the first western economists to turn his attention to Chinese developments; he presciently anticipated the rise of the Chinese economy despite its then parlous state.

Phillips' health, always weak following his prison camp days, was not helped by his heavy smoking. He died in 1975, aged just 61. However his legacy in many fields lives on. This conference should prove to be a remarkable event to mark the contributions of a remarkable man.

For more on the conference, or to register, go to:
<http://www.phillips08.org.nz/>

Arthur Grimes, who contributed this article, completed his MSc(Econ) and PhD at LSE over 1984-1987. He is a member of the conference's steering committee.[]

"[There] is the major problem that, by and large, propositions of economic theory relate to equilibrium configurations; these may be static equilibria or dynamic steady state equilibria. Economic theory is very reticent about the nature of economic events in disequilibrium."
- Megnad Desai

[P.98 of Desai, M. (1981). *Testing monetarism*. London: Pinter]

Economics as an IDF

by Stuart Birks (*k.s.birks@massey.ac.nz*)

Critical discourse analysis (CDA) considers language as an important determinant of the way we see reality. It suggests that there may be political rewards to be gained by shaping language. Most economists are likely to take a passive approach to this, seeing language more as a tool to assist in the clear definition of concepts and as a means of conveying ideas.

Nevertheless, the language of economics could be seen in this political way. Our language shapes our perspectives and may conceal some of our underlying assumptions, especially in relation to objectives and structures (utility maximisation with given preferences for goods and services, the applicability of marginal analysis).

Fairclough, writing on CDA, adopts a view that parallels one to be found in some of the policy process literature. Namely, decisions and outcomes are the result of competition between power groups, or the imposition of the ideology of the dominant group (Bosso, 1994; Considine, 2005). He considers language to be central to this assertion of power or power struggle, referring to “ideological-discursive formations” (IDFs) (Fairclough, 1995, p. 40):

...it is generally possible to identify a ‘dominant’ IDF and one or more ‘dominated’ IDFs in a social institution. The struggle between forces within the institution...can be seen as centring upon maintaining a dominant IDF in dominance (from the perspective of those in power) or undermining a dominant IDF in order to replace it. It is when the dominance of an IDF is unchallenged...that the norms of the IDF will become most naturalized, and most opaque...and may come to be seen as the norms of the institution itself. (Fairclough, 1995, p. 41)

Fairclough continues:

Naturalization gives to particular ideological representations the status of common sense, and thereby makes them opaque, i.e. no longer visible as ideologies. (Fairclough, 1995, p. 42)

Some of those with a particular dislike of economics may suggest that it is both a dominant IDF and an undesirable way to view society. Economists should be aware that debate with such people is not based solely on the sort of logic and within the frameworks that economists might apply. Central to these criticisms of economics is a view that the language incorporates implicit, unacceptable assumptions. The challenge is to the frameworks themselves as incorporating the “wrong” perspectives that ignore important aspects of life, society, values, etc..

There is some truth to these criticisms, but economists should not passively accept them and attempt to “neutralise” the distortions. From an IDF perspective, the criticisms of economics would apply equally to all approaches. Instead of being conscious of possible distortions and working to minimise or counter them (as we might with various forms of market failure), the IDF approach is to aim for dominance of your preferred IDF over alternatives. In other words, the aim is to get others to see the world through *your* lenses. If people view the world in this way, then their behaviour is more concerned with moulding opinions than in even-handed analysis and debate. I had a conversation on this matter with a non-economist a while ago. It went something like:

Him: You don't have to go far back in history to see where whole societies have been manipulated by media and politicians to see issues in particular ways. It is happening now. Are you saying that economics does not incorporate this?

Me: No, we take preferences as given and work from there.

To be relevant, it only requires certain people to accept the CDA/IDF viewpoint and use it as a basis for their actions. Consider the move to eliminate gender-specific language, with objections to terms such as “chairman” and “fireman”. It was presented as a move to overcome inherent biases caused by the language. CDA suggests an alternative interpretation. Rather than a move to neutrality, it could be seen as a power struggle by one group to achieve dominance over another. This interpretation is reinforced by an extract from another Fairclough publication¹:

Language is an important part of the new order. First, because imposing the new order centrally involves the reflexive process of imposing new representations of the world, new discourses; second, because new ways of using language – new genres – are an important part of the new order. (Fairclough, 2000, p. 147)

Along with the move against certain gender-specific terms, there has arisen a new set of terms, or meanings of terms, that have strong gender connotations. Hence we see common use of “primary caregiver”, “sole parent”, “absent parent”, “batterer”, and “power and control”. Other emerging concepts relate to a “diversity of family types” (based on groupings of people within a single household), and “social parents”.² Rather than attempting to avoid the use of loaded language that promotes a particular world view, it would appear more as if there is an attempt to impose one view over another through the use of language.

1 This sort of reasoning has been used for analyses of the effect of economic language to further neo-liberal policy agendas. See, for example, Harvey (2006).

2 “Food miles” and “travel miles” are also concepts that are having a large impact.

The significance of language as a means of shaping perceptions and acceptable policy seems to be well recognised. Fiske talks of “legitimated and repressed senses of the real” (Fiske, 1989, p. 150), and suggests that those with power use their position to define society’s “reality”. Hence:

Knowledge is power, and the circulation of knowledge is part of the social distribution of power. The discursive power to construct a commonsense reality that can be inserted into cultural and political life is central to the social relationship of power. (Fiske, 1989, p. 149)

It is interesting to see that the Labour Party in 2006 used a background paper that took this approach:

This paper is about Labour taking greater charge of the language of debate and discussion in New Zealand. It is called ‘re-framing’ and it means gaining (or regaining) the use of concepts and phrases that spark public and media interest. If you control the language, you control the message. The media doesn’t create the message, they run with it.” (Curran, 2006, p. 1)

It might be reasonably assumed that all political parties aim to operate in this way, however it is conveniently spelled it out in this document. If this is the nature of political debate, then as economists we may not have a very realistic view of political processes, nor may we really understand how economic thinking contributes to these processes and the resulting decisions.

- Bosso, C. J. (1994). The Contextual Basis of Problem Definition. In D. A. Rochefort & R. W. Cobb (Eds.), *The politics of problem definition: shaping the policy agenda*. Lawrence, Kan.: University Press of Kansas.
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- Newman, M. (2006). Capturing the language [Electronic Version]. *New Zealand Centre for Political Research*. Retrieved 28 September from <http://www.nzcpr.com/weekly34.htm>.[]

STUDENTS AND THE 49TH ANNUAL NZAE CONFERENCE Wellington, 9 - 11 July 2008

Two opportunities are being offered by the New Zealand Association of Economists Education Trust to enable post-graduate students to attend the largest economics conference to ever be held in New Zealand, “Markets and Models: Policy Frontiers in the AWH Phillips Tradition”:

1) 2008 Graduate Study Awards

These are for research students in New Zealand to enable them to participate in the conference. Selected students will be awarded up to \$500 each plus one year membership of the New Zealand Association of Economists.

2) 2008 Special Support for Conference Assistants

There are a number of special awards to enable students to travel to this conference. They each comprise free conference registration plus \$200. In return recipients are required to work for half a day, each day of the conference, as a conference assistant. They will be under the direction of The Conference Company staff who are running the conference on behalf of the association.

The Trust will accept applications for these awards from students enrolled at New Zealand universities. Applications close on 18 April 2008.

For further information on either of these, contact:

Mary Hedges

Vice-President, NZ Association of Economists

Email: m.hedges@auckland.ac.nz

DDI: **09 923 7670**

FROM THE 2BRED FILE

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

Your reviewer periodically has a rave about the teaching of principles courses in economics, especially for non-majors. As a former head of an economics department I chaired a good number of meetings where the faculty would wring their hands and wonder why we had 350 first year economics students (the paper was compulsory for all management students) and such small numbers in second year. Making snide comments about marketing and communications being soft options never did seem to lead to any positive improvement.

Well, the world's a complex place and there are host of possible explanations – we'd require a good data set and some clever multivariate analysis to really get to the bottom of it. But my guess was that we could explain a good part of the attrition by the way we taught first year economics. Nothing puts students off quicker than plotting average and marginal cost curves!

So I relish books that look at the economics of everyday things. Economics is going on all around us every day yet why do we insist in ignoring the real world when teaching economics principles courses? Why do female models earn more than males? Why do drive-in ATMs have Braille keypads? Why are whales but not sheep in danger of extinction? Why do men's shirts button from the left and women's from the right? Why do the Japanese spend more on weddings than couples in other countries? Why do film processing stores offer the second print free? Why are the car yards all located close together on the same street? ... and so on.

For a really entertaining and well written read (described as "snappy and delightful" by Tyler Cowen) try **Robert H. Frank (2007)** *The Economic Naturalist: In Search of Explanations for Everyday Enigmas* (Cambridge, MA: Basic Books). . And those teaching first year economics might do well to add it to a reading list (although suggesting that there is a reading list in a first year course probably does nothing more than reveal my age).

Having started on my pet peeve, let me offer another book in a similar vein. **Diane Coyle** had written a previous bestseller: *Sex, Drugs and Economics*. Coyle is a British economist whose PhD is from Harvard (not Chicago!). She is a visiting professor at Manchester and a former economics editor of the *Independent*. Her latest book (2007) is *The Soulful Science: What Economists Really Do and Why It Matters* (Princeton: Princeton University Press). She opens with the statement: "I want to persuade you that economics gets an unfairly bad press. Economics is entering a new

golden age, and this book is about the frontiers of economic research and empirical discovery during the past fifteen or twenty years."

For those who might find the Robert Frank's volume a bit on the flippant, light weight side, here is a book that addresses current issues and reviews the contribution of economics. Economic history, growth, poverty, behavioural economics, game theory – it is all here, presented in a jargon free, eminently readable way. Coyle draws on the work of Barro, Sachs, Easterly, David, Dasgupta, Sen, Glaeser, Krugman, Ormerod, Madison, Kahneman etc... a more scholarly and referenced volume but one that illustrates the insights that economics can offer, increasingly so as it undertakes joint ventures with sociology, anthropology, history and psychology. In short, neoclassical economics continues to serve us well – but there is more to life and we will communicate our enthusiasm for the discipline much more effectively if we are prepared to add new tools and approaches to the standard mathematical toolkits that dominated mainstream economics for most of the last half of the twentieth century.[]

Economics and mathematics [SB]

First a quote from Pierre Bourdieu:

"The role of what is called the dominant ideology is fulfilled nowadays by a certain use of mathematics (I exaggerate, but it is a way of drawing attention to the fact that the work of rationalization – giving reasons to justify things that are often unjustifiable – has now found a very powerful instrument in mathematical economics). This ideology, which dresses up simply conservative thought in the guise of pure reason, has to be fought, with reasons, arguments, refutations, demonstrations..."¹

Second, Robert Frank takes an economist's perspective in his book described in 2BRED in this issue of *AI*. He contends that competitive academic labour markets for economists require candidates to signal their prowess as displayed through the use of mathematics. "The resulting arms race leads to excessive formalism."²

Economists do have a problem with mathematics, in that the more particular mathematical forms are used, the less we consider the underlying assumptions. This may be a serious problem if the form (linearity, convexity, differentiability, etc.) is chosen not for its relevance to the actual situation being analysed, but to allow the application of the desired mathematical techniques.[]

1 P.54 of Bourdieu, P. (1998). *Acts of resistance: Against the tyranny of the market* (R. Nice, Trans.). New York: The New Press.

2 Pp.139-140 of Frank, R. H. (2007). *The economic naturalist: in search of explanations for everyday enigmas*. New York: Basic Books.

Simple theories and confounding factors

by Stuart Birks (k.s.birks@massey.ac.nz)

There are several findings from economic theory that have been awarded great significance, purportedly being directly applicable to real world situations. Sometimes this is questioned, as by Tullock (1992) on the paradox of voting, and by Sen (1977) on the desirability of a perfectly competitive economy (discussed in *Asymmetric Information* No.30). Theory is based on simplification, and there may well be overlooked aspects that would result in a different interpretation. Friedman (1953) referred to an infinite number of hypotheses consistent with a finite set of facts.

This point may be illustrated in Sen's paper above. Sen gives an example of a one-off game in which a self-interested utility-maximising player would be dishonest. In practice, many people would not behave in this way. He quotes Leif Johansen:

Economic theory...tends to suggest that people are honest only to the extent that they have economic incentives for being so. This is a homo oeconomicus assumption which is far from being obviously true, and which needs confrontation with observed realities.
(Sen, 1977, p. 332)

Sen contends, "The presence of non-gains-maximizing answers, including truthful ones, immediately brings in commitment as a part of behavior." (Sen, 1977, p. 332) A real-world example of changed behaviour in the context of the sub-prime mortgage crisis in the US can be found in Crook (2008). He refers to a change from previously conventional honest behaviour so that now borrowers with negative equity are simply posting their keys to the lenders, or so called "jingle mail". Crook's explanation for the honest behaviour coincides with points below.

Sen's case for commitment relies on assumptions implicit in the model, and these may not reflect real-world conditions. In other words, rather than the evidence supporting the claim, it may result from the characteristics of the test. As Desai has pointed out, "...in confronting theories with facts, the method of testing does not play a neutral role" (Desai, 1981, p. 96). A method of testing may be inappropriate for the hypothesis and the available information, or there could be false positives and false negatives, or Type I and Type II errors.

A key question to raise is whether the same results might be observed for another reason. Are there alternative explanations, or can the same result be achieved under other circumstances? Theories specify artificial environments based on a few variables, where other factors do not exist. The simple models used by economists to consider behaviour may not be suitable for handling issues of honesty and accuracy of information.

Sen's game assumes that people only learn from direct experience, so they are ignorant of all other things. If this applies in the real world, the resulting imperfect information would mean that markets are inefficient for all but the most mundane, routine transactions. In reality, information is spread by other means also. The significance of the simplifying assumptions of the game should be recognised. Here are four potential confounding factors that could be suggested. Signals can be given through reputation, or through appearance (a "Dorian Gray" effect), there can be social conventions ("rules of the game"), or there could be "potentially repeated" games:

First, a person's *reputation* can be affected by past actions, and the information spread to people with whom future interactions may occur. In this sense, any game may be with someone in the informed and/or informing community. Similar significance could be attached to a person's credit rating or criminal record, and as a reason for name suppression and charges of defamation. The essence of human society and development is that information can be gained and shared without requiring direct personal experience. People's behaviour can affect their reputations, and this can be important for them.

Second, even without interpersonal transmission of information, signals may be given to others through what could be termed a "Dorian Gray" effect. According to the story, "*The Picture of Dorian Gray*" by Oscar Wilde, Dorian got his wish that he be able to live life as he chose, with his appearance untarnished by his experiences, while instead, "the face on the canvas bear[s] the burden of his passions and his sins" (Wilde, 1993, p. 78). For the purposes of the point here, a person's past actions may be reflected in their appearance. Others will perceive this according to the extent that they are able to read character traits such as honesty, consideration, or selfishness.

The information conveyed by these means may be inaccurate, or may not be a good predictor of future behaviour. Therefore there is still scope for players to misread a situation, or to mislead others through trickery or deceit, for example. Consequently others may place particular emphasis on presenting a clear signal of honesty.

Third, there is an additional dimension in terms of there being generally accepted *rules of the game*. In other words, by some informal collective agreement or convention, it may be determined that people should behave honestly in such exchanges. The gain for all is an increased level of trust, reduced risk, and improved exchanges between members of society. A parallel in economics is common acceptance of money as a medium of exchange. Without trust, levels of co-operation would be much lower. This would cost everyone, including those who breach the trust. Society

may also wish to stigmatise those who behave contrary to the rules, giving an additional incentive for compliance.

Fourth, there may be a difference in the optimal strategy in repeated games, as compared to one-off games. Possible reasoning is described for the prisoner's dilemma in Luce and Raiffa (1957, pp. 94-102).¹ Unlike the theory, real world situations can take the form of repeat games, or *potentially repeated* games (there could be uncertainty as to whether one might have an additional encounter with a particular party).

These four possibilities could explain why some people might behave honestly out of self-interest even though it is contrary to the prediction of a game such as that considered by Sen.

While simple models may indicate some possibilities, they will ignore many aspects, some of which may be central to real world behaviour. We should not claim so much understanding of the world from basic theoretical findings

1 Their discussion sheds light on the traveller's dilemma (Basu, 2007).

in pared-down environments. It may be that the issue of honesty and behaviour cannot be resolved through recourse to simple models.

- Basu, K. (2007, 20 May). The traveler's dilemma. *Scientific American*.
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- Luce, R. D., & Raiffa, H. (1957). *Games and decisions: Introduction and critical survey*. New York: Wiley.
- Sen, A. K. (1977). Rational Fools: A Critique of the Behavioral Foundations of Economic Theory. *Philosophy and Public Affairs*, 6(4), 317-344.
- Tullock, G. (1992). Is There a Paradox of Voting? *Journal of Theoretical Politics*, 4(2), 225-230.
- Wilde, O. (1993). *The complete plays, poems, novels and stories of Oscar Wilde*. London: Magpie.[]



Trading by zones

Motu is developing a prototype nutrient trading system to address fresh water pollution in Lake Rotorua. The concept is similar to the emissions trading system (ETS) recently unveiled by the New Zealand Government. For the ETS, parties require a NZ Unit for each unit of carbon they are responsible for. In a nutrient trading system, landowners and other nutrient sources would require an allowance for each unit of nitrogen and phosphorus they allow to enter groundwater and waterways.

Motu's research comes at a time when nutrient trading is becoming a reality for New Zealand farmers. Environment Waikato (EW) is currently implementing a trading system for farmers in the Lake Taupo catchment area. All farms are required to have a Farm Management Plan in place, which sets out their current level of nutrient loss. Any reduction in this level creates surplus allowances that can be sold.

Seems simple so far, but there is a major factor missing in this account: time. Nutrients lost into groundwater in Lake Rotorua's catchment area can take from 0 to 200 years to reach the lake. This means that two landowners can make exactly the same reductions in a given year, but the

benefits for water quality from their reductions might not even appear in the same century. Setting long-term targets for water quality is very difficult in these circumstances.

Motu's nutrient trading system introduces trading by zones as an innovative way to address this problem. Within Motu's project, GNS Science and NIWA are modelling farm-to-lake nutrient time lags across the catchment area. Based on this information, the catchment will be divided into a set of zones with similar lags, and landowners in each zone will require permits for the approximate year their nutrients are predicted to reach the lake.

Thus a landowner in a 50-year zone would need 2058-vintage allowances for activity in 2008. In 2038, landowners in a 20-year zone would also require 2058-vintage allowances. All 2058 allowances used in this way should match the nutrients reaching the lake in that year, regardless of when they entered the groundwater.

Trading by zones allows the council to control when nutrients reach the lake by controlling where reduction should take place. This allows them to meet nutrient reduction targets in a given timeframe. It also creates incentives for landowners to achieve water quality targets in the lowest cost way across time and space.

This article is based on Motu Working Paper 07-08 by Suzi Kerr, Kit Rutherford and Kelly Lock, "Nutrient Trading in Lake Rotorua: Goals and Trading Caps." All Motu publications are available on our website, www.motu.org.nz.[]

Proof and Persuasion

by Stuart Birks (*k.s.birks@massey.ac.nz*)

There is a book of lectures by Adam Smith, delivered in 1763, on the subject of rhetoric (Smith, 1963). Some context for this can be found in Serjeantson (2006), where she discusses proof and persuasion as perceived in the 16th and 17th centuries. Loosely, proof was based on logic, whereas persuasion was based on rhetoric (“the theory and practice of persuasive argument”). Both logic and rhetoric were widely taught at that time.

Rhetoric has not disappeared from the academic curriculum. Wikipedia’s coverage of the subject (<http://en.wikipedia.org/wiki/Rhetoric>) includes a list of US universities which have departments with rhetoric in their name. More generally, departments specialising in areas such as communication, and perhaps politics, or marketing, are likely to emphasise aspects of persuasion.

However, rhetoric is unlikely to be included as a requirement in an economics major. It would be hard to find a place for it in economic approaches based on rational individuals, especially with perfect information and/or exogenous preferences, and using analysis based on logic. Does this mean that we are missing something?

Economics has been criticised for its use of a rationality assumption. Those who observe or assume that people are susceptible to persuasion (by other than purely logical reasoning and accurate information) would find it hard to accept the rationality assumption, not to mention exogenous preferences. There are large numbers of people employed in the task of influencing people’s opinions in relation to products, political parties, social issues, and so on. Static analysis offers little scope for changing preferences, but the world is not static. Some of our commonly made assumptions about economic agents are therefore subject to question.

There is another dimension in which there may be consequences from our reliance on logic to the exclusion of persuasion (with some exceptions). In our analyses and investigations, we draw conclusions. In other words, we claim that various findings arise from our research. Serjeantson discusses whether we should accept the findings of the researchers of early modern Europe:

“Issues of proof and persuasion in early modern Europe cannot be separated from the theoretical accounts that were formulated about them at the time...Claims for demonstration must be understood within the context of contemporary procedures of proof and persuasion. [Moreover] [o]ther factors – contingencies of publication, language, illustration, and distribution – necessarily come into play. More obviously, social, political, and institutional commitments also affected to a profound degree how and why particular arguments were accepted.” (Serjeantson, 2006, p. 174)

At any time, there are certain accepted methods of analysis and criteria for assessing results. Common criteria used by economists and/or econometricians include widely accepted economic principles, basic assumptions about objectives, the nature of relationships between variables as described in economic theory, commonly used functional forms, statistical levels of significance, and ways of controlling for other factors, to name a few. If the designated steps are followed and the required criteria are met, the results will be acceptable to our peers – they will be persuaded by the analysis. For other disciplines, and for economists in the future, the criteria may be different. Those people may not be as easily persuaded by what we accept as sound analysis. We should not be so surprised, therefore, that the results of economic analyses are often rejected.

Serjeantson, R. W. (2006). Proof and persuasion. In K. Park & L. Daston (Eds.), *The Cambridge history of science: Volume 3 - Early modern science* (pp. 132-175). Cambridge: Cambridge University Press.

Smith, A. (1963). *Lectures on rhetoric and belles letters: delivered in the University of Glasgow by Adam Smith, reported by a student in 1762-63*. London: Nelson.[]

Motu welcomes Andrew Coleman

Andrew Coleman has joined Motu as a senior fellow. Andrew spent a six-month secondment at Motu in 2004 – on leave from a teaching role at the University of Michigan – and we are delighted to welcome him as a permanent staff member.

Most recently a Senior Advisor at the Reserve Bank of New Zealand, Andrew has recent research experience in issues of price determination and housing. At Motu, he will join research programmes on emissions trading and climate change, transport and housing.

The Motu programmes have much in common with Andrew’s main research interest, the way that storage and transport networks affect the prices of natural resources.[]

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 the New Zealand Institute of Economic Research. Owing to the nature of the research undertaken by the Institute, we break with convention to include completed research since their last column in November 2004. Much of this is in the form of publicly available reports on contract work accessible through the Institute's web pages.

... recent economic research at the New Zealand Institute of Economic Research up to March 2008.

Compiled by John Yeabsley (JohnY@nzier.org.nz)

NZIER publications, including publicly available reports and working papers, can be accessed via:

<http://www.nzier.org.nz/Site/Publications/>

The NZIER has one of the largest teams of economists in New Zealand outside of government. Here are the current and recent work and interests of some of the Institute's people:

Brent Layton: 1) New Zealand member of Track 2 (i.e. private sector) study group appointed to report to the leaders at the East Asian Summit on the benefits and costs of a Comprehensive Economic Partnership in East Asia (CEPEA). 2) Economic performance of the agricultural export sectors in Papua New Guinea since 1970. 3) Design of an emission trading scheme for Business New Zealand. 4) Competitiveness of the New Zealand Banking sector. 5) Involved in organising establishment of ERIA; the Economic Research Institute for ASEAN and East Asia

JP de Raad: 1) Optimal purchasing approaches for primary health care and assistive devices for the ACC. 2) The impact of raising subsidies for injury-related primary care. 3) Costs and benefits of changes to regulations for company takeovers and amalgamations. 4) Estimating electricity lines businesses' costs of raising quality. 5) Feasibility of shared services.

Trinh Le: 1) The wealth gap between immigrants and the New Zealand born (with John Gibson and Steven Stillman). 2) Aspects of KiwiSaver (with John Gibson and Chris Hector). 3) Decomposing changes in the stocks of human capital in the last 25 years. 4) CGE climate change analysis (NZIER project). 5) Estimating New Zealand's first stock measure of household saving based on micro data from the Survey of Family, Income and Employment.

Peter Bailey: Report for ERIA on the development of SMEs in Cambodia. This was part of a larger project with researchers from several countries investigating SME development and development policies in 10 ASEAN+6 nations. It was based largely on a survey of 20 manufacturing SMEs around Phnom Penh. The survey results supported secondary data in an assessment of Cambodian SME development and focused on the involvement of SMEs in networks.

Jagadish Guria: 1) Values of Statistical Life and Prevention of Injuries. 2) Social costs of injuries. 3) Workplace Risk Landscape. 4) Safety Externality. 5) Congestion Cost

John Yeabsley: 1) New Zealand trade and trade policy (with Chris Nixon). 2) Export tax incentives. 3) Policy advice: the logic of the process. 4) Aspects of the New Zealand international exposure experience.

Here is a listing of NZIER publicly available contract research reports and presentations, dating back to 2005

2008

A time for change in Maori economic development, Report to Te Puni Kokiri by Preston Davies

2007

Designing tax cuts, Excel Model showing the benefits to families from and the fiscal costs of different tax cut options by Patrick Nolan

Are Kiwi workers better off in Australia? Report and Excel Model on the personal income tax situation for Kiwi workers who relocate to Australia by Patrick Nolan

Vehicle emission standards: Feasible policy alternatives to the Government's proposed draft rule, Report to the Independent Motor Vehicle Dealers' Association (IMVDA) and Motor Trade Association (MTA) by John Stephenson

Evaluating emissions standards: An assessment of the effectiveness of the proposed draft rule, Report to the Independent Motor Vehicle Dealers' Association (IMVDA) and Motor Trade Association (MTA) by John Stephenson

Electricity security of supply policy review: Castalia's consultation paper, Report to MEUG by Brent Layton

De-merging traffic enforcement from the Police: Analysis of information to review costs and benefits, Report to the State Services Commission by Brian Speirs, Ian Duncan, John Yeabsley and Simona Vita

Emissions Trading Scheme for New Zealand, Report to Business New Zealand by Johannah Branson, Peter Clough, Vhari McWha, Brent Layton and John Stephenson

Otahuhu substation grid upgrade plan, Report to MEUG by Brent Layton

Transmission pricing methodology: Submissions on the Electricity Commission's consultation paper, Report to MEUG by Brent Layton

Waste and rationality, Report to Business New Zealand by Peter Clough

Productivity, profitability and industry-good activities, Report to Dairy Insight by Brian Speirs

2006

Ageing and economic growth in New Zealand, by Johannah Branson

Transpower's amended North Island grid upgrade proposal, Report to MEUG by Brent Layton and Bill Heaps (Strata Energy Consulting Limited)

Facilitating distributed generation, The Ministry of Economic Development's draft regulations, Report to MEUG by Brent Layton

Auckland's contribution to the Government's surplus in 2005, Report to the Committee for Auckland by John Stephenson

The benchmark agreement and interconnection rules papers: Invitation for cross-submissions, Report to MEUG by Brent Layton

Otahuhu security upgrade, Report to MEUG by Brent Layton

Grid planning assumptions, Opportunity to provide feedback, Report to MEUG by Brent Layton

Lessons from past 'energy crises', Presentation by Brent Layton, to the Institute of Policy Studies Energy Roundtable Series - 'Breaking dependence on fossil fuels by 2020'

Benchmark agreements and interconnection rules: The Electricity Commission's consultation documents, Report to MEUG by Brent Layton

Review of Electricity Commission's Draft Decision: Transpower's Auckland 400kV Grid Investment Proposal, Report to MEUG by Brent Layton

Research to support the ITOs' leadership role : analysis of economic and social environment, Summary of NZIER's report to the Industry Training Federation by Sharon Pells

Counties Manukau DHB: Health service needs and labour force projections In 2005/2006 NZIER undertook a series of studies for Counties Manukau DHB, designed to create informed decisions behind actions to develop the Health Workforce in the DHB's area. Reports by Simon Hope and Mark Cox, i) Implications of a growing and ageing population; ii) Implications for the development

of the Pacific People's Workforce; iii) Implications for the development of the Maori Workforce; iv) Analysis of the CMDHB community, NGO and primary workforce survey responses.

Didymosphenia geminata economic impact assessment, Report to Biosecurity New Zealand by Johannah Branson

Digital content: economic perspectives, Report to the National Library of New Zealand by Ian Duncan, John Yeabsley and Karley Drought (NZIER) and Clare O'Leary (Eve Bay Studio)

Papua New Guinea Agriculture: issues and options, Report to the Papua New Guinea Institute of National Affairs by Ian Duncan, Brent Layton, Chris Nixon and Simon Wear

Amendments to the Rules for grid upgrade plans: report on Electricity Commission's consultation paper, Report to MEUG by Brent Layton

Transpower's threshold breaches, Report to the Commerce Commission by Brent Layton

HVDC transmission pricing methodology re-consultation: submissions on the Electricity Commission's issues paper of 2005, Report to MEUG by Brent Layton

20 Free Hours? Options for raising participation in early childhood education, Report to the Early Childhood Council by Jean-Pierre de Raad and Preston Davies

2005

HVDC transmission pricing methodology: the Electricity Commission's issues paper, Report to MEUG by Brent Layton

Pacific peoples' economic participation report: implications for the New Zealand economy, Report for the Ministry of Pacific Island Affairs by Ralph Lattimore, Alice Wang and Ian Duncan

Measurement of spin-outs from Foundation-funded research, Report to the Foundation for Research, Science & Technology by Mark Cox

COOL Revisited: Benefit cost analysis of Country of Origin Labelling, Report to the Food Standards Australia New Zealand by Peter Clough

Pathways : connecting with and expanding opportunities for Maori, Draft report to Te Puni Kokiri by Sharon Pells and Ian Duncan

Maori business and economic performance : a summary report, Report to Te Puni Kokiri by Preston Davies and John Stephenson

Putting children first: Early childhood education policies for a better tomorrow, Report to the Early Childhood Council by Jean-Pierre de Raad and Joanna Smith

Market design report, Reports to the Electricity Commission by Brent Layton - The Market Design Report is comprised of three separate documents: i) Market design report: initial stock-take paper; ii) Market design report: international practice review paper, iii) Market design report: way forward?

Options for enabling transmission alternatives: comments on the Electricity Commission's consultation paper, Report to MEUG by Brent Layton

Core grid determination: comments on the Electricity Commission's discussion paper, Report to MEUG by Brent Layton

Maori in the trading world: conventional and emerging opportunities, Report to Te Puni Kokiri by Chris Nixon and Rebecca Schrage

Maori business and economic activity : a regional and sectoral analysis, Report to Te Puni Kokiri by Preston Davies and Mark Walton

Maori economic activity: a regional and sectoral employment snapshot, Report to Te Puni Kokiri by Preston Davies and Mark Walton

Regional opportunities for Maori business, Report to Te Puni Kokiri by Preston Davies, John Stephenson and Mark Walton

Costing parties' tax policies - Reports by John Stephenson, Vhari McWha and Simon Hope on i) ACT, ii) Greens, iii) United. (The Treasury engaged NZIER to provide estimates of individual parties' tax policies for the Finance and Expenditure Committee. Costings were undertaken on In accordance with the project's terms of reference, each policy has been costed in isolation from any other proposed policies unless specified otherwise.)

Initial statement of opportunities: comments on the Electricity Commission's consultation draft, Report to MEUG by Brent Layton

Telecommunications pricing in New Zealand: a comparison with OECD countries, Report to Telecom (NZ) Ltd by Simon Wear and Ian Duncan

Options for determining Transmission Service Definitions: comments on the Electricity Commission's consultation paper, Report to MEUG by Brent Layton

A review of the draft Waitaki Catchment plan, Report to MEUG by Vhari McWha

Force majeure in electricity hedge contracts in New Zealand, Report to MEUG by Vhari McWha and Brent Layton

Options for enabling transmission alternatives: submissions on the Electricity Commission's consultation paper, Report to MEUG by Brent Layton

The performance of the New Zealand banking sector, Report to the Reserve Bank of New Zealand by Brent Layton, Appendix 11 of the Review of the regulation and performance of New Zealand's major financial institutions

Draft Grid Reliability Standards: comments on the Electricity Commission's consultation paper, Report to MEUG by Brent Layton

Competition and investment and entry barriers, A review of the LECG/TWSCL report to the Electricity Commission, Report to Hydro Tasmania by Brent Layton

Distributed generation: DG above 10kW - enquiry and application process, Report to MEUG by Simon Hope

Process for Transpower to develop the transmission pricing methodology: comments on the Electricity Commission's proposal, Report to MEUG by Brent Layton

Guidelines for Transpower's transmission pricing methodology: EC's decisions and strategic risks, Report to MEUG by Brent Layton

The proposed centralised data set: response to the Electricity Commission's request for views, Report to MEUG by Brent Layton

Also available, NZIER working papers, with the following dating back to 2005

- WP 2008/01 Is poor household saving the cause of New Zealand's high current account deficit? by Trinh Le (NZIER) and Bryce Wilkinson (Capital Economics)
- WP 2007/01 Does New Zealand have a household savings crisis? by Trinh Le
- WP 2006/05 New Zealand-Australian income differential, by Johannah Branson and Brent Layton
- WP 2006/04 Trust ownership and Vector: implications, ideas and instances, by Brent Layton and John Yeabsley
- WP 2006/03 Fuel expenditure – impact on households, by Tahia Equb
- WP 2006/02 Recent trends in China's trade, by Alice Wang
- WP 2006/01 Electricity contracts: compositions and risk allocation in the New Zealand Electricity market, by Simon Hope in association with Strata Energy Consulting Limited
- WP 2005/03 A quantitative description of the Chinese economy, 1960-2004, by Alice Wang
- WP 2005/02 Climate change – a guide to domestic and international policy, by Simon Wear
- WP 2005/01 LNG – Everything you wanted to know but were afraid to ask, by Simon Hope.[]

EMAIL DATA BASE

We are currently setting up an email database of members to keep up to date with technology, and we are working towards eventually e-mailing as many of our notices/publications as possible. If you have not yet supplied the Secretary-Manager with your email address please email: economists@nzae.org.nz

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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.

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NEW MEMBERS

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

Reuben Irvine (Covec Ltd); **Dr David Tripe** (Massey University); **Dr Maros Servatka** (University of Canterbury); **Dr Kunhong Kim** (Victoria University of Wellington); **Dr Yuliya Moore** (Victoria University of Wellington); **Ian Maxwell** (Manukau City Council); **Murray Weatherston**; **Martin Fukac** (Reserve Bank of NZ); **Piyasena Liyanage** (Statistics NZ); **Dr Nazmun N. Ratna** (Lincoln University); **Sharon Snelgrove** (Statistics NZ); **James Allen** (Ministry of Foreign Affairs & Trade); **Jane Turner** (Reserve Bank of NZ); **Christina Leung** (Reserve Bank of NZ); **Chris McDonald** (Reserve Bank of NZ); **Carly Harker** (Reserve Bank of NZ); **Jaromir Benes** (Reserve Bank of NZ); **Emanuel De Veirman** (Reserve Bank of NZ); **Michael Kirker** (Reserve Bank of NZ); **Rishab Sethi** (Reserve Bank of NZ); **Philip Briggs** (Reserve Bank of NZ); **David Gillmore** (Reserve Bank of NZ); **Felix Delbruck** (Reserve Bank of NZ); **Andrew Binning** (Reserve Bank of NZ); **Chris Bloor** (Reserve Bank of NZ); **Ashley Dunstan** (Reserve Bank of NZ); **Catherine Sleeman** (Reserve Bank of NZ); **Hamish Pepper** (Reserve Bank of NZ); **Janet Turvey** (EIT)

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NEW ZEALAND ECONOMIC PAPERS

Ananish Chaudhuri, the editor of *New Zealand Economic Papers*, invites members to submit their papers to the journal.

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Offers and ideas for symposia of papers on particular topics are also welcome.

Book reviews and books to review (or suggested titles) are also needed.

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Preferences

"[W]e can frequently influence our own future desires, or those of other people; it is not merely a matter of the means of mass persuasion, but of the fact that social policy and education forms certain kinds of people with certain kinds of satisfactions, and it is the...desirability of certain kinds of people (e.g. literate, industrial) which determines that the desires of such people should come into being, rather than vice versa. From the utilitarian viewpoint this is topsy turvy, but that is how it is." - Ernest Gellner¹

"Only an idiot (or an economist) would claim that rational choice models can explain all of human behavior...[S]ometimes it may be more useful to model behavior as operationally conditioned or otherwise socialized rather than as "choice" behavior, or even that, as sociobiologists claim, some types of behaviour may be largely "hard wired." - Bernard Grofman². []

1 P.99 of Gellner E (1964) *Thought and Change*, London: Weidenfeld and Nicholson

2 P.240 of Grofman, B. (1993). On the gentle art of rational choice bashing. In B. Grofman (Ed.), *Information, participation, and choice: an economic theory of democracy in perspective*. Ann Arbor: University of Michigan Press.

Use MATLAB to Develop & Deploy Financial Models



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