

ASymmetric information

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New Zealand Association of Economists Inc.

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“While many...legal rules... seem designed to promote efficiency, many others, such as the...fast-eroding restrictions on competition in banking ...do not.”

P.560 of Posner, R. A. (2007). Economic analysis of law (7 ed.). Austin, Tex.: Wolters Kluwer for Aspen Publishers.

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EDITORIAL

Making their mark

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

It has been suggested that significant shifts in thinking and policy occur when a major problem is recognised and there is either a consensus on the way forward (as with the 'punctuated equilibrium' model of policy change) or an alternative approach with sufficient explanatory power and a large enough body of supporters. There has been unease about the current state of economics for some time. Some is voiced in Issue 7 of the Post-autistic economics newsletter, 10 July 2001, which includes letters by French and English students and responses by Paul Ormerod and others

(http://www.btinternet.com/~pae_news/review/issue7.htm).

Recent and developing economic events may meet the requirement of a 'major problem', leading many economists to think carefully about some of the prevailing core aspects of our discipline. Numerous difficulties have been known for some time, but they have been largely ignored. Here are a few:

1. Dixit's point that we are dealing with mixed economies, and we cannot separate market and government;
2. We fail to draw a clear distinction in theory between what people do and what they should do, too often being willing to treat models of the latter as descriptions of the former;
3. We generally disregard endogenous preferences and the importance of perceptions, rhetoric and persuasion (or, in fact, many of the areas of concern that are central to other disciplines with an interest in the same issues as those addressed by economists);
4. We rely on an ideal (perfect competition) which is both unattainable and possibly undesirable;
5. We focus heavily on equilibrium situations, rather than the dynamics of adjustment;
6. Academic economists frequently ask the questions that fit well with the theories and models and the answers that they provide, rather than the questions of significance in the real world and in public debate;
7. We overstate the explanatory value of theories which, inevitably, only take a partial perspective;
8. We disregard the significance of the theory of second best as a limiting factor in applying theoretical findings to the real world;
9. We routinely undertake statistical estimation of relationships in the knowledge that the relationships are simplifications, therefore relevant variables are omitted although this means that estimates are commonly biased and statistical tests are invalid;
10. In statistical estimation, we commonly assume stable underlying relationships, frequently ones that can be expressed as linear functions of the chosen variables;

11. We commonly misinterpret the results of statistical tests, as with the 'fallacy of the transposed conditional';
12. We commonly fail to recognise that we are only showing 'consistency' of results with the theories we are testing, and therefore overstate the value of those results by ignoring the possibility of numerous alternative explanations.

On point (12), in a legal example in the New Zealand Law Journal, Bernard Robertson writes:

"The witness's evidence raises several problems. First, the alleged 'consistency with sexual abuse' is meaningless. 'Consistent' to a scientist simply means 'not inconsistent' and there is no behaviour that is inconsistent with sexual abuse. The DSAC Manual advises witnesses always to say that behaviour is consistent with sexual abuse." (Robertson, 2003)

[DSAC = Doctors for Sexual Abuse Care, a New Zealand organisation]

These points can be summarised as follows. We accept many commonly held views as if they are well-founded. We read a lot into simplified analyses. We assume, by analogy, that the associated structures give realistic descriptions of real world situations. We treat apparently plausible explanations as if they are the only explanations. Our commonly used techniques and reasoning can be seriously flawed.

If a broadening of our perspectives is required, perhaps it is time we went back to a focus more on political economy, rather than just training students in economics. This may provide more opportunities to find common ground with other related disciplines.[]



Congratulations to Caroline Saunders, a past president of the NZAE, on being made an Officer of the New Zealand Order of Merit (ONZM) in the New Years Honours list 'for services to agricultural research'. She has played a very active part in the New Zealand (and international) academic and policy scene since coming to New Zealand in 1996. Not least, this award was in recognition of her important work on food miles, for which we should all be grateful.

Lincoln University's media release on the award can be found at: <http://www.lincoln.ac.nz/story30629.html>

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

EXPERTS AND THE MELTDOWN

By Stuart Birks

“What we do know is that we are in uncharted waters”

John Key, Opening Remarks at the Job Summit, 27 February 2009, <http://www.beehive.govt.nz/speech/opening+remarks+job+summit>

The current global economic situation is something new for all of us. Nevertheless, many look to economists to provide explanations and advise on responses. As part of the process of preparing this issue of Asymmetric Information, I tried to get contributions from people willing to share their insights. Perhaps there is some truth in Abraham Lincoln's adage, "Better to remain silent and be thought a fool than to speak out and remove all doubt". For my part, rather than throwing all caution to the wind, here is some speculation on questions that could perhaps be asked.

My questions, which I had hoped someone would address and which hopefully have not been overtaken by events before publication, include:

1. If the government is trying to bring in a domestic stimulus package, why might it borrow overseas to fund it? Would it plan to pay us in foreign currency?
2. If the domestic economy is stimulated, is the intent to increase domestic demand for wool, butter, cheese, etc., that is not wanted overseas? When people receive the money, what will they spend it on?
3. If the government cuts back on the employment of public servants, will they then be used to build infrastructure?
4. There are those who worry about how the government can repay the money it borrows to fund its deficits. However, while the borrowing increases gross public debt, it does not necessarily increase net public sector debt. Will the government be increasing public ownership of assets that are likely to appreciate significantly in value from their current levels?
5. If asset/share values have fallen below trend levels, and if superannuation savings are long-term, should the government respond to calls to suspend contributions to the New Zealand Superannuation Fund?
6. Jenni MacManus (2009) of Business Day reported: "Bollard told the summit we are arguably facing the biggest-ever destruction of wealth globally. In the northern hemisphere, equity markets have lost \$US30 trillion since the recession started, credit-related losses are around \$US2 trillion, the housing market has lost \$US4 trillion and lost output totals \$US3 trillion."

While lost output cannot be regained, the other losses are on paper, based on the assumption that all assets are accurately valued by their prevailing market price (which ignores any "willing buyer, willing seller" requirement), and that there is no distinction between realised and unrealised gains or losses. As the physical assets themselves still exist, aren't the actual effects more in terms of lost income from assets and possible redistribution of ownership? If so, are these really measured accurately by changed stock market or other valuations?

7. Many years ago I asked a market analyst friend in the UK why Margaret Thatcher had so much political support when many were unemployed and facing real hardship. His answer was that those in work, and there were many of them, were doing very well. Might an economic downturn in New Zealand give little pain to those who have employment? On the other hand, would an attempt to spread the burden through a 9-day working fortnight result in inefficiencies (as seen with carless days, if you remember them - 30 July 1979 to May 1980)? How would you run and finance training courses if people only have 1 day off a fortnight and they are not coordinated for particular courses? How do you determine suitable courses, and who would teach them?
8. Infrastructure investment seems appealing, but what about lags in implementation? It may not be very efficient to select projects on the basis of ability to implement at short notice, and would the projects match the spare productive capacity in terms of location, skill, etc.?
9. Housing markets are a major cause of the global financial crisis and loss of confidence in the financial sector. Why, then, are policies aimed at supporting the financial sector, while ignoring the falling housing sector? And why is the New Zealand Government considering intervening to make housing even more affordable than is already occurring with existing market and interest changes (Housing Minister, Phil Heatley, media release, 26 January 2009, "Bringing better balance to the housing market", <http://www.beehive.govt.nz/release/bringing+better+balance+housing+market>)? (For a good textbook example of how far house prices can sink, Google "house prices Detroit".)
10. It is now recognized that structural changes are required in financial markets, but why was this not recognized before the crisis developed? For example, what caused us in New Zealand to rely on rising interest rates to try to slow rising house prices, rather than consideration of access to low deposit mortgages?

These questions lead me to a more general point on the nature of economics as an academic discipline. In a paper that is critical of academia in general, Mende has written a polemic against what he perceives as the serious overemphasis of empiricism. He argues that a cult has formed around 'positive empiricism' which results in biases in academic research. In particular, empiricism is based on induction, whereas theoretical advances come from deduction. Consequently, he suggests, the overwhelming dominance of empiricism stifles theoretical advancement. I recall John McMillan's keynote address at the 2005 NZAE conference when he called for the use of a wider range of approaches and a move away from strictly quantitative analysis. When asked from the floor if he would advise his own research students accordingly, he acknowledged the risks involved in such choices. So, are we locked into asking the same old questions, and analyzing them in the same old way? Have we created the wrong incentives, with the associated inertia in terms of research methods and experience, to understand events that differ markedly from the average and the stable? []

McManus J (2009) 'Summit Mood Upbeat' Business Day, 3 March, http://www.nzherald.co.nz/business/news/article.cfm?c_id=3&objectid=10560023&pnum=0

Mende, J. (2005). The poverty of empiricism. *Informing Science Journal*, 8, 189-210.

FROM THE 2B RED FILE

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

Suppose it is the year 1909. You are in a group each trying to envisage the world in 2009. How many votes would you have got for a lunar landing (and return), laptop computers, the rise and fall of the Berlin Wall, the slaughter of 8 million Jews or the spread of the internet? As the physicist Neils Bohr reputedly said: "Prediction is difficult especially when it is about the future." This is the essence of the argument made by **Nassim Nicolas Taleb (2007)** in **The Black Swan: The Impact of the Highly Improbable** (London: Allen Lane). We often base our predictions on the probability of an event occurring; and we derive our sense of the probability from the frequency of past occurrences. In the Old World all swans were white; the probability of a black swan was (reasonably enough) assumed to be zero; that is, until the discovery by Europeans of Australia. Hence the title of the book. A Black Swan is an event that was highly improbable, unpredictable, has a massive impact and ex post we dream up explanations to make it appear less random than it really was. Google and 9/11 were Black Swans. Outliers are the things that really shape the course of history. So I recommend you overlook the irritating use of constructed words (eg, mediocristan, extremistan) and dip into this readable book. My guess is that Taleb will convince you that Bohr was on to something. It does seem that the future ain't what it used to be.

There are plenty of books by and about politicians. I tend to find they vary between boring and self-serving. However I found the substantial volume by **Michael Bassett (2008) Working with David: Inside the Lange Cabinet** ((Auckland: Hodder Moa) to be neither. It is certainly substantial with 553 pages of text followed by 42 pages of footnotes. In part this reflects the fact that there is an enormous amount of detail - a key cabinet meeting, or a meeting with Roger Douglas or a conversation with David Lange are typically reported in great detail including how various actors reacted, as well as summaries of what was said. As Bassett states in the Introduction: "This book is based on the notes I took in cabinet and caucus, and the regular jottings I made throughout my political life" (p.11). One could be forgiven for speculating that he might just have spent more time at cabinet meetings talking notes (for a subsequent book?) than contributing to the debate on matters at hand. But let me not be churlish. It is rare indeed that one gets such a personal first hand glimpse of life inside the cabinet room, warts and all. Of course one is reminded of the quote attributed to Otto von Bismarck: "To retain respect for sausages and laws, one must not watch them in the making".

Despite a family connection, Bassett pulls no punches in displaying all sides of Lange. In large part (no pun intended) he paints Lange as a tragic-comic figure whose physical health, personal life and political influence seemed to have been on the downhill from day one. A lonely, isolated man, whose wit and buffoonery were a façade for a mind that while sharp, had no ability to concentrate in depth on an issue. And in Bassett's view this left him vulnerable to the manipulative and domineering Margaret Pope - unquestionably the villain of the story, without whom the Douglas revolution may

have been carried forward and translated into a victory in the 1990 election. Clearly Bassett's perspective will not be shared by all - some would have Douglas himself as the central figure who single handed ended the Labour government's tumultuous term. But whatever view you subscribe to, I still prefer to recall the Lange of the Oxford debate - a brilliant orator, a wit and playing on a world stage. Political life in New Zealand is the poorer for his departure. He is sadly missed.

Your columnist tries to seek a balanced diet in the offerings - from the light, to the illuminating, to the local. This time the local offering is a volume edited and largely authored by **Matthew Gibbons** while a post-doc at the National Centre for Research on Europe at the University of Canterbury. **New Zealand and the European Union** (2008) is published by Pearson Education NZ. It packs much material into a modest 140 pages, covering political, historical, trade, economic, diplomatic and cultural aspects to varying degrees.

The chapter authored by Caroline Saunders rehearses the "food miles" case against New Zealand and finds for the defence. In reflecting on future developments the editor asserts that "future EU enlargements are likely to have very little direct economic impact on New Zealand." I would prefer to hold judgment on that - perhaps it will be a chapter in a future volume after more time has elapsed and revealed whether an even greater trading/economic block wields its might in manner that we cringe or flourish. The book has an extensive bibliography but no index. But don't overlook a substantial and insightful Foreword by Sir Frank Holmes, who arguably as a scholar and policy advisor, has contributed as much to New Zealand's trade relations in the last four decades as anyone single person.

Let me conclude with the light. Authors **Raymond Fisman** and **Edward Miguel** may well take exception at any implication of the frivolous. Despite the title **Economic Gangsters** (2008), the book addresses some serious concerns captured in the subtitle: **Corruption, Violence and the Poverty of Nations** (NJ: Princeton University Press). In short it is a woeful tale of how violence, plunder and corruption impede economic growth in the third world. All good predictable stuff with lots of examples, well documented and written in a highly accessible Freakanomics style. However I did find spending 28 pages (out of 213 or 13.14% of the book) to make the point that parking violations by UN diplomats were more prevalent by those from countries with higher corruption scores, was verging on over-kill (no violence intended). Still, one recognises that academic economists sometimes search for new and novel data sets from which to squeeze yet another journal paper. []

“ Investors said stabilization in the housing market - the epicenter of the storm - is the key to reigniting the economy ”

Reuters (2009, 3 January) "Wall St bets on bull year"
<http://www.stuff.co.nz/archived-stuff-sections/archived-business-sections/business/international-6026/781577>

GROUPS, CULTURES AND OUTCOMES

by *Stuart Birks*

As economists struggle to come to grips with the root causes of the global financial crisis, some possible (partial) explanations may be found beyond the usual boundaries of our discipline. Economics has been criticised for its reliance on the assumption that individuals are rational. This call has been taken up to some extent within the discipline, with attention being given to the work of Tversky and Kahneman (1981) and the growth of behavioural economics. However, there are other well-known phenomena that we appear to ignore, possibly because they may reflect endogenous preferences and/or group behaviour. Here I will mention three.

1. The Stanford prison experiment

This was first conducted at Stanford in 1971, and involved subjects being allocated the roles of either prison guard or prisoner (<http://www.prisonexp.org/>). The subjects were ordinary college students. As described on the web site:

“Our planned two-week investigation into the psychology of prison life had to be ended prematurely after only six days because of what the situation was doing to the college students who participated. In only a few days, our guards became sadistic and our prisoners became depressed and showed signs of extreme stress.”

2. The Milgram experiment

This was conducted at Yale by Stanley Milgram and described in an article published in 1963. Subjects were instructed to apply what they believed were electric shocks of increasing severity. The intention was to see if extreme behaviour, such as that by concentration camp guards, was due to the people being sadistic or just ordinary people obeying orders. They found that many subjects were prepared to follow instructions to administer severe shocks. Details and references can be found at http://en.wikipedia.org/wiki/Milgram_experiment, where Milgram is quoted:

“Ordinary people, simply doing their jobs, and without any particular hostility on their part, can become agents in a terrible destructive process. Moreover, even when the destructive effects of their work become patently clear, and they are asked to carry out actions incompatible with fundamental standards of morality, relatively few people have the resources needed to resist authority.”

3 The Stockholm syndrome

This is based on the well-known story of hostages in a Stockholm bank robbery who sided with the hostage takers, with the heiress Pattie Hearst being considered a later example. The concept has been extended further to describe a “societal Stockholm syndrome” whereby women became willing participants in their patriarchal oppression (Graham, 1994) (also described briefly at: http://web2.iadfw.net/ktrig246/out_of_cave/sss.html). The existence of the syndrome has been questioned (Namnyak, et al., 2008), and a description of the original hostage taking (Bejerot, 1974) does not mention the claimed behaviour. Nevertheless, the syndrome’s acceptance indicates its plausibility (such that people can be persuaded to believe in it).

The first two approaches outlined above were used recently in an attempt to understand the behaviour of American soldiers in Iraq,

in “What killed Sergeant Gray”, broadcast on Radio New Zealand National on Tuesday, 17 February 2009 (Montgomery and Phillips, 2009). The transcript is at: <http://americanradioworks.publicradio.org/features/vets/transcript.html>.

All three of the above suggest that people may find themselves in environments in which they behave in unexpected ways. However, economists still tend to focus on people as individuals, so the full importance of the social context may be overlooked (although Williamson, 1975, notes the importance of “atmosphere” and “informal group influences”).

The usual examples that are presented of these three phenomena relate to extreme behaviour, but might not similar things be commonly observed in less dramatic situations? Each organisation or social grouping has its own culture, rules and norms. The experiments simply suggest that these may be formed, and conformed to, in ways that we might not have anticipated. Consider, for example, the willingness of the public to favour an incumbent prime minister and the views of an incumbent government, or people’s acceptance of the culture in an organisation. At a more basic, and economics-related, level, I have observed in my various forays into factory and other production that output can vary greatly (in quality and quantity) quite independently of the capital and labour applied, simply as a result of the work atmosphere and general attitudes or motivation.

While economics recognises the significance of perverse incentives, it has paid relatively little if any attention to group culture and its impact on perceptions and behaviour. It may be an important aspect of policy making and implementation. In relation to the implementation of law, consider the quote from a U.S. Senator in “Leahy calls for a ‘truth commission’ on torture” (2009):

Nothing “did more to damage America’s place in the world than the revelation that our great nation stretched the law and the bounds of executive power to authorize torture and cruel treatment,” Sen. Patrick Leahy said at the start of a committee hearing.

On the same issue, internal memos advocating such actions are described by Frieden (2009).

What led Americans to compromise their principles in advocating and undertaking such actions? There may be numerous areas where theorising on the basis of the above phenomena could yield plausible explanations. Here in New Zealand, might there have been some validity to the suspicions by Rodney Hide that the Inland Revenue Department had “a tactic of engaging in protracted audits of taxpayers, in order to delay GST refunds to drive certain taxpayers broke” (Question for Written Answer No.9536, 16 September 2003)? What about his claim in 2000 that a “taxpayer had been harassed and bullied by the IRD to the point of a breakdown” (Bruce, 2000)?

Recently hitting the headlines, we also hear of Immigration’s Pacific ‘feifdom’ (Trevett, 2009):

“The Ernst and Young report said that since being set up in 2005 to deal with applications from people in Pacific nations and fill the Pacific quota, the division had had no clear picture of its duties and had lacked strong leadership.

It had become isolated from the rest of the Immigration Service as its leadership created an “us and them” approach.”

While it is of only passing interest to economists, the extreme adherence to one model of family violence by vested interests both in and out of government is a likely suspect also, as may be the long-term compliance with “political correctness”. There may be group dynamics active in determining collective views and behaviour. Numerous examples have been given by Mackay over 150 years ago in his book, *Extraordinary popular delusions and the madness of crowds*.

Even among economists, and for economics as a discipline, might there be common acceptance of our conventions despite cause for unease? Kuhn, describing scientists, writes:

"[T]he members of a scientific community see themselves and are seen by others as the men uniquely responsible for the pursuit of a set of shared goals, including the training of their successors. Within such groups communication is relatively full and professional judgment relatively unanimous. Because the attention of different scientific communities is, on the other hand, focused on different matters, professional communication across group lines is sometimes arduous, often results in misunderstanding, and may, if pursued, evoke significant and previously unsuspected disagreement." (Kuhn, 1970, p. 177)

There are commonly held perspectives on, and a collective understanding of, the economy. These are held by the mass of people within the profession. Might they be as much the result of a collective group dynamic as a logical, reasoned, and regularly reviewed and revised, assessment of theory and evidence? And, to return to my original concern about the current global financial and economic situation, might there have been something to consider about the culture within financial institutions? Might this have led to the behaviour that was at the root of the sub-prime crisis and the persistent rises in house prices in many countries? If this dimension of behaviour is important, then economic models that overlook it may be omitting a relevant variable, with all the associated consequences.[]

Bejerot, N. (1974). The six day war in Stockholm. *New Scientist*, 61(886), 486-487.

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Frieden, T. (2009). Obama releases internal Bush Justice Department memos. *CNN Politics.com*. Retrieved from <http://edition.cnn.com/2009/POLITICS/03/02/justice.memos.released/index.html>

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AETW 2009

by *Simona Fabrizi* (s.fabrizi@massey.ac.nz)

On 20-21 February 2009 the College of Business at Massey University, hosted the 27th Australasian Economic Theory Workshop (AETW 2009). The workshop was held at Massey's Albany campus and was jointly organised by the Department of Commerce, Auckland, and the Department of Economics & Finance, Palmerston North. An AETW is held every year, typically in Australia, with the aim of providing a forum for theoretical economists in the Australasian region to regularly present, discuss, and exchange new ideas in economic theory, and to foster collaborative research projects.

This year's event was very successful in attracting researchers from many diverse Australasian institutions, along with invited speakers from outside the region. It included contributions by international reputed scholars coming from the USA, Europe and Japan. The invited speakers in the workshop were Profs. Mamoru Kaneko (Tsukuba University, Japan), Clemens Puppe (Karlsruhe Institute of Technology, Germany), Michael Riordan (Columbia University, USA) and Julian Wright (National University of Singapore).

Professor Clemens Puppe presented work that gives insights into how voting mechanisms can be designed in order to induce individual voters to reveal their preferences truthfully in the casting of a vote on multidimensional alternatives. This is an extremely important question as this so-called "Strategy Proofness" is a necessary input into finding a decision rule that ensures individual voters cannot manipulate the result to deviate from "the correct" outcome even in the presence of multidimensionality. It applies to voting in social situations as much as to voting in general assemblies where stockholders are to vote about the future of companies, or to voting in board meetings, where directors of a company are deciding about the future of a CEO.

Professor Julian Wright talked about a new solution concept for strategic situations, in which decision makers in firms take unobservable actions that affect their interactions in later periods. Applications include firms signaling their choice of quality through their chosen price and advertising or the revelation of entrepreneurs' project quality, as determined by their effort, through corporate financing decisions. His solution concept reduces the set of possible outcomes of a strategic situation considerably, which ultimately helps predicting what decision makers will do in these situations. That is important as it reduces strategic uncertainty, for example, in competition policy-making as well as in decisions in private business.

Professor Mamoru Kaneko advocated a new approach to modeling strategic games as a consequence of the fact that our Earth is becoming increasingly small and narrow while its population and global interdependence are rising. He argued that there were problems with conventional modeling of strategic interaction in a small world with a large number of actors. Such modelling requires individuals to have an overly large amount of information about the strategic interaction they are in. He advocated a more experiential approach instead. This approach is based on individuals learning from the outcomes of their interactions and using these learned experiences in their future interactions. This is at the heart of the so-called Inductive Game Theory, promulgated over the last years by both Profs Mamoru Kaneko and Jeffrey Kline (Bond University, Australia).

Professor Michael Riordan demonstrated that, if firms compete in both the quality and the price of their products or services, the equilibrium outcome of their interaction in the market place is less clear-cut than previous research had shown. In fact, there is a multitude of reasonable equilibria in this situation, which leads to high strategic uncertainty and makes policy and business decisions

very complex. This will have to be taken into account, for example, when governments take decisions on competition policy or they regulate industries, such as telecommunications.

Other presentations included theoretical work on foreign direct investments and international trade. Two PhD student presenters in this area received Awards sponsored by the New Zealand Institute of Economic Research (NZIER). NZIER Chief Executive Jean Pierre de Raad presented the awards during a ceremony held at the Bruce Mason Centre in Takapuna that preceded the conference dinner.

There were also contributions on how international trade and criminality are intertwined; the regulation of banks; environmental policy and climate change; the pricing in telecommunications industries; as well as health economics and health care. All those works used the tools of game theory, decision theory, or industrial organization. Furthermore, numerous presentations during the workshop on new conceptual economic research promise to provide economists with enhanced tools for analysing various economic issues in the near future.

The workshop was sponsored by the NZIER and the Australian Research Council through the Economic Design Network, as well as Massey University. Hopefully, it has raised the profile of research in the area of Economic Theory, especially that conducted in New Zealand in particular and the Australasian region in general.

The full program of the event and more details about the workshop can be found on the workshop website: <http://aetw2009.massey.ac.nz>. □

XENOPHON ON THE DIVISION OF LABOUR...

In Xenophon's Cyropaedia bk 8, ch. 5. sec. 2, written about 2400 years ago. Here is Walter Miller's 1914 translation:

For just as all other arts are developed to superior excellence in large cities, in that same way the food at the king's palace is also elaborately prepared with superior excellence. For in small towns the same workman makes chairs and doors and plows and tables, and often this same artisan builds houses, and even so he is thankful if he can only find employment enough to support him. And it is, of course, impossible for a man of many trades to be proficient in all of them. In large cities, on the other hand, inasmuch as many people have demands to make upon each branch of industry, one trade alone, and very often even less than a whole trade, is enough to support a man: one man, for instance, makes shoes for men, and another for women; and there are places even where one man earns a living by only stitching shoes, another by cutting them out, another by sewing the uppers together, while there is another who performs none of these operations but only assembles the parts. It follows, therefore, as a matter of course, that he who devotes himself to a very highly specialized line of work is bound to do it in the best possible manner. □

from:

<http://www.perseus.tufts.edu/hopper/text.jsp?doc=Perseus%3Atext%3A1999.01.0203%3Abook=8%3Achapter=2%3Asection=5>

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

2009 Graduate Study Awards

New Zealand Association of Economists Education Trust

The NZAE Education Trust has established awards of up to \$500 each for research students in New Zealand. The awards enable students to participate in the annual conference of the association being held in Wellington from 1 – 3 July, 2009.

Awardees have the opportunity to participate in the largest economics conference held in New Zealand, meet with leading scholars visiting the conference and generally participate in the conference. In addition to the funds awardees receive one year membership of the New Zealand Association of Economists. The Trust will accept applications from students enrolled in New Zealand universities. Priority will be given to students who are presenting at the conference (poster or paper).

Each application will include the following.

1. Name
2. Qualification enrolled for.
3. Research topic
4. A sentence of support from Departmental chairperson with accompanying signature.
5. A copy of the student's academic record.

Important Dates

Applications close on 17 April 2009.

Awardees will be advised by 8 May 2009 and will receive formal acknowledgment at the conference.

Applications

Please submit your application to:

NZAE Graduate Study Awards
NZ Association of Economists
Po Box 568
Wellington

For further information contact:

Mary Hedges
Vice-President
NZ Association of Economists
m.hedges@auckland.ac.nz
DDI: 09 923-7670



Best Student Dissertation Award that...

*Advances our understanding of New
Zealand Capital Markets*

Preliminary analysis and any initial findings need to be submitted by 31 July 2009.

Deadline for submission of completed work: 31 December 2009

Submission should be sent to: Head of Economics, Reserve Bank of New Zealand,
PO Box 2498, Wellington 6140

Sponsored by:



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

JOHN BAKER (1913-2009)



Thanks to Statistics New Zealand for providing the following:

It is with great sadness that we have heard that John (Jack) Baker, who was Government Statistician from June 1958 until July 1969, has passed away at the age of 96.

Known as "JVT" (John Victor Tuwhakahewa) around the office, John was born in Manunui in January 1913 and was educated at Waipara District High School and Victoria University of Wellington, where he obtained an MA (Mathematics), M.Com. (with Honours in Economics), and a

Diploma of Public Administration. He was a Fellow of the NZ Society of Accountants, a part-time lecturer in statistics at VUW, author of numerous papers on economic and statistical subjects and of "The War Economy" (1965).

John represented New Zealand at international statistical conferences and was rapporteur of the United Nations Statistical Commission in New York in 1960 and 1962. He was Chairman of the 5th Conference of British Commonwealth Statisticians in Wellington in 1960 and Chairman of the ECAFE Seminar on Statistics in Wellington in 1962.

John was a foundation member of the NZ Association of Economists, formed in 1959, a member of the editorial committee set up to produce their first journal in 1965, and President from 1965 to 1967.

(For further details on his life, see Hank Schouten's piece in the Dominion Post at: <http://www.stuff.co.nz/dominion-post/news/features/obituaries/1999243/John-Baker-Public-service-mandarins-long-run>) []

2009 Special Support for Conference Assistants

New Zealand Association of Economists Education Trust

The NZAE Education Trust has established eight special awards of \$200 each to enable post-graduate students to attend the New Zealand Association of Economists annual conference. The awards are to enable students to travel to this conference of the association being held in Wellington from 1-3 July 2009. Preference will be given to spreading the awards among the New Zealand universities.

Awardees will receive up to \$200 to assist their travel, free conference registration and generally participate in the conference. 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 Conference Brokers staff who are running the conference on behalf of the association.

The Trust will accept applications from students enrolled at New Zealand universities.

Each application will include the following.

1. Name
2. Qualification enrolled for.
3. Research topic
4. T-shirt size

Important Dates

Applications close on 17 April 2009.

Awardees will be advised by 1 May 2009 and will receive formal acknowledgment at the conference.

Applications

Please submit your application to:

NZAE Conference Assistant Support Awards

NZ Association of Economists

Po Box 568

Wellington

Or by email to:

nzae@nzae.org.nz

For further information contact:

Mary Hedges

Vice-President

NZ Association of Economists

m.hedges@auckland.ac.nz

DDI: 09 923-7670

“ The frustration in politics is that it's hard to be strategic, as you are living for the next issue and the next day and it's quite media focused and you're always trying to get coverage for what you're saying and what you're doing ”

Tim Barnett, quoted in *The Press*, 21 February 2009, <http://www.stuff.co.nz/4854491a20475.html>

OBESITY AND EFFICIENCY

By Stuart Birks

Each discipline has its own perspectives or 'frames' that it can use to analyse issues. While obesity has been identified as a major health concern in many countries, there is one clearly economic approach that, as far as I know, has yet to be presented. Here I correct for that omission.

Some starting information:

1. Apparently it takes surplus food intake of about 7700 calories to give a 1kg increase in weight (or 500 calories per day to put on 1lb per week – and equivalent under-consumption for a loss in weight).
2. As a rough guide, daily requirements are approximately 2000 calories.
3. The Body-Mass Index (BMI) is calculated as (weight in kilos)/(height in metres)². There is a calculator at: <http://www.nhlbisupport.com/bmi/>. Someone about 1.8m tall has an easy calculation: multiply weight in kilos by 3 and divide by 10.
4. A good value for BMI is 20 (for possibly longer life, according to <http://www.halls.md/body-mass-index/av.htm>).
5. Overweight is defined as a BMI of 25 to 29.9.
6. Obese is defined as a BMI of 30 and above.

At 2000 calories per day, 7700 calories is equal to about 4 days' needs. Consider, then someone 1.8m tall who is just overweight. With a BMI of 25, the person is 16-17 kilos over the weight required for a BMI of 20. 17 kilos is about 65 days' needs. The person is carrying enough for over two months! An obese person, with a BMI of 30 or more, is carrying 125 or more days' needs, or over four months stock of calories! Note that this stock is of limited benefit, given the ongoing need to ingest vitamins and other essentials that the body cannot store, but are commonly obtained as a component of currently consumed food.

Now, to have an impact on people's behaviour, one requirement is that the information be presented in a way that is **persuasive**. So the **rhetoric** is important. Is it enough to say to an obese person that, wherever he/she goes, at least four months' worth of stored up calories also goes?

As economists, we might draw an **analogy**. Consider a supermarket which can obtain new stocks within the day. Would it make any business sense for the supermarket to maintain stocks equal to four months' sales? The impact of such behaviour on competitiveness is illustrated in a manufacturing context by Eliyahu Goldratt in his business advice text/novel, **The Goal**.

What about asking whether the person would go around everywhere carrying four months' of grocery shopping? This is not simply a matter of holding it in a store somewhere. The calories go everywhere the person goes. If you were carrying so much stock, would you continue to buy in new stock at the same rate as before? Looked at from that perspective, obesity is not just a health issue, it is one of personal economic efficiency. Given the ready availability of food for consumption in shops, restaurants, and in our own homes, shouldn't we be thinking of "just-in-time" eating?

If Kahneman and Tversky are concerned about whether people are rational, perhaps here is an area for them to investigate. The issue may be quite simple. What if there is heavy emphasis on short term pleasure through food consumption, with less regard for longer-term

costs? The costs could be greatly reduced simply by deferring some consumption until past surpluses have been eliminated. There are clear parallels with individual willingness to incur and sustain debt, as with credit cards, etc..

Does this mean that we are irrational? Perhaps not. Explanations could include: high monitoring costs; or heuristic approaches (whereby people simply carry on eating as before or as everyone else does, rather than devoting much effort to deciding what and how much to eat); or people getting high current pleasure from consumption; or even current consumption as precautionary demand against the event of future shortages.

The economics analogy can be taken further. Daily calorie requirements can be calculated at: <http://www.hpathy.com/healthtools/calories-need.asp>. It would appear that extra food intake is required to maintain a higher fixed body weight, as can be observed with depreciation from a larger capital stock. On the scenario I tested, it came to about 22 calories per extra kilo per day. This could include the extra energy required for regular activities due to greater body weight, the energy required to digest, or process, the extra, newly ingested food, and any depreciation of the stored calories. Carrying extra weight may reduce net pleasure. Moreover, if the pleasure comes through taste sensations, might we be able to increase the amount of pleasure per unit consumed (i.e. have more efficient consumption)? Variable dimensions include type of food, and speed and frequency of eating.

More than anything else, the above discussion should illustrate the significance of the way an issue is presented, or 'framed'. Economists, along with everyone else, use structures to describe situations and decisions. How the issues appear, and our reaction to them, depends on the particular ways we select, and how people perceive, those descriptions. A chosen approach may clearly indicate a particular explanation or solution, but the answers may be quite different if the problem is differently framed. The choice of frame can be as significant as the analysis within a frame. []

Goldratt, E. M. (1986). *The goal: a process of ongoing improvement* (Rev. ed.). New York: North River Press

PUBLIC OPINION - FOLLOWING THE LEADER?

On the 2009 International Climate Change Conference in New York, 8-10 March:

"To date, the only European Union leader prepared to take a principled stand on the global warming controversy has been the President of the Czech Republic, Vaclav Klaus. President Klaus reported to the conference that in his country, a new public opinion poll shows that only 11 per cent of people believe that man has a significant influence in warming the climate. With a President who has been very outspoken about how global warming alarmism is essentially an attack on freedom and living standards, it is little wonder that his public are extremely skeptical of global warming propaganda." []

[From: Newman M (2009) "The path to energy rationing", 15 March, <http://www.nzcp.com/weekly171.htm>]



The Jan Whitwell Prize is an award to honour the memory of Jan Whitwell (1944-1993), a former President of the New Zealand Association of Economists (1992-93), distinguished university lecturer and musician. Jan Whitwell died in a road accident in October 1993.

CONDITIONS

1. Entry to the Jan Whitwell Prize 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, and are able to attend and present their paper at the Conference. Entries from overseas that meet these criteria will also be accepted.

Deadlines for Submission of Abstract and Full Paper as detailed on the conference website, must be complied with.

2. Participants must also comply with Conference Registration deadlines as detailed on the conference website.
3. Solo authored papers only are eligible for the award. Please note on your abstract submission that you wish to enter the Jan Whitwell Prize.
4. The prize is awarded for the best presented paper.

Visit the Website <http://www.nzae.org.nz/>
(under Competitions)

FOR FURTHER DETAILS & REGISTRATION SEE WEBSITE

From an exchange of letters between R F Harrod and J M Keynes:

From Roy Harrod on 6 July 1938:

I make a statement about the 'acceleration principle'. Then Tinbergen comes and says that it does not have the influence I ascribe to it. Surely one ought not to leave the matter there. To Tinbergen the statistics merely suggest a negative result; if I applied his technique, they might suggest a refinement of my concepts or a re-stressing of the importance of one at the expense of the other.

(Keynes, 1973, p. 298)

From Keynes' reply dated 16 July 1938:

Tinbergen endeavours to work out the variable quantities in a particular case, or perhaps in the average of several particular cases, and he then suggests that the quantitative formula so obtained has general validity. Yet in fact, by filling in figures, which one can be quite sure will not apply next time, so far from increasing the value of his instrument, he has destroyed it. All the statisticians tend to work that way.

(Keynes, 1973, p. 299)

Keynes, J. M. (1973). The collected writings of John Maynard Keynes, Vol.14, The General Theory and after Part II: Defence and development (Vol. 14). London: Macmillan; St. Martin's Press for the Royal Economic Society.

CONFERENCE 2009

50 years: Looking back – moving forward

**James Cook Grand Chancellor Hotel
The Terrace, Wellington | 1-3 July 2009**

Planning for the conference is well advanced. For details and registration, go to:

<http://www.conferencebrokers.co.nz/nzae2009.htm>

or access that page from the NZAE site at: <http://www.nzae.org.nz/>

Note that the latest date for early bird registrations is 15 May 2009

All presenters MUST register by 15 June 2009

Keynote speakers include: Peter Phillips, Dean Hyslop and Robert McCullough

LEANZ at the conference

Friday 3 July is organised as a joint operation, including a one-day conference of the **Law and Economics Association of New Zealand (LEANZ)**. The day will begin with **Rodney Hide**, Minister of Regulatory Reform addressing the whole conference, followed by a panel session on the causes of the financial crisis. After lunch special LEANZ sessions will be held up to 5pm.

Don't forget the competitions and awards -

Conference-related:

- Jan Whitwell Prize
- NZIER Poster Competition
- Conference Graduate Assistance Awards
- Best Paper Award Capital Markets

Other competitions:

- Best Student Dissertation
- NZAE Education Trust 2009 Graduate Study Awards

Also the Distinguished Fellow Award (which recognises New Zealand economists who have made a significant contribution to the development of economics)

Further details on all these can be found at:
<http://www.nzae.org.nz/awards/>

The NZIER Poster Competition

Following on from the success of last year's competition, it is hoped that this year's event will draw as many entries. Entrants should note the details on the selection criteria and presentation guidelines at: <http://www.nzae.org.nz/awards/poster.html>

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

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 on the various campuses of Massey 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**.

... economics research at the University of Otago as at March 2009.

These entries are an abridged version of what was provided by the individual researchers in the Economics Department at Otago. Their email addresses can be found at: <<http://www.business.otago.ac.nz/econ/staff/index.html>><http://www.business.otago.ac.nz/econ/staff/index.html>

Alvin Etang, David Fielding and Stephen Knowles:

Measuring trust in Cameroon This research project uses both economic experiments and surveys to measure the level of trust in rural Cameroon, and analyses the relationship between trust and membership of Rotating Savings and Credit Associations (ROSCAs). We also analyse whether participants behaviour in the experiments depends on whether they are playing the games against people from their own village, or people from different villages.

David Fielding and Stephen Knowles: *Aid per capita or aid as a share of GDP: What matters for economic growth?* An influential paper by Burnside and Dollar argues that aid leads to higher rates of economic growth, but only in countries with good economic policies. We argue that this result hinges crucially on whether aid is measured as a ratio of GDP, or as aid per capita.

David Fielding is also researching: *Time-series models of income and health in Nordic countries* (cointegrating VAR methodology, with K. Shields, University of Melbourne); *Structural models of social and economic development* (relationships with inequality, with S. Torres, University of Leicester and M. McGillivray, UNU/WIDER); *Economic consequences of the Intifada* (investment, capital flight, poverty) and *The economics of insurgency and political repression in Egypt* (conflict, the financial sector and tourism) (both with A. Shortland, University of Leicester); *Macroeconomic linkages in the CFA Franc Zone* (a structural macro-econometric model for member states of the West African Economic and Monetary Union, with K. Lee and K. Shields, University of Melbourne); *Relative price variability and inflation* (with P. Mizen, University of Nottingham); *Distributional consequences of monetary policy* (with K. Shields, University of Melbourne)

Arlene Garces-Ozanne and Phyll Esplin: *To work or not to work ... that is the question: A classroom experiment on how the labour market operates.* This paper presents a simple classroom experiment about participation in a perfectly competitive labour market. The students are designated as workers and the lecturer represents the numerous employers in this experiment. The experiment is run for several periods, each period representing different conditions in the labour market. During each period, workers must decide whether or not to offer their labour services based on the information they have at hand. We find that this participatory approach to teaching

basic labour market concepts is not only well-received by students, but that it is just as effective at promoting students' retention and understanding.

Arlene Garces-Ozanne and Stephen Knowles (with Carlyn Dobson, Nottingham Trent University) *A Meta-analysis of Government Expenditure and Economic Growth*

Arlene Garces-Ozanne is also researching: *Aid effectiveness and human capital* (poverty reduction, income inequality, health and nutrition); *Short-run Macroeconomic Determinants and Impact on the Philippine Economy of Remittances* (with Maria Varua, University of Western Sydney); *Evaluating Economic Integration in the ASEAN: Perspectives From Cluster Analysis* (hierarchical cluster analysis, with Rachel Benic and Maria Varua, University of Western Sydney); *Crime, Political Uncertainty and Stock Market Returns: Evidence from Colombia* (with Juan Carlos Laverde and Maria Varua, University of Western Sydney); *Inflation Convergence: Evidence from South Asia* (β - and σ -convergence, with Christian Esguerra and Maria Varua, University of Western Sydney); *The effects of overseas workers' remittances and foreign aid on the economic growth of developing countries, using panel data* (panel data and time-series analyses, with Rukmani Gounder, Massey University); *Flat is beautiful* (the feasibility of a flat personal tax, contribution to economic growth, with Binevido Oplás, Minimal Government Movement, Philippines)

Rick Garside: *The Price of Success. Japanese developmentalism in growth and decline (book manuscript).* Recent literature is beginning to challenge earlier perceptions of the conduct of Japanese policy, shifting attention away from a powerful and sophisticated bureaucracy towards a more critical view. This book suggests that criticisms of developmentalism have often been ill-informed and overdrawn. Any analysis of Japan's immediate future can only be based on a clearer perception of what needs to be retained and discarded from past practice. The book identifies the reasons for Japan's 'lost decade' of the 1990s and why systemic reform of institutions and practices has been so lax in the aftermath. Also: (i) *Asian economic and financial integration in a European mirror.* A cooperative research project with colleagues in Japan and Korea examining the prospects of economic and financial integration in Asia in light of globalization and recent economic crises, drawing upon experience from the European Union. (ii) *Banking at the*

core and the periphery. A joint project with the University of Durham UK examining the role of English banking in New Zealand's economic development from the turn of the century, paying particular attention to the tensions between financial control and direction from London and the development of nationally-based banking services.

Murat Genç: (i) *Wage gaps in the New Zealand labour market* (with Murray D. Smith, University of Aberdeen) Using data from the Statistics New Zealand's 2003 CURF (Confidentialised Unit Record File) data set, we estimate wage regressions taking account of sample selection bias arising from the exclusion of individuals with no market income. We use the "copula approach" in the specification of sample selection models. We find evidence of a statistically and economically significant female/male differential. Ethnicity, however, is found to matter for certain groups only, not for Maori. (ii) *Trade, Diaspora and Migration to New Zealand* (with David Law, Commerce Commission, and John Bryant, Statistics New Zealand) This paper examines the hypotheses that a greater stock of migrants in New Zealand from a particular country leads to more trade

Paul Hansen: *Multi-Criteria Decision-Making and Conjoint Analysis* (with Franz Ombler, 1000Minds Ltd) We are further developing and applying our patented and award-winning software, 1000Minds. 1000Minds is advanced decision-support software for prioritising, ranking or choosing from alternatives (or individuals) being considered by decision-makers. We are working with many commercial clients and researchers internationally in a wide variety of fields. See www.1000minds.com for more information, especially our "Researchers" page there.

Alfred A. Haug: (i) *The role of monetary growth for the macroeconomics of industrialised countries since 1880* (with William G. Dewald, Ohio State University) A study of fluctuations in money growth for short-term and longer-term economic cycles and how these correlate with fluctuations in other macroeconomic variables. (ii) *Inference in cointegrating vectors under structural breaks: Monetary policy in the Euro area* (using Monte Carlo methods, with Andreas Beyer, European Central Bank). (iii) *Stability of money demand functions* This research re-assesses the stability of money demand functions in the presence of unit roots and cointegration in the euro zone. (iv) *Macroeconomic shocks: fiscal and monetary policy* (on the Canadian economy, impulse response function analysis within a so-called structural vector-autoregressive framework, with Syed Basher, Economics Department, Central Bank of Qatar)

Viktoria Kahui: (i) *Integrating the total economic value of one of Norway's most pristine marine ecosystems into policy making* (with Claire Armstrong and Margrethe Aanesen, University of Tromso, Norway). Identifying the total economic value (TEV) of the waters outside Lofoten-Vesteralen on the Norwegian coast in consideration of the increasing pressure of the oil industry on the area, which hosts major stocks of commercial fish species,

large cold water coral reefs and seabird colonies. (ii) *Labour supply of paua (abalone) divers in New Zealand* (with Hakan Eggert, University of Gothenburg, Sweden). The interpretation of the neoclassical model of dynamic labour supply is straight forward. A rational agent exposed to a temporary increase (reduction) in wages will respond by increasing (reducing) working hours. However, empirically such behavior has been hard to confirm. We analyse datasets on paua divers in southern New Zealand finding non-constant and significant wage elasticities. (iii) *Fishing on cold water coral reefs: a bioeconomic model of fishery-habitat connections* (a bioeconomic model) and (iv) *Comment: The Economics of Interdependent Renewable and Non-renewable Resources revisited*, (on Swallow's (1990) theoretical analysis of interactions between interdependent renewable and non-renewable resources) (both projects with Claire Armstrong, University of Tromso, Norway). (v) *An Empirical Estimation of Cold Water Coral-Fishery Connections* (with Naomi Foley, University of Galway, Ireland, and Claire Armstrong, University of Tromso, Norway). (vi) *Integrating spatial closure into the New Zealand quota system* (implications for fisheries management if quota rights are eroded by inappropriately compensating quota holders).

Alan King: (i) *Tourism imports and exports for the United States*, Empirical model of the determinants of US imports and exports of tourism. (ii) *Convergence in the OECD* (per capita income in OECD countries converging on, or "catching up" with, that of the United States, with Carlyn Dobson, Nottingham Trent University). (iii) *Trade liberalisation and import demand: the Central American experience* (with Stephanie Glover). (iv) *The Taylor Rule in New Zealand* (with Michael Beenstock, Hebrew University of Jerusalem).

Stephen Knowles and Dorian Owen: *Which institutions are good for your health? The deep determinants of comparative cross-country health status* (whether informal or formal institutions are more important in explaining cross-country differences in life expectancy, within a deep-determinants framework).

Stephen Knowles: *Social capital and cross-country environmental sustainability* (using the Environmental Sustainability Index, with Hari Bansha Dulal (World Bank) and Roberto Foa (Harvard University)).

Willie Lahari, Alfred A. Haug and Arlene Garces-Ozanne: *Estimating quarterly GDP Data for the South Pacific Island Nations*

Dorian Owen: (i) *Fundamental determinants of economic growth and development*. Several recent influential empirical studies have used simple models to attempt to identify the fundamental factors that underpin long-term growth and development. The key contenders are a country's geographical characteristics, the quality of its institutions, the extent of its integration with world markets, and its culture. This project applies recent developments in the methodology of econometric model selection and instrumental variables estimation to test

which fundamental factors matter most for economic development. (ii) *Health and economic growth*. This research analyses different aspects of the two-way relationship between improvements in health status and economic growth using cross-section, time-series and panel data methods. (iii) *Measurement of competitive balance in professional sports leagues*. Considers the properties of various measures of concentration and inequality for the measurement and comparison of competitive balance in different sports leagues It focuses on the implications for competitive balance measures of the fact that teams cannot win games in which they do not play and on the effects of variation in the number of teams and scheduling patterns in the leagues. (iv) *TV viewers' demand for New Zealand rugby: testing the uncertainty of outcome hypothesis*. The 'uncertainty of outcome hypothesis' (UOH) postulates that a positive relationship exists between spectator interest and the uncertainty of outcome of individual matches and of the overall competition. Almost all the studies testing the UOH focus on its relevance to match attendance. However, television viewers have increasingly become a much more important group of consumers of professional sporting events.

Frank Stähler: (i) *An analysis of different modes of foreign direct investment* (with Horst Raff, University of Kiel, and Michael Ryan, Western Michigan University). Existing literature has focused mainly on certain types of foreign direct investment. The aim of this research project is to provide a more comprehensive treatment. FDI can involve setting up a new plant in the foreign country (so called greenfield investment) or a joint venture in which partners remain independent or a cross-border merger. This distinction is crucial, because the patterns of FDI differ substantially across countries. The research project will aim at answering the following questions: (a) Which mode of FDI will be selected by a potential multinational firm, and how does this choice depend on firm-level characteristics like productivity and total assets, on industry-level characteristics like market size and on country-level characteristics like factor endowments? (b) How do economic policies, in particular corporate taxation, influence the mode of FDI? How do the different modes of FDI affect consumers and producers in the host country? (c) Depending on the FDI mode, will countries be caught in a race to the bottom in order to attract FDI? (ii) *Commodity taxation in a two-sided market* (with Hans Jarle Kind and Guttorm Schjelderup, Norwegian School of Economics and Business Administration) Newspapers sell the paper to subscribers and via the newspaper agent, and at the same time they sell advertisement space to firms. In a lot of countries, the tax rate on newspapers is lower than on other products. This project considers how this favourable tax treatment in one of these markets will affect pricing behavior in the other market. Furthermore, it will be explored whether the favourable tax treatment will lead to less or more variety in the media market. (iii) *Firm heterogeneity and international trade* (with Ngo Van Long, McGill University, and Horst Raff, University of Kiel) We analyse how a reduction in trade costs will affect the export and research and development activities of

firms. (iv) *Fair trade* (with Martin Richardson, Australian National University) Fair trade products have experienced a substantial increase in market shares in recent years. We investigate whether and to what extent economic integration will support the establishment and the success of fair trade organisations, and we explore whether a decline in trade costs will benefit fair trade products more or less than other products.

Paul Thorsnes and Robert Alexander *Housing market effects of exogenous variation in local amenities* (with Bruce McClennan, Department of Information Science, University of Otago) This project takes advantage of unusual variation across Dunedin in both natural amenities and "historical" amenities – those associated with historical development, such as public housing developments – to investigate both the short-run effects on house prices and longer-run effects on the characteristics of development.

Paul Thorsnes: (i) *Combining sales data with data from a choice-based survey to estimate demand for house characteristics* (with Colin Smithies, Commerce Commission, and Tim Bishop, Energy Studies Programme, University of Otago) A hedonic house price regression provides estimates of the implicit market prices of each measured house characteristic, but no additional information about the demand for (or supply of) that characteristic. In this project we ask each of a sample of recent home buyers to complete a survey that requires the respondent to make a series of hypothetical "pair-wise comparisons" of sets of house characteristics. (ii) *Household response to time-of-use electricity pricing* (with Rob Lawson, Department of Marketing, and Murray Reynolds, Department of Finance, University of Otago) Mercury energy have replaced conventional meters with so-called "smart" meters that send usage data wirelessly at half-hourly intervals. This project tracks the responses over a year of a sample of several hundred Auckland-area households who have agreed to pay retail prices that vary between peak and off-peak periods.

Tarja Viitanen: (i) *Childcare voucher and labour market behaviour* This Yrjo Jahnsson Foundation funded project provides experimental estimates of the impact of a voucher for private care within the Nordic system of universal provision of public care. The private childcare voucher acted as a significant boost for new childcare entrepreneurs to enter the market thus increasing the overall childcare provision in the municipalities participating in the experiment. The paper is currently under revision in Applied Economics. (ii) *Informal and formal eldercare across Europe*. This Nuffield Foundation funded project examines the impact of government expenditure on formal residential care and home-help services for the elderly on women's informal care-giving on both the extensive and the intensive margin. (iii) *The impact of divorce on children: A multidisciplinary review of the literature* (with Ge Yu, University of East London, UK) This multidisciplinary ESRC funded literature review sheds light on the short-term and long-term effects of parental divorce on a variety of outcomes as studied across the academic disciplines. (iv)

The Long Term Effects of Legalizing Divorce on Children (with Libertad Gonzalez, Universitat Pompeu Fabra, Spain) This ESRC funded project compares the adult outcomes of cohorts who were raised in an environment where divorce was banned with cohorts raised after divorce was legalized in the same country. The paper is under revision at the Review of Economics and Statistics. (v) *The supply of childcare in Britain: Do mothers queue for childcare?* (with Arnaud Chevalier, Royal Holloway University of London, UK). (vi) *The wagegap of motherhood in Australia.* This project examines the impact of children on female wages in the Australia using the Hilda panel data.

Niven Winchester: *Firm heterogeneity and the border effect* (with Ashley Dunstan, Reserve Bank of New Zealand) Chaney (2006) finds that, for a given trade cost, the border effect is greater when there is a large number of small firms than when a sector is dominated by a small number of large firms. This study contributes to the border effect literature by conducting an alternative empirical test of Chaney's hypothesis that: evaluates the contribution of firm heterogeneity using a larger number of variables; and uses a measure of firm heterogeneity using production data sourced from all included countries.

Niven Winchester: (i) *Implicit trade costs and New Zealand's bilateral negotiations* This project evaluates welfare changes resulting from various trade agreements involving New Zealand by considering reductions in tariff and non-tariff barriers (NTBs), such as technical, administrative and regulatory standards and customs clearance procedures, in a computable general equilibrium model. We use a series of gravity equations to estimate tariff equivalents of NTBs. (ii) *Computerisation and the polarisation of UK wages.* An empirical test of Autor, Katz and Kearney's (2006) model of computerisation and wages where computers complement highly paid workers, directly substitute for middle-wage jobs and have little impact on low-wage jobs. (iii) 3. *The optimal allocation of Super Rugby competition points.* This project evaluates the appropriateness of the allocation of competition points in Super Rugby. It uses a model to predict the outcome of Super Rugby matches that includes relative team strength as an explanatory variable.[]

“ The press tend to cover politics rather than the more difficult to grasp field of society and the difficult to uncover topics of economics.”

P.208 of Schudson, M. (2002). *The sociology of news.* New York: Norton.

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

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.

WEB-SITE

The NZAE web-site address is: <http://nzae.org.nz/>
(list your job vacancies for economists here).

MEMBERSHIP FEES

Full Member: \$90 | Graduate Student: \$45 (first year only)
If you would like more information about the NZAE, or would like to apply for membership, please contact:

Bruce McKeivitt - Secretary-Manager,
New Zealand Association of Economists
PO Box 568, 93 Cuba Mall. WELLINGTON 6011
Phone: 04 801 7139 | fax: 04 801 7106
Email: economists@nzae.org.nz

MEMBER PROFILES WANTED

Is your profile on the NZAE website? If so, does it need updating?
You may want to check...

NEW MEMBERS

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

James Boyle (BNZ Capital); **Joon Hwan Kim** (Market Economics Ltd); **John Williamson** (Ascari Partners)

NEW ZEALAND ECONOMIC PAPERS

As most of our readers are probably aware, starting in 2009, the New Zealand Economic Papers will be published by the leading international publisher Taylor and Francis. The journal now has a new website: <http://www.tandf.co.uk/journals/rnzp>
Please see this new website for information about the journal. In the near future all submissions to the journal will be handled through this website. But while the site is being set-up please continue to send submissions to: nzep@auckland.ac.nz []

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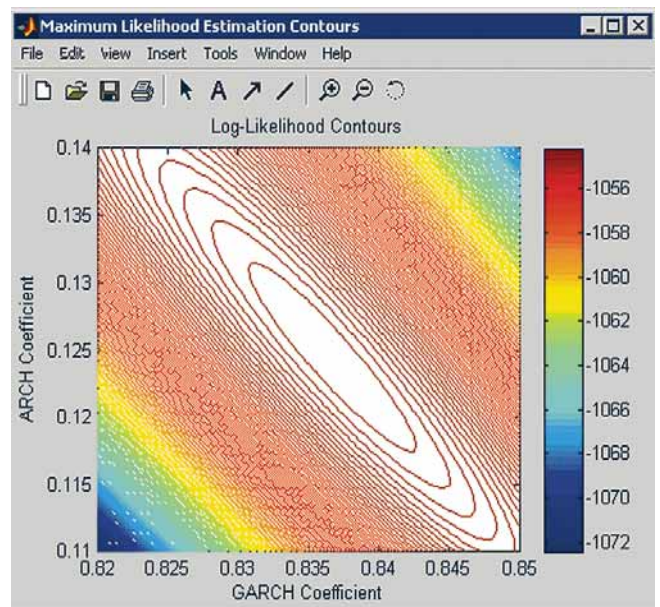
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