

# Asymmetric information

ISSUE NO.41

August 2011

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

## PAST ISSUES

All past issues are now available for downloading (or for citing in scholarly publications) free of charge from:  
<http://www.nzae.org.nz/news/newsletters/>

New Zealand Association of Economists Inc.  
John Creedy Editor *email:* john.creedy@vuw.ac.nz  
<http://www.nzae.org.nz>

“...the problem which arises because the pictures inside people’s heads do not automatically correspond with the world outside”

Walter Lippman, 1922, *Public Opinion*, New York: Harcourt Brace, p.31

## CONTENTS

Editorial	2
Motu	2
From the 2B RED File	3
Conference Report	4
Awards and Prizes	5
Keynotes	6
Conference Photos	8
Conference Report (continued)	10
NZAE Council	10
New Zealand Time Use Survey	11
Blogwatch	12
NZEP Notice	13
Call for Papers	13
Research in Progress	14
About NZAE	15
Membership Fees	15
New Members	15
What’s Ahead?	15



# EDITORIAL

John Creedy ([john.creedy@vuw.ac.nz](mailto:john.creedy@vuw.ac.nz); [John.creedy@treasury.govt.nz](mailto:John.creedy@treasury.govt.nz))

During a lunch break at the NZAE 2011 conference, casual conversation with Mary Hedges suddenly took a serious turn as she raised the subject of a new editor for *Asymmetric Information*. So here I am facing the daunting prospect of taking over from Stuart Birks who, as everyone recognises,

has done such a tremendous job as editor for a dozen years.

The present issue has in fact been produced by Stuart, while I have been able to observe the process from the side-lines. Having only recently arrived from Melbourne and still trying to work out how to juggle two half-time jobs, I am conscious that I have a great deal to learn.

I am looking forward to seeing the future articles from the regular contributors. I should also like to encourage other authors to send me pieces, and I am always happy to discuss suggestions for one-off or regular series of articles.



## MODELLING RURAL LAND USE DECISIONS IN NEW ZEALAND

*Levente Timar*

Private land use decisions may have far-reaching (and often unintended) effects on their environment. Sometimes these are positive, such as the carbon sequestration performed by forestry. However, many typical effects of agricultural land uses in New Zealand are negative. Agricultural land uses are often criticised for their contributions to greenhouse gas emissions, biodiversity loss and water pollution. With the agricultural sector – responsible for nearly half of our greenhouse gas emissions – poised to enter the Emissions Trading Scheme in 2015, there exists a pressing need to empirically understand rural land use decisions in New Zealand.

A forthcoming Motu Working Paper builds on microeconomic foundations to model land use decisions in a discrete choice framework. The model assumes that various land uses generate different amounts of economic return, and hypothesises that each piece of land will be devoted to the use that produces the highest return. It addresses four land uses: dairy farming, plantation forestry, sheep or beef farming, and scrub – defined as uncultivated but potentially productive land. The model incorporates as independent variables geophysical qualities of the land such as slope, soil properties and climate, as well as information on land tenure and location such as distance from nearby cities. Based on the observed relationship between these factors and land use decisions, the model predicts the likely choice of land use at any location.

The paper investigates how well the model's predictions match actual land use outcomes. At the national scale, on average, it finds that there is a high degree of correspondence between predictions and observations with no apparent systematic bias, though at finer spatial scales, some of the relationships between observed and predicted land uses become weaker. The results imply, for example, that the majority of the country's land is virtually unsuitable for dairy farming – the areas where they do suggest a high probability that the primary land-use choice will be dairy are without exception in traditional dairy-producing regions, including Taranaki and Waikato. Dairy-producing regions in the South Island (especially Canterbury) display slightly lower dairy probabilities. Since Canterbury dairy land is usually irrigated, this may be attributed to the fact that the model does not include artificial improvements to land.

Overall, the predictions are reasonably strong for both dairy and scrub, but weaker for forestry and sheep or beef farming. This reflects the fact that large areas of New Zealand with a wide range of geophysical attributes are suitable for both forestry and sheep-beef farming, while dairy farming requires more specific land qualities and scrub is likely to be restricted only to land that would be unprofitable in any other use, which is also associated with specific geophysical characteristics and locations. Another reason for the weak forestry predictions is that forestry land-use decisions are long term, meaning that the land use responds very slowly to shocks. In some cases, the decision to forest the land was made 25 to 30 years ago and may not represent the optimal land-use anymore.

The results from this model have been incorporated into Motu's Land Use in Rural New Zealand (LURNZ) modelling effort. They enable us to model, for any amount of land use change, the likely locations where that change takes place. A further potential use for the model is to determine whether some land is significantly underdeveloped relative to its potential. This information is important because owners of such land may be unintentionally affected by local or national environmental policies.

Levente Timar works with Motu and with GNS Science. His work with this model will be presented in an upcoming Motu Working Paper, which will also review the impact of Māori communal title on land use. Motu Working Papers are available from our website, <http://www.motu.org.nz/publications/working-papers>.

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 John Creedy ([john.creedy@vuw.ac.nz](mailto:john.creedy@vuw.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*

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

# FROM THE 2B RED FILE

by Grant M. Scobie

([grant.scobie@treasury.govt.nz](mailto:grant.scobie@treasury.govt.nz))

We have just had the Association's annual conference – a great success and a real credit to the organising team. I am certainly enjoying being part of the crowd scene rather than an organiser these days! The standard of key note addresses was especially high this year – not a dud amongst them. Let me draw on just one – the book promotion by Tim Harford.

One could be a bit churlish and say that an address to a professional society was not the platform for self-promotion; but on the other hand I suspect the finances of the Association would have been sorely stretched had we paid his normal speaking fee instead of being part of his global book tour. So I am happy that we heard him (more on happiness follows below). And who amongst us wouldn't want a fraction of Harford's public speaking ability!

And now THE BOOK! (yes I bought it – in electronic form for my iPad!) **Tim Harford (2011) *Adapt: Why Success Always Starts with Failure* (New York: Little Brown)**. For a book about the importance of failure, Harford is still pretty optimistic about humanity in general. His thesis is simple: (a) the world is complex; (b) no-one has a monopoly on insights (c) there is wisdom in crowds (d) let us constantly experiment and be prepared to fail (e) it is only through learning what doesn't work that we find the helpful solutions that do work. The complexity of the modern market system is hardly new – Adam Smith had that pretty well sorted out and Hayek added further insights. Other popularisers of economics have used the humble pencil, underpants and a t-shirt to trace complex supply chains.<sup>1</sup> And Schumpeter had the failure bit well thought out. So Harford adds nothing new - by his own admission he is a communicator and not a researcher. But he draws on the findings of others to make a compelling and highly readable story, reminding us that failure on a big scale (the Soviet Union, the Iraq war) is a bad idea – let the small people flourish and their mistakes will not be catastrophic.

Did you, like me, think of Bill Bryson as an American best-selling author of humorous books on travel and language? Perhaps unlike me, you knew that he actually lived in North Yorkshire (yes he was born in Des Moines, Iowa); was appointed Chancellor of the Durham University and in 2005, Bryson received the President's Award from the Royal Society of Chemistry for advancing the cause of the chemical sciences (the latter fact handily gleaned from Wikipedia). Which brings me to his latest book: **Bill Bryson (ed.) (2010) *Seeing Further: The Story of Science and the Royal Society* (London: Harper Collins)**.

1 For those readers who may have missed earlier 2BRED columns the references are:

- (a) Henry Petroski *The Pencil: A History of Design and Circumstance*
- (b) Joe Bennett *Where do Underpants Come From?*
- (c) Pietra Rivoli *The Travels of a T-Shirt in the Global Economy*.

"On a damp weeknight in November three hundred and fifty years ago, a dozen men gathered in London. After hearing an obscure twenty-eight-year-old named Christopher Wren lecture on the wonders of astronomy, his rapt audience was moved to create a society to promote the accumulation of useful—and fascinating—knowledge. At that, the Royal Society was born, and with it, modern science".

<http://www.harpercollins.com/books/Seeing-Further-Bill-Bryson/?isbn=9780062036223>

Bryson's literary skill combined with a dazzling array of the world's top scientists and beautiful illustrations from the Royal Society's archives make this a superb book for the bedside table. And it underscores the Harford thesis that success is built on experiments that fail – the very essence of scientific progress.

In 1972, in a casual, offhand remark Bhutan's former King Jigme Singye Wangchuck<sup>2</sup> coined the phrase "gross national happiness." The rest, as they say, is history (although the moral of the story might well be to never take offhand remarks by monarchs too seriously). One can only hope that his successor's loyal subjects are happy despite having a per capita income less than \$US2,000 and ranking 126<sup>th</sup> in the world.

But "there you go again" I hear those who submit articles to the *Journal of Happiness Economics* saying. "You economists are all the same – you just can't see past GDP per capita and find what truly makes people happy." And so the debate rages on. "Income is not everything" the converted insist (as if any economist worth her salt every suggested that).

Politicians are on the happiness pill too. President Sarkozy had the Stiglitz Commission on the 'Measurement of Economic Performance and Social Progress', prepare a report for him<sup>3</sup>; and not to be upstaged by the French (heaven forbid) David Cameron is planning to make his subjects feel happier (despite crushing debt, fiscal slash and burn and job losses reminiscent of the Depression).

But before we all get hysterically, leap up and down, jump for joy happy in the expectation of what governments plan for us, it would be worth pausing and reflecting whether there is in fact any role for public policy. A good start is **Helen Johns and Paul Ormerod (2007) *Happiness, Economics and Public Policy: with commentaries by Samuel Brittan and Melanie Powell* (London: Institute for Economic Affairs)**. The authors argue there are serious obstacles to the measurement of happiness, and are unconvinced that public policy decisions could control or increase its level.

For those readers wishing to explore the limitations to policy in this area I can recommend a couple of recent short pieces. Jason Potts (2011) "The Use of Happiness in Society." *Policy* 27(1):3-10, Centre for Independent Studies; and Will Wilkinson (2009) "Thinking Clearly about Economic Inequality." *Policy Analysis* No. 640, Cato Institute, Washington, DC. I hope you do not get too depressed by these; at least you will be alerted to the fact that under the guise of making us happy governments would have licence to address everything. Maybe everything does matter – after all human existence plays out against life's rich tapestry. But whether that should lead to all encompassing public policies would seem to be another matter – and one worthy of debate.

2 An undisputedly more impressive handle than Grant Scobie

3 *The Commission has a website. See: <http://www.stiglitz-sen-fitoussi.fr/en/index.htm>*

# NZAE CONFERENCE 2011 REPORT

By Stuart Birks ([k.s.birks@massey.ac.nz](mailto:k.s.birks@massey.ac.nz))

Conference papers are available via:  
<http://nzae.org.nz/conferences/2011/programme.html>

I initially suffered an anxiety attack at the thought of penning this conference report. For several milliseconds I feared that, as an NZAE Life Member, I would be restricted in what I could say. As J K Galbraith wrote, "The high public official is expected, and is indeed to some extent required, to expound the conventional wisdom." (Galbraith, 1999, p. 10). My concern rapidly dissipated when I realised that I am now less of an official than in my former role of editor of AI. In addition, Galbraith may have made a common error, presenting a theoretical view as if it describes the real world. Nevertheless, we should be aware of the extent to which convention shapes what we see and how we see it (a point made by Ricardo Reis in his keynote address), and how group membership brings expectations of adherence to the conventions of the group.

If we recognise that we are constrained in this way, we can use this perception to identify alternative and novel options that can arise from stepping outside the constraints. Katila (2002) writes of value from original combinations of knowledge, suggesting that it may be advantageous to draw on existing knowledge from elsewhere rather than relying on new knowledge generated within an area. A similar point has been made on speed of technological progress over countries, where countries can advance rapidly if they are able to draw on established technologies in use elsewhere.

Economists should be open to such possibilities. For example, take two points made by Majone (1989). One is that analysts' questions may not be the most appropriate for the policy issues faced (and we should note that, in research, determining the questions is as significant as finding the answers). A second is that, "A good model is merely one type of evidence among others, not the end of the argument much less the ultimate authority" (Majone, 1989, p. 51). It is surprising that economics pays so little attention to the process of policy making, preferring instead to focus on an application of a model or technique.

So what of the conference? First, some basics. With nearly 300 delegates and over 100 papers in parallel sessions, this year's event was satisfyingly large by NZAE annual conference standards. As always for NZAE conferences, the atmosphere was relaxed and allowed intermingling of a wide range of groups. As expected, there was a broad mix of ages, backgrounds, ethnicity and areas of interest. Now for the content.

Last year I was able to say that the keynotes were calling for economics researchers to actually go out and talk to people. This year it could be said that the keynotes were showing the problems we face from not having done so sufficiently in the past. A major reason for talking to others is that this can highlight alternative perspectives and limitations in currently accepted perspectives. All the keynotes questioned assumptions that have shaped what economists look at and how this is done (i.e. how we, as a group, may have been constrained).

Groups have their own perspectives and cultures. These are features which distinguish them from others. There is (a degree of) homogeneity within a group, and (a larger degree of) heterogeneity between groups. Economics is no exception. This is one reason why different disciplines or professions can consider similar issues in very different ways. This point has been raised as a challenge to the concept of "positivist" thinking. Even if there is a set reality to be observed, how this is seen depends on a subjectively chosen (and inevitably partial) perspective. Leamer stated this strongly nearly 30 years ago:

"Economists have inherited from the physical sciences the myth that scientific inference is objective, and free of personal prejudice. This is utter nonsense. All knowledge is human belief; more accurately, human opinion. What often happens in the physical sciences is that there is a high degree of conformity of opinion. When this occurs, the opinion held by most is asserted to be an objective fact, and those who doubt it are labelled "nuts." But history is replete with examples of opinions losing majority status, with once-objective "truths" shrinking into the dark corners of social intercourse." (Leamer, 1983, p. 36)

He even refers to group behaviour and belief, saying, "What is a fact? A fact is merely an opinion held by all, or at least held by a set of people you regard to be a close approximation to all." (Leamer, 1983, p. 37) This is echoed by Fairclough (1995), who refers to "ideological-discursive formations" (IDFs), or groups ways of seeing things, where a dominant IDF may be seen as the only possible interpretation (hence alternatives can be dismissed as biased or "ideological").<sup>1</sup> Leamer also uses the term "truth by consensus", which is similar to the concept of "proof by repeated assertion".

Consider also the concept of "framing", whereby choices are made as to how something is observed. Framing has been described as involving "selection, emphasis, exclusion, and elaboration" (Weaver, 2007, p. 143). We choose what to include, which aspects are given priority, what will be ignored, and the explanations built around the selected components. Consideration of these aspects can help us to identify and critique our own and others' rhetoric.

What can we learn from the keynotes? Detailed contributed keynote reports are already in this issue of AI, so I will be selective, going in order of presentation. Tim Harford's call for us to take risks echoes those of many keynotes in previous years. It is not good for us to simply continue to do what we have done in the past. In his address, one of his many points was that change only comes through experimentation, with its accompanying mixed results. However, the public sector incentive structure rewards conservatism and penalises failure. The same could be said more generally, including academia. The common claim that certain research is "high risk" or "not economics" due to the deviation from group norms only serves to slow progress and limit the range of enquiry. Harford is persuasive, but, as suggested by Hardin with "street-level epistemology"<sup>2</sup>, and

<sup>1</sup> Note also, "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)." (Bourdieu, 1998a, p. 54)

<sup>2</sup> "Street-level epistemology" is based on the view that we take most knowledge on authority from others, who have in turn done the same (Hardin, 2002).



Bourdieu with “fast thinkers”<sup>3</sup>, this is largely because he is saying things that we are likely to readily accept anyway. As at previous conferences, we can be chastised and go away feeling better for having sat and listened. We might be more resistant were his points seen as suggestions that we ourselves should change what we are doing.

Bill Schworm talked of problems in measures that economists use. While he focused on productivity, his point extends far more broadly. Although he apologised for the dearth of equations and numbers, he should really be commended for the focus on conceptual issues. All too often we ignore these or assume them away, as with suggestions that a certain series has been “verified” (surely this is a context-specific concept) or is “representative” (what does that mean for analysis if it is representing a heterogeneous population?). I recall at an earlier NZAE conference a throw-away line that economists look for one “right” measure of happiness for their regressions, whereas psychologists might use a combination of perhaps 50 variables, each covering a different aspect of the phenomenon. There is far more that we could do at the conceptual level.

Ananish Chaudhuri’s participatory presentation on experimental economics included an interesting point. He said that lab experiments occur under controlled conditions, whereas natural experiments can be distorted by “confounding factors”. This is true, but it also demonstrates a distinction between what might be found from these experiments and what might be experienced in the real world. Application of such findings relies on the absence of confounding factors, although we know that they are likely to exist. Our findings, in all research, are generally based on simplified analyses, although we commonly claim that they are valid explanations of far more complex situations. Situations for analysis and application often differ. Similarly, as G E P Box (of Box-Jenkins) wrote 45 years ago, “To find out what happens to a system when you interfere with it you have to interfere with it (not just passively observe it)” (Box, 1966, p. 629). The point in that instance was that an observed relationship when the value of a policy variable is passively allowed to vary is not the same relationship as can be expected if the policy variable is actively employed.

The fourth keynote, Ricardo Reis, follows on nicely in this context. He said that his investigation of variants of the Phillips relationship only arose because the Phillips curve had been awarded such significance in the past. Otherwise researchers are unlikely to have even considered trying to explain something so economically implausible. There are two concepts highlighted here, first, path dependence, and second, the search for simplicity. There is a heavy focus in economics on static optima and equilibria, but is this realistic? It may not even be a useful way to view the discipline. Economics thinking itself is a moving body of knowledge, with current conventions heavily determined by past events in the discipline. This is path dependence, a central feature of thinking in history and in many other social sciences. Any change in views is likely to come about not by simply presenting an alternative, but through the possibly tortuous path of leading people to that point from their current position. This may be difficult, as Keynes noted in his famous “defunct economist” quote, or Chamberlin (1897) in making a case for multiple hypotheses. Should we focus more on history and path dependence in economics?

---

3 Bourdieu’s “fast thinkers” are people who think in clichés. By presenting the already accepted, received wisdom they are able to appear knowledgeable and perceptive (Bourdieu, 1998b).

The starting premise with Phillips Curve analysis is that there is a simple relationship with a very small number of variables, and we just have to find it (as also with the Quantity Theory of Money). The search for simplicity is seen in the Occam’s Razor heuristic, which may have led people to search for profound insights using limited numbers of variables and basic functional forms. Emphasis on the search reinforces a belief in the existence of the goal. There is nothing new about this. Just think of geographical examples such as Eldorado, or the Great South Land, or the North West Passage, or the westerly route from Europe to India. As I think Reis was implying, it may lead us to look for the wrong thing and fail to even acknowledge the true nature (and complexity) of the phenomena that we may be attempting to understand.

Of course, the keynote speakers may have been attempting to persuade us about other points, but the effects of rhetoric depend on the perceptions of the audience, and this is what they said to me.

[continued on page 10]

## AWARDS AND PRIZES

*The following awards and prizes were presented at the conference*

**Life Membership:** Stuart Birks

### **NZIER Poster Competition**

**Open:** Chris Hansen, Emma Bentley, Michelle Smith, and Nathan Young, Earthquakes and Statistics: The HLFS Experience.

**Student:** Jaimee Phillips (Waikato), Differences in Returns to Foreign and Domestic Education in New Zealand.

**People’s Choice Poster Prize:** Chris Hansen, Emma Bentley, Michelle Smith, and Nathan Young, Earthquakes and Statistics: The HLFS Experience.

**Jan Whitwell Prize:** Alex Olssen, The Short Run Effects of Age Based Youth Minimum Wages in Australia: A Regression Discontinuity Approach.

**NZ Economic Policy Award:** David Law, Kiwisaver: An Initial Evaluation.

**Runner-up:** Adam Daigneault, Estimating Co-benefits of New Zealand Agricultural Climate Policy.

**Statistics NZ Prize:** Jason Timmins, Geoff Mason, Penny Mok, Peter Nunns, and Philip Stevens. To Make or Buy (Skills): An Analysis of Training Decisions Using Microdata.

**Graduate Student Awards:** Fardous Alom (Lincoln University); Maggie Hong (University of Canterbury)

### **Conference Assistants:**

Simon Crossan (Massey University)  
Robert Bell (University of Otago)  
Ross Kendall (University of Canterbury)  
Melissa Siegel (University of Auckland)  
Jesse Unger (University of Canterbury)  
Sean Hyland (Victoria University)  
Lisa Hensen (University of Canterbury)

# KEYNOTE REPORTS

## TIM HARFORD

by *Stuart Birks*

Tim Harford's John McMillan lecture had the title, "Problem solving in a complex world". He drew heavily on the first chapter of his new book, *Adapt*, a book ably covered in Grant Scobie's 2BRED column. Tim's principal message was that failure is an integral part of life. If we are to change and develop, we must take risks and accept that most attempts will end in failure. Of course, this depends on how failure is defined. If we learn from our mistakes, a failure is also a lesson and the glass is half full, but societies do not always see things that way.

The talk was very entertaining and he is, as might be expected, a good communicator. Communication is an important aspect of academic life, but academic processes may not be well-suited to handling this. Ideas will not generally be noticed and adopted on the basis of one publication. Just as products are repeatedly advertised, so also do ideas need to be promoted. As is well recognised, people are more willing to accept things that are commonly agreed, and require much more information on novel findings. In a column, "Why there will never be another Da Vinci" (<http://timharford.com/2011/07/why-there-will-never-be-another-da-vinci/>), Harford considers the academic environment. He contends that there are changes occurring in the nature of academic work and the efficiency of the peer review process.

Harford uses some neat examples to illustrate points. Several can be found on his web site, <http://timharford.com/>. For example, "our expectations are skewed. If you ride on London buses, you may be astonished to discover that many of them are almost empty. The average London bus, according to the UK's Department for Environment, Food and Rural Affairs, contains only 17 passengers. Clearly most bus-riding people are travelling on the full ones." (<http://timharford.com/2011/07/why-social-marketing-doesn%e2%80%99t-work/>).

He used Thomas Thwaites' toaster project (<http://www.thomasthwaites.com/the-toaster-project/>) to illustrate the complexity of the modern world. Thomas attempted to construct a toaster only using pre-industrial tools and methods, but repeatedly found that he had to cheat. The point is further emphasised when juxtaposed with the 87,000 drink combinations at Starbucks or 100,000 products in Walmart ([http://www.strategy-business.com/media/file/sb61\\_00046.pdf](http://www.strategy-business.com/media/file/sb61_00046.pdf)).

In this context, standard economics approaches may be oversimplified. Drawing on Tetlock (2006), Harford suggested that "experts" in the social sciences have not been particularly successful. For an alternative entertaining critique, Rory Sutherland communicates concerns about economists' misleading assumptions in a video, "Rediscovering a lost science", from European Zeitgeist 2011 (<http://j.mp/kocchb>). This is not new either. Writing in 1913, Walter Lippmann criticised a mechanical (Newtonian) approach to society and institutions (Lippmann, 2006).

Inevitably, some of Harford's reasoning could be considered oversimplified. He talked of US Steel as a failure, dropping from being the world's largest company in 1912 to below 500th now. Recently it was asked why sports people who perform exceptionally well in their first year seldom maintain their position. A response was that

performance and circumstances change, and exceptional results in any year suggest good fortune on both these levels, something which is unlikely to be sustained. Should results then be judged in comparison to a peak outcome?

Given that he refers to complexity, any reasoning will be selective and open to criticism. Consequently perhaps the principal lesson to draw from Tim Harford's presentation is that interesting ideas can come from novel combinations of information, and we should not be locked too rigidly into commonly accepted perspectives.

### References

- Lippmann, W. (2006). A preface to politics (originally published 1913) Available from <http://www.gutenberg.org/ebooks/20125>  
Tetlock, P. (2006). Expert political judgment: how good is it? how can we know? Princeton, N.J.: Princeton University Press.

## BILL SCHWORM

by *Bill Kaye-Blake*

Bill Schworm from the University of New South Wales presented an interesting talk on productivity measurement. The first part of the talk put the work he does with R. Robert Russell in the context of the literature on productivity and efficiency. He raised the problem of relying on prices and profits to measure efficiency, because they do not necessarily represent marginal costs. They will therefore be poor measures of the relative efficiency of firms or the relative productivity of technologies. The second part of the talk was theoretical discussion of the desirable properties of efficiency indices. It turns out that it is impossible to construct an index with a complete set of intuitively plausible characteristics. Researchers in this area have not been able to create an index that indicates an efficient technology, is monotonic in inputs and outputs, is independent of units of measurement, and is continuous. Various subsets of these characteristics are possible, however. The third section of the talk described a method for assessing the efficiency of a firm by using its input vector and constructing shadow prices. Bill then gave a graphical explanation of the process.

Bill prepared the audience from the start that his would be a theoretical exercise. He started by warning that he did not use any actual data in making these calculations; his focus instead was on the properties of productivity and efficiency measures and how the measure could be improved. Although he downplayed the importance of the work, it was very useful for applied economists and econometricians to be warned or reminded of the problems with measuring productivity. One of the major concerns of both micro- and macroeconomics is technological innovation. For micro, innovation leads to considerations of firm behaviour, patterns of technological adoption, the role of the entrepreneur, and more. From a macro perspective, innovation creates productivity gains creates economic growth. Thus, Bill's theoretical exercise has important practical implications.

Two implications come to mind immediately. The first is that we might need to exercise some care with technology and growth policy. Economic theory and policy often focuses on productivity growth. We seem to know what we mean when we talk about growth. Bill's work, though, suggests that it is hard to pin down efficiency and productivity in ways that satisfy both our intuition about what they are and our rational analysis of how to measure them. The second implication concerns the existing measures

of productivity. Prices may be a poor proxy for marginal costs and profits a poor measure of economic value add, especially in markets that are not fully competitive. Some of New Zealand's most significant industries are not fully competitive, but are characterised by few incumbent firms, barriers to entry, and issue of scale. The size of the measurement error may not be independent of the size of the sector. We could be making the poorest measurements of efficiency and productivity in exactly those industries that matter most to the economy.

One question after the talk asked Bill to draw out the policy implications of his work: what did it mean for people trying to measure productivity? He put the issue back on the questioner, saying that would ask, 'What are you trying to measure?' By being clear about what is being measured and why, policy-makers could select the right measure of productivity and efficiency. The unsettling question from Bill's talk is whether we are measuring the right things, and how do we know we are?

## ANANISH CHAUDHURI

by Stephen Knowles

Professor Ananish Chaudhuri from the University Auckland delivered an entertaining and informative keynote address on "Governing the commons: swords or covenants". This lecture was all about public goods experiments, and exploring reasons why contributions in public goods games tend to decline as more rounds are played.

In a public goods game participants are endowed with a sum of money and have to decide how much to keep for themselves, and how much to contribute to the public account. The money in the public account is then doubled and divided evenly between all participants. Ananish brought this experiment to life by getting some members of the audience to take part in a public goods game. The talk was also nicely motivated with a number of quotes from the novel *Catch 22*. A key issue in this literature is exploring why contributions to the public account tend to decline with the number of rounds that are played. If this question can be answered then it may be possible to find ways to sustain cooperation, not only in the experimental lab, but also in the real world situations the public goods game is designed to represent.

Ananish surveyed the literature in this area, including insights from his own research. He suggested that the rate of decay may be explained by the fact that there are different types of players. Some players are conditional cooperators who will cooperate if they expect others to do the same. If most players are conditional co-operators, but not all are, then average contributions are likely to start high, but then decay as conditional cooperators discover the existence of free riders. An alternative explanation Ananish discussed is that all players may be conditional cooperators, but with different expectations as to how others will play. In this case it is not free riders who start out making low contributions, but conditional cooperators who believe others to be free riders. Ananish also analysed the extent to which allowing punishment in public goods games may affect the pattern of decay. Anyone interested in reading more should see A. Chaudhuri (2011) "Sustaining cooperation in laboratory public goods experiments: a selective survey of the literature", *Experimental Economics* 14(1): 47-83. The slides from his keynote are also available on his website (<http://homes.eco.auckland.ac.nz/acha192/>).

## RICARDO REIS

by Ozer Karagedikli

Professor Ricardo Reis of Columbia University delivered this year's AWH Phillips Lecture. The lecture was on inflation, and in particular it focused on three dimensions: i) What measure of inflation should a central bank target? ii) Has the persistence of inflation changed over time? iii) How important is the relationship between inflation and real activity or Phillip correlation?

The first part of the lecture was based on Reis's work with Mark Watson of Princeton University (2010). The goal of their research was to separate empirically the sources of price changes that were absolute (i.e. equiproportional across goods and services) and relative. They call the former "pure" inflation, which has a simple interpretation: "It is the common component of price changes that has an equiproportional effect on all prices and is uncorrelated with changes in relative prices at all dates" (p. 130). This also corresponds to the famous thought experiment David Hume (1752) proposed. As pure inflation doesn't alter relative prices, it should have no impact at all on the reallocation of resources in the economy or any real activity impact.

They find that the pure inflation, the relative price index, and the more conventional measures of inflation in the US such as the PCE deflator (or its core version) can differ significantly. Pure inflation is smoother and less volatile than the other measures that are in use in practice. Interestingly, they find that a large part of the increase in inflation in the early 1970s and the decrease in the 1990s were due to changes in relative prices following the oil price shock, as opposed to the pure inflation. However, they argue that the fall in inflation in the 1980s (disinflation) was mainly due to the fall in pure inflation.

One of the most important findings of their research was the Phillips correlation, the relationship between the real activity and inflation. Once they controlled for the relative price factors, the Phillips correlation became insignificant. Therefore, Reis argued, the correlation between real activity variables (such as output gap) and nominal inflation observed in the data can be accounted for by changes in relative prices. This was in contrast to the better predictive power that they found with the Okun's law relationship.

The persistence of inflation has been a point of a huge debate in academic literature, starting with the seminal piece by Cogley and Sargent (2002). Reis' own work on the issue has a different take in terms of results. He argued that the inflation persistence in the US can at best be described as unchanged over the last three decades. This result has important implications for monetary policy and macroeconomic modelling.

### References

- Cogley, T., and Sargent, T. (2002), Evolving post-World War II US inflation dynamics. In Gertler, M and Rogoff, K (eds) NBER Macroeconomic Annual, MIT Press.
- Reis, R., and Watson, M. (2010), Relative Goods' Prices, Pure Inflation and the Phillips Correlation, *American Economic Journal: Macroeconomics*, 2 (3)



# CoNfeRence

2011



Mary Hedges



3 of the 2011 conference committee, new NZAE VP Bill Kaye-Blake, NZAE President Stephen Knowles, 2012 Conference Committee head Seamus Hogan



Maggie Hong, Graduate Student Award



Conference Assistants, (BR, L to R) Ross Kendall, Robert Bell (FR) S Lisa Hensen



Ananish Chaudhuri, keynote



Grant Scobie



Ricardo Reis, keynote



Tim Harford, keynote



Fardous Alom, Graduate Student Award



Philip Stevens, StatsNZ prize

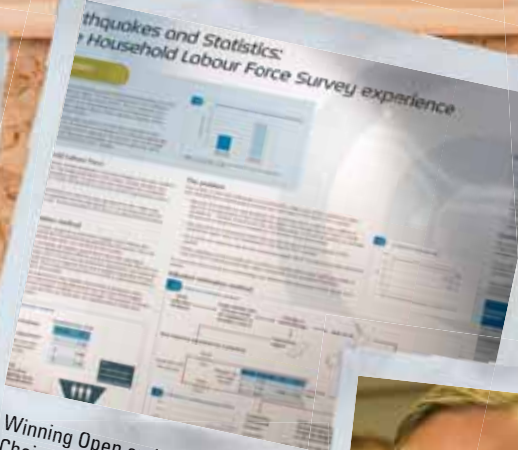


Frank Scrimgeour, Caroline Saunders

Jaimee P  
Competit

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





Winning Open and People's Choice poster



Stephen Knowles, Mark Holmes, Dorian Owen



John Creedy, Editor of AI



Sean Hyland, Jesse Unger, Simon Crossan, Melissa Siegel,



Stephen Knowles and Alex Olssen, Jan Whitwell Prize winner, fighting over the cheque



Bill Schworm, keynote



Phillips, NZIER Poster on student prize winner



Stuart Birks, past AI editor, new Life Member



Winning Student poster



“ All the keynotes questioned assumptions that have shaped what economists look at and how this is done... ”

As for the remainder of the conference, with six or seven parallel streams any personal view will be limited. I can therefore only offer a selection of idiosyncratic observations.

One point is a general observation on the use of models. As has been said in earlier issues of *AI*, models (or theories) can be seen as simplified structures that may sometimes be thought of as analogies for real world situations, but they are not the situations themselves (hence confounding factors). Hopefully they are internally consistent so other factors can be dismissed according to the internal logic of the model. However, they may still be relevant in the real world. Many applications can be criticised on this basis, including those that meet economists' criteria for quality analysis.

To give just one example, Maré and Coleman (session 6.2) had a very nice paper on business location in Auckland. (I can't be accused of going for the low hanging fruit here.) They looked at the relationship between location choice and existing activity and infrastructure. New firm decisions were used because location decisions made in the past may no longer be optimal. However, this means that existing activity may also represent complex signals. Firms in a declining area (using older, less suitable buildings, with redevelopment anticipated, etc.) will be less of an attraction than those in say a newer industrial estate. Urban land use is a dynamic phenomenon with cycles of growth and decline, or patterns of redevelopment and changing uses. A model can ignore this, but it is making a simplifying assumption that current uses are a signal independent of these forces. To generalise, any model application is constrained to make restrictive assumptions (note the «horizon problem», Leamer, 1983), but the implications of these restrictions are a worthwhile area for additional consideration.

Another point relates to the political significance of some research findings. Crampton and Burgess (session 4.6) return to a theme they pursued with some vigour in 2009, namely cost of illness studies. These are of questionable value in that the results bear little relationship to policy decisions, except that they generally produce large figures to gather media attention and pressure politicians into (perhaps hasty and ill-advised) action. This is one of many areas where economic analysis can have real world implications, in this case because of the wrong question being asked and possibly highly dubious methods being applied. The authors set out their case, and, it would appear, have gained traction on the matter. It suggests that economists active in other problem areas could emulate them by being more aggressive and persistent. As a former keynote said to me over a coffee some years back, if you just make a point once in a paper, it dies. You have to be more active in promoting it. Perhaps as an economics community, we should also be more active in promoting lively debate and alternative perspectives, or am I simply echoing Tim Harford's point?

For two other smaller observations, I liked the systematic but pragmatic approach taken by Numan-Parsons (session 5.2) looking at business responses to emissions trading. I also noted the poster submissions. These were interesting, but less numerous than we had hoped. It has been decided that, for next year, contributors will be able to present the same paper in both oral and poster form. Oral presentation guarantees audience attention for 30 minutes, while poster presentation reaches all at the conference. It will be interesting to see if many take up the option. And in saying that, here's hoping to see lots of you at the next NZAE Conference, 27-29 June 2012 in Hamilton.

- Bourdieu, P. (1998a). *Acts of resistance: Against the tyranny of the market* (R. Nice, Trans.). New York: The New Press.
- Bourdieu, P. (1998b). *On television* (P. P. Ferguson, Trans.). New York: New Press.
- Box, G. E. P. (1966). Use and Abuse of Regression. *Technometrics*, 8(4), 625-629.
- Chamberlin, T. C. (1897). *Studies for Students: The Method of Multiple Working Hypotheses*. *The Journal of Geology*, 5(8), 837-848.
- Fairclough, N. (1995). *Critical discourse analysis: the critical study of language*. London: Longman.
- Galbraith, J. K. (1999). *The affluent society* (New ed.). London: Penguin.
- Hardin, R. (2002). Street-Level Epistemology and Democratic Participation. *Journal of Political Philosophy*, 10(2), 212-229.
- Katila, R. (2002). New Product Search over Time: Past Ideas in Their Prime? *The Academy of Management Journal*, 45(5), 995-1010.
- Leamer, E. E. (1983). Let's Take the Con Out of Econometrics. *The American Economic Review*, 73(1), 31-43.
- Majone, G. (1989). *Evidence, argument, and persuasion in the policy process*. New Haven: Yale University Press.
- Weaver, D. H. (2007). Thoughts on Agenda Setting, Framing, and Priming. *Journal of Communication*, 57(1), 142-147.

## NZAE COUNCIL

*Following the AGM on June 30th, the Council for the next two years is as follows:*

### **President**

Stephen Knowles, sknowles@business.otago.ac.nz

### **Vice President**

William Kaye-Blake, bill.kaye-blake@nzier.org.nz

### **Immediate Past President**

Mary Hedges, m.hedges@auckland.ac.nz

### **Elected Council Members**

Anita King, anita.king@treasury.govt.nz

Anthony Byett (NZAE Education Trust),  
anthony.byett@fxmatters.co.nz

Arthur Grimes, arthur.grimes@motu.org.nz

Seamus Hogan, seamus.hogan@canterbury.ac.nz

Gail Pacheco, gail.pacheco@aut.ac.nz

Norman Gemmell, norman.gemmell@treasury.govt.nz

John McDermott, john.mcdermott@rbnz.govt.nz

### **Ex Officio Council Members**

Secretary-Manager

Bruce McKeivitt, economists@nzae.org.nz

### **Treasurer**

John Gallagher, jpg.ccg@xtra.co.nz

### **Editor NZ Economic Papers**

Mark Holmes, holmesmj@waikato.ac.nz



# NEW ZEALAND TIME USE SURVEY 2009/10

By Denise Brown ([denise.brown@stats.govt.nz](mailto:denise.brown@stats.govt.nz))

Statistics New Zealand recently released results from the 2009/10 Time Use Survey. The survey is New Zealand's second national survey of time use. The previous survey was undertaken in 1998/99, and provides a benchmark for comparing results from the latest survey.

Time use surveys measure the ways people spend their time. They provide information on the nature, duration and context of all activities carried out by the survey population during a specified reference period. They were first conducted in the 1920s, but it is only in the last 20 years that national statistics offices have begun conducting them on a regular basis as part of their programme of social surveys.

New Zealand's most recent time use survey was carried out over a 12 month period between 1 September 2009 and 31 August 2010. Data were collected from just over 9,100 individuals aged 12 years and over using three collection instruments: a household questionnaire, a personal questionnaire and a time diary. The household questionnaire obtained information on the characteristics of the household, including the number of occupants, their demographic characteristics and their use of outsourcing of household activities. The personal questionnaire collected background information about the demographic and socio-economic characteristics of the respondents, such as their age, ethnic group, labour force status and income level. The time diary documented all activities carried out by respondents over two allotted diary days. Respondents were asked to report their activities in sequence in five minute time intervals throughout the diary days, together with information on the context of the activities, including who they were done for, where they were performed, and with whom.

Data from the time diaries were coded to an activity classification. The classification is hierarchical and includes four levels. At the highest level there are four categories:

- necessary time (personal care activities) - includes activities which serve basic physiological needs, such as sleeping, eating, personal care, health and hygiene.
- contracted time (employment and education activities) - includes all types of labour force and education/training activities. These activities constrain the distribution of other activities over the rest of the day.
- committed time (unpaid work activities) - includes activities to which a person has committed him or herself because of previous acts or behaviours or community participation, such as having children, maintaining a household and doing voluntary work. It covers household work, child care, purchasing goods and services, and unpaid work activities.
- free time (leisure activities) - the time left when the previous three types of time have been taken out of a person's day. Includes religious, cultural and civic participation activities, social entertainment, sports and hobbies, and mass media and free-time activities.

Time use data can be used to address questions on a broad range of economic and social issues. It is the only data source that provides an inter-related picture of how various paid, voluntary, domestic and leisure activities are integrated into people's lives. This inter-related picture can be used to provide a more complete picture of the national economy. Conventional measures of the economy are confined almost exclusively to market production. They ignore productive activities that take place outside the market, particularly voluntary services undertaken in the community and unpaid work undertaken by households for themselves or other households. The Satellite Account for Non-Profit Organisations produced by Statistics New Zealand for the years 2004-06 made use of the 1998/99 Time Use Survey to estimate the size and value of voluntary work households undertook for these organisations. Plans are in place to update this account using data from the 2009/10 Survey. The Department also intends to produce a household satellite account which will quantify the value of household domestic services and show their significance in relation to conventional GDP measures.

Time use surveys can also improve understanding of paid work patterns, including working non-standard hours and split-shifts. The data can help address questions such as the extent to which New Zealand has moved to a 24 hour economy, the extent to which the requirement to work at 'unsocial' times of the day and week are unevenly distributed amongst particular groups of workers and the extent to which paid work intrudes on other dimensions of life.

Time use data can provide insights into the use of and need for publicly provided goods, such as parks, recreational facilities, roads and mass transit systems. For example, data on the time people spend commuting to and from work, which modes of transport they use, whether they are travelling alone or with others and the times of day they travel can make an important contribution to transport and urban planning.

From a social perspective, time use data can provide information on engagement in activities that enhance our human, social and cultural capital. They can also provide a unique insight into behaviours that can have an adverse effect on our well-being, such as lack of sleep or too many demands on time, work-life balance and overly sedentary life styles.

From an international perspective, data from time use surveys can be used in cross-national studies to help understand economic and cultural differences between countries.

For more information contact:

Bridget Murphy

04 931 4174

[Bridget.Murphy@stats.govt.nz](mailto:Bridget.Murphy@stats.govt.nz)

## Links to information

[Time Use Survey 2009/10](#)

[Time Use Survey Scoping Paper](#)

[http://www.statistics.govt.nz/browse\\_for\\_stats/people\\_and\\_communities/time\\_use.aspx](http://www.statistics.govt.nz/browse_for_stats/people_and_communities/time_use.aspx)



# BLOGWATCH

by Paul Walker ([paul.walker@canterbury.ac.nz](mailto:paul.walker@canterbury.ac.nz))

A current controversy in the blogosphere revolves around the claim that Bruno Frey, along with co-authors Benno Torgler and David Savage, have published the same work several times in different journals, each time without mentioning their other papers on the same topic. Clearly such “self plagiarism” violates the code of conduct of academic journals. Most (all?) economics journals require that papers submitted to them have not been published previously or are not concurrently submitted for publication elsewhere. The first economics blog to pick up on this seems to have been the “Economic Logic” <http://economiclogic.blogspot.com/> blog. In a posting “On the ethics of research cloning” <http://economiclogic.blogspot.com/2011/04/on-ethics-of-research-cloning.html> the Economic Logician writes,

“All this is very fishy. It really looks like the authors are playing games here, trying to get multiple publications out of the same work. They do not mention the other work to fool editors and referees into thinking these are original contributions, as required for any submission to those journals. They tweak the results and rewrite the text so that they cannot be accused of blatant self-plagiarism. This is unethical behavior, but it is not unheard of in the profession.”

Olaf Storbeck at “Economics Intelligence” <http://olafstorbeck.com/> follows up by asking “Is Bruno Frey sailing on the Titanic? On cloned papers and missing citations” <http://olafstorbeck.com/2011/07/04/is-bruno-frey-sailing-on-the-titanic-on-cloned-papers-and-missing-citations/> Storbeck notes that there are four papers involved

- (1) “Noblesse Oblige? Determinants of Survival in a Life and Death Situation” (Journal of Economic Behaviour and Organisation [JEBO], 2010)
- (2) “Interaction of natural survival instincts and internalized social norms exploring the Titanic and Lusitania disasters” (Proceedings of the National Academy of Sciences [PNAS], 2010)
- (3) “Who perished on the Titanic? The importance of social norms” (Rationality and Society”, 2011)
- (4) “Behavior under Extreme Conditions: The Titanic Disaster”, Journal of Economic Perspectives [JEP], 2011”

and he writes

“Apparently, the editor of one of the journals involved - the “Journal of Economic Behaviour and Organisation” - has black-listed Frey, Torgler and Savage (see comment by Barkley Rosser) <http://economiclogic.blogspot.com/2011/04/on-ethics-of-research-cloning.html> and has informed them that he will never again accept any paper written by them. From my point of view, that’s quite a decision. Unfortunately it looks like it is perfectly justified.”

Storbeck has a second posting on the same subject, for which the title says it all, ““Journal of Economic Perspectives” rebukes Bruno Frey - plus: replies by Torgler and Frey”

<http://olafstorbeck.com/2011/07/04/journal-of-economic-perspectives-rebukes-bruno-frey-plus-replies-by-torgler-and-frey/>.

On the local front, Eric Crampton at “Offsetting Behaviour” <http://offsettingbehaviour.blogspot.com/> has been thinking about minimum wages. Crampton writes on “Youth unemployment and evidence-based policy” <http://offsettingbehaviour.blogspot.com/2011/05/youth-unemployment-and-evidence-based.html>. Crampton says,

“To update things for the current quarter, add in another line for March 2011, quarter number 101, with an adult unemployment rate of 5.63% (rate for all persons aged 20 and up), a youth unemployment rate of 27.5%, and a labour force population of 150.9 (thousands) for the group aged 15-19.

The model expects, given the current adult unemployment rate, that the youth unemployment rate would be 19.3% if the youth unemployment outcomes were no worse (relative to adult outcomes) than in the worst quarter from 1986 to 2008. As the actual youth unemployment rate is 27.5%, the rate is 8.2 percentage points higher than would have been expected under the prior trend. That translates to 12,350 kids who don’t have work who we would have expected to be in work had the prior relationship between youth and adult unemployment rates continued.”

Crampton has another piece, “Minimum wages - addressing the more sensible critiques” <http://offsettingbehaviour.blogspot.com/2011/05/minimum-wages-addressing-more-sensible.html> in which he argues that at low levels minimum wages are unlikely to be binding and that the relative strength of the labour market will also matter. When labour demand is high the effects of a minimum wage increase will be less. This second point is relevant to the Hyslop and Stillman study of minimum wages in NZ.

Also from Offsetting Behaviour comes Seamus Hogan who argues that there is “A thesis waiting to be written” <http://offsettingbehaviour.blogspot.com/2011/06/thesis-waiting-to-be-written.html> on the student army, organised to assist after Christchurch’s earthquakes.

“[...] the thing I find most fascinating about the volunteer activities was the high levels of coordination that existed with activities that originated in the bright ideas of lots of people, such as the lunchpacks made for members of the student army, prepared by volunteers in Dunedin, and driven up to Christchurch by other volunteers overnight. The student army originated as a single student’s idea after the September quake, communicated to others via Facebook. Is this an example of a Hayekian spontaneous order, with social networking providing the platform for a coordinating network? Or did civil defence and other official organisations have an important role to play in the coordinating mechanism? To what extent was the scale of the volunteer activity this time possible only because the system evolved from the smaller-scale activity last year?”

When discussing “The Emergence of Capitalist Economics II” <http://adamsmithslostlegacy.blogspot.com/2011/06/emergence-of-capitalist-economics-ii.html> at the “Adam Smith’s Lost Legacy” blog <http://adamsmithslostlegacy.blogspot.com/>,

Gavin Kennedy writes with regard to the neoclassical model,

“YHT also link Adam Smith to the problems with which the corn model is lined up to discuss and which the late 19th-century mathematical school went on to separate economics even further from the real world, leading to the fantasies of General Equilibrium and much of microeconomics as we know it today.”

A defence of the neoclassical model <<http://antidismal.blogspot.com/2011/06/neoclassical-model.html>> is offered at the “Anti-dismal” blog <<http://antidismal.blogspot.com/>> where it is argued that the neoclassical model can be seen as either a set of conditions under which the price system alone can prevent decent into chaos, more formally conditions under which equilibrium can be achieved, or as an approximation to a large section of the economy of the time. In either case the neoclassical model makes more sense than many of its detractors would permit.

Kennedy replies in “A Serious Scholar Disagrees” <<http://adamsmithslostlegacy.blogspot.com/2011/06/serious-scholar-disagrees.html>>

Meanwhile at the “Modified Rapture” blog <<http://www.modifiedrapture.com/>>

Sarah Skwire states the obvious:

“Economics is the sexiest and most romantic of professions.”

She goes on to offer “The Top Ten Lines for Hitting on an Economist”

<<http://www.modifiedrapture.com/wp/?p=210>>

## NZEP NOTICE

New Zealand Economic Papers has been published regularly since 1966. The journal is rated “B” by the Australian Business Deans’ Council. NZEP publishes research in all areas of economics, both theoretical and empirical. At the same time, NZEP has a keen interest in research on important issues relevant to New Zealand, Australia and the Asia-Pacific. The journal also publishes survey articles, book reviews and welcomes articles that explore important policy initiatives affecting the region and the implications of those policies. Authors are invited to submit their manuscripts to NZEP online (<http://www.tandf.co.uk/journals/rnzp>).

NZEP has recently joined iFirst. This means that manuscripts that have completed the NZEP review process and have been accepted for publication will now be available online as “Forthcoming Articles” through the Taylor and Francis iFirst early-online-publication system. This will serve to reduce the time from article submission to publication. iFirst articles can be cited using their assigned DOIs, or Digital Object Identifiers, in addition to the article and journal title.

There are plans to publish three guest-edited special issues. These are on Quality of Life (guest edited by Gail Pacheco, Stephanié Rossouw and Don Webber), New Zealand’s Macroeconomic Imbalances (Viv Hall, John Janssen and Christie Smith) and Innovation in Teaching Undergraduate Economics (David Colander, Michael Cameron and Mary Hedges).

Mark Holmes, Editor-in-Chief.

## NZEPSPECIAL EDITION

### CALL FOR PAPERS

*New Zealand Economic Papers*

*Special issue on “Innovation in teaching undergraduate economics”*

As course offerings at high school have increasingly diversified, smaller proportions of freshman business and economics students have begun their first introductory economics paper at university with a strong background in economics. This presents new challenges for the teaching of undergraduate economics, to which many lecturers have responded by adopting innovative approaches and teaching models.

This special issue of *New Zealand Economic Papers* is focussed on sharing practical, evidence-based innovations in the teaching of undergraduate economics. Papers focussed on all levels of undergraduate economics teaching (from introductory economics to honours-level teaching)

and all areas of economics teaching (microeconomics, macroeconomics, quantitative, etc.) are welcome.

Please note that application to a New Zealand context is not a criterion for acceptance.

The special issue will be guest-edited by David Colander Middlebury College, Vermont  
Email: [colander@middlebury.edu](mailto:colander@middlebury.edu)  
Michael Cameron University of Waikato  
Email: [mcam@waikato.ac.nz](mailto:mcam@waikato.ac.nz)  
Mary Hedges University of Auckland  
email: [m.hedges@auckland.ac.nz](mailto:m.hedges@auckland.ac.nz)

For online access to articles and other information about the journal, including instructions for online submissions, please visit the journal’s website <http://www.tandf.co.uk/journals/rnzp>.

Selection of papers for the special issues will follow peer review. Submissions should be made online. Please indicate that your paper is meant for the special issue on quality of life during the submission process. Final version of accepted papers must be submitted in a format compatible with MS-Word.

*Deadline for submissions: 15 November 2011*

# 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. 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.

## REVIEW OF RESEARCH AT NZIER

For over 50 years NZIER economists have been helping clients take advantage of opportunities and solve problems by applying our expertise in economics.

We also fund our own independent economic research on economic issues that we think the public should be debating, and are a comprehensive one stop economic resource for our members.

## HEALTH, EDUCATION AND SOCIAL POLICY

A number of NZIER staff are very active in modelling and evaluation of social policies and interventions. Value-for-money type questions are high on the list.

**Recent project:** Economic evaluation of ACC's Better@Work initiative

ACC sought independent analysis on whether one of its rehabilitation initiatives was having the expected impacts. Chief Executive Jean-Pierre de Raad led a small team of economists that estimated the impact on time off work and weekly compensation payments. The estimates formed an input into ACC's decisions on the initiative.

**Recent project:** Industry training return on investment

An industry training organisation wanted to understand the benefits and costs of the apprenticeship it offers. Senior Economist Sharon Pells led this study which involved six detailed case studies. This work gave the client greater confidence in the hard benefits from its services.

## POLICY AND EVALUATION

**Cost, quantity, and quality of policy advice**

A number of our public sector clients seek independent reviews of their policy advice, as part of their quality assurance and improvement processes. Dr John Yeabsley, Jean-Pierre de Raad and John Ballingall at NZIER regularly review and benchmark samples of policy advice against a tested framework to identify strengths and weaknesses of advice and judge its fitness-for-purpose.

## TRADE

NZIER has a long history of analysing trade liberalisation, global linkages and regional integration. We use empirical analysis (such as CGE or gravity modelling) and qualitative techniques to determine the national and industry level benefits from free trade agreements and regional integration activities. These outputs are used by officials, politicians and industry to develop their thinking on trade policy and wider economic integration issues.

**Recent project:** Economic impacts of Foreign Direct Investment in New Zealand

FDI is a major issue for New Zealand. In particular, the sale of farm land to foreigners has sparked controversy. Senior Economist Chris Nixon looked at what influences and drives foreign ownership in New Zealand and abroad, the regulatory changes made by the New Zealand Government in early 2011, which countries are investing in New Zealand and at what levels. The report provided a framework that sets out the pros and cons of FDI.

## ENVIRONMENT AND NATURAL RESOURCES

NZIER specialises in applying economics to hard-to-quantify areas of environment and natural resources, and in comparative analysis of economic instruments and other policy measures in fields such as natural resource management, biosecurity, energy and transport.

**Recent projects:** Informing the development of National Environmental Standards and National Policy Statements

NZIER undertakes cost-benefit analyses to help policymakers with the development of National Environmental Standards and National Policy Statements. The most recent of these, led by Senior Economist Matthew Hickman, undertook a Section 32 evaluation under the Resource Management Act 1991 to examine renewable electricity generation and freshwater management. The evaluation considered the benefits, costs and alternatives to the proposed NPS and involved consultation with stakeholders to understand the cost and benefit implications for them on the ground.

## INFRASTRUCTURE AND TRANSPORT

NZIER has a significant presence in the fields of transport, energy, water and telecommunications infrastructure. NZIER develop and apply best practice economic appraisal methodologies for investment, regulation and policy development for a wide range of public and private stakeholders.

Our staff have worked on the economic appraisals of the majority of New Zealand's most significant transport projects in recent years. These include the Additional Waitemata Harbour Crossing, several of the Roads of National Significance, and currently the Auckland City Rail Link.

**Recent project:** Additional Waitemata Harbour Crossing - preliminary business case report

NZIER's role in this project was to evaluate the full spectrum of national, regional and local economic benefits from the AWHC. Led by Economist Chris Parker, NZIER considered all of the emerging methodological developments involved with assessing such potentially 'transformational' infrastructure projects. We



also appraised the relative economic costs and benefits from different crossing options in the possible areas primarily affected, particularly the Wynyard Quarter development

The overall study and preliminary business case aimed to inform debate on the issues associated with each form of crossing. NZIER's contribution to the study ensured the debate was based on robust analysis.

## MACROECONOMICS AND FORECASTING

Principal Economist Shamubeel Eaqub heads up NZIER's Membership Services, where he looks after NZIER's economic forecasts and analysis of our Quarterly Survey of Business Opinion.

Quarterly Predictions contains detailed and comprehensive forecasts of the New Zealand economy for the next five years. It is a key input for our members' budgets and business strategy. The Quarterly Survey of Business Opinion is New Zealand's longest running and most comprehensive business survey. The resulting indicators are a valuable tool for assessing the current state of the economy and forecasting short term economic activity.

## MODELLING

### Computable General Equilibrium (CGE) modelling

NZIER has invested heavily in its CGE capabilities in recent years and as a result we believe that we have the best CGE model in New Zealand for analysing industry and policy matters. We also have strong links to Monash University's Centre of Policy Studies, which is a world-leading authority on CGE modeling.

### Recent project: CGE Modeling of Irrigation

Using NZIER's computable general equilibrium model, Principal Economist Bill Kaye-Blake led a research team that estimated the economic impacts of investment in irrigation infrastructure. The research showed that the investment was worthwhile, even after accounting for the costs of borrowing money from overseas.

The Ministry of Agriculture and Forestry relied on this research when it announced a \$35m Irrigation Acceleration Fund to investigate and support specific projects.

## MICROSIMULATION

Microsimulation is an advanced modelling technique that performs highly detailed analysis. NZIER's model uses data from Statistics New Zealand to project the New Zealand population forward 50 years, stratified by age, gender, ethnicity and income. We can then tailor the model to the specific research question.

### Recent project: Trends in smoking prevalence

Recently NZIER's microsimulation model of the New Zealand population was used to analyse trends in smoking prevalence and smoking during pregnancy. Led by Senior Economist Chris Schilling, the team combined evidence and data from a wide range of sources and were able to simulate how interventions impact on prevalence, health outcomes and costs.

## FURTHER INFORMATION

Further information about NZIER and what our staff are working on is available from [www.nzier.org.nz](http://www.nzier.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).

## WHAT'S AHEAD?

Anthony Byett is maintaining a list of forthcoming economics seminars and other events around New Zealand. This can be seen at: <http://nzae.org.nz/conferences/general/index.html>

## MEMBERSHIP FEES

Full Member: \$120 | Graduate Student: \$60 (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, 97 Cuba Mall. WELLINGTON 6011  
Phone: 04 801 7139 | fax: 04 801 7106  
Email: [economists@nzae.org.nz](mailto: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

**Johan van der Schyff** (Treasury); **Steven Tucker** (University of Canterbury); **David Dundon-Smith** (DOL); **Carston Schousboe** (PHARMAC); **Susan Morton** (University of Auckland); **Nairn MacGibbon** (Statistics NZ); **Susmita Roy** (Univ of Canterbury); **Lulu Zeng** (NZIER); **Peter O'Connor** (NZIER); **Paul Conway** (Productivity Commission); **Steven Bailey** (Productivity Commission); **Tram Phuong Cao** (Victoria University); **Lynda Sanderson** (Treasury); **Melanie Luen** (MFAT); **Menaka Saravanaperumal** (MFAT); **Mark Vink** (Treasury); **Emma Gorman** (Treasury); **Alex Olssen** (Motu Economic Research); **Simon Anastasiadis** (Motu Economic Research); **Wilma Milano** (BERL); **Sarah Holden** (MED); **Claire Dale** (University of Auckland); **Vij Kooyela** (DOL).

# Get your FREE copy of ModelRisk 4 Std today!

Make better decisions under uncertainty

Let ModelRisk help you perform Risk Analysis to Make Better Decisions

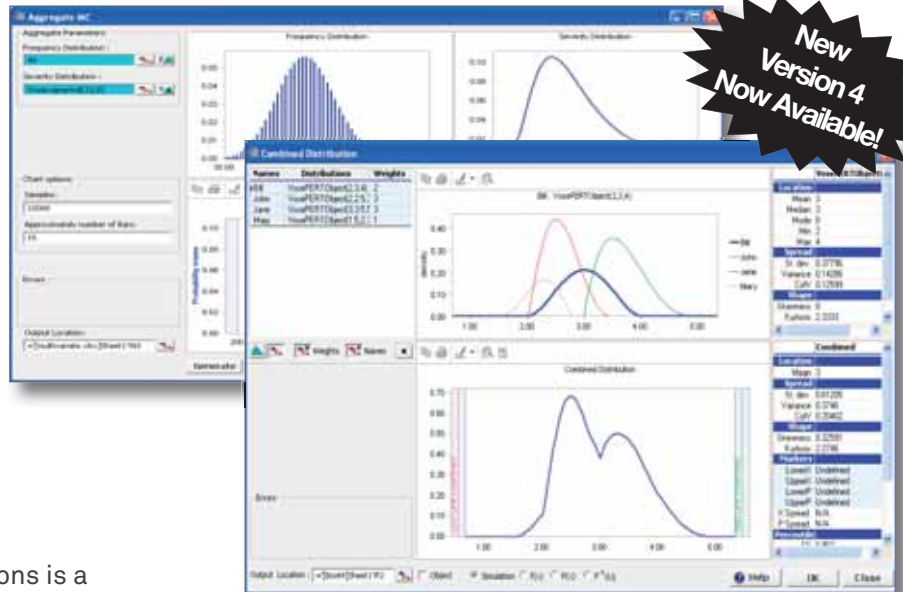
## Why use ModelRisk?

ModelRisk lets you perform Monte Carlo simulations within your Excel model, so you can understand and manage the risks of your business.

**Time series:** Uniquely, ModelRisk has built-in tools for simulating time series, together with graphical interfaces and fitting to data to ensure you understand and select the right time series model. The custom time series tools also let you create your own expert-based forecasts.

**Correlation:** Modelling any correlated behaviour between distributions is a critical component in risk analysis. ModelRisk allows the user to visualise and fit correlation structures to data through its copula tools. Through its unique approach to correlating variables, any number of distributions can be correlated. ModelRisk's own data copula offers a powerful way to replicate any unusual correlation pattern.

**Optimiser:** ModelRisk Professional incorporates the world's leading simulation optimiser from OptTek Systems. Targets, constraints, decision variables and requirements are all defined with ModelRisk functions within the Excel spreadsheet. A graphical interface reports the optimiser's progress and allows the user to insert optimal solutions back into the model with one mouse click.



Easily incorporate expert opinion in your risk models with combined distributions!

## Other benefits include:

- A comprehensive range of tools to model virtually any risk analysis problem
- Designed by risk analysis professionals with over twenty years of experience
- Write ModelRisk functions directly into your Excel workbook – nothing hidden
- Less expensive than competing products
- Incorporates the world's leading simulation optimiser (Professional and Industrial versions only)
- Perform Six Sigma analyses of your simulation results (Industrial version only)
- Use the free Standard version or extend the functionality through the Professional or Industrial versions

## Obtain your free ModelRisk 4 Std Today!

- Visit [www.hrs.co.nz/2811.aspx](http://www.hrs.co.nz/2811.aspx)
- E-mail [2811@hrs.co.nz](mailto:2811@hrs.co.nz)
- Call 0800 477 776 and quote lead # 2811



HRS is the distributor for ModelRisk in New Zealand

