ISSN 1177-6366 (Print)
ISSN 1177-634X (Online)

ASymmetric information

ISSUE NO.52 **April 2015**

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/newsletters/

New Zealand Association of Economists Inc.
JOHN CREEDY Editor *email:* john.creedy@vuw.ac.nz *or* John.creedy@treasury.govt.nz. http://www.nzae.org.nz

CONTENTS

EDITORIAL

John Creedy
(john.creedy@vuw.ac.nz;
John.creedy@treasury.govt.nz)

This issue of AI begins with the ninth in the series of interviews with eminent New Zealand economists: Mary Hughes interviews Kerrin Vautier. Regular contributions follow from Grant Scobie ('2B Red'), Stuart Birks ('Frames') and Paul Walker ('Blogwatch'). 'Fine Lines' is contributed by Arthur Grimes, and the 'Five Minute Interview' is with Adam Jaffe. Levente Timar, Arthur Grimes and Richard Fabling, from Motu, summarise research on the price of disaster risk. Ann Ball, from Statistics New Zealand, discusses wealth measurement. Norman Gemmell asks whether the return to budget surplus in 2015 matters. News from GEN and the Chair in Public Finance at VUW follow. The School of Economics and Finance at Massey University provides this issue's report of Research in Progress.

INTERVIEW WITH KERRIN VAUTIER

By Mary Hedges

Kerrin graduated with a Bachelor of Arts (economics major) from Victoria University of Wellington in 1965. After graduating she went to work at the New Zealand Institute of Economic Research (NZIER). While there she became editor of the *Quarterly Survey of Business Opinion* (QSBO) and also worked on *Quarterly Predictions* and contract research. On moving to Auckland in 1975 she continued editing the QSBO, launched her consultancy business and started tutoring at the University of Auckland. Kerrin has held a diverse range of appointments across academia, public, commercial and charitable sectors and has published widely. Her expertise in competition law has seen her as a member of the Commerce Commission, a Lay Member of the High Court under the Commerce Act and leader of the Competition Policy work of the Pacific Economic Cooperation Council (PECC). She has been a Director of a number of large corporates including Norwich Union Holdings, Fletcher Challenge Ltd, News & Media (NZ) (formerly Wilson & Horton Holdings) and Fletcher Building and has served as External Monetary Policy Advisor to the Governor of the Reserve Bank, as a member of the Appeal Board of NZ Electricity market, and external advisor to the Partnership Board of Deloitte. She has also served as a Board member of several not-for-profit organizations, including Chair of NZPECC and NZIER. Kerrin's contributions to New Zealand business and economics were recognised when she was appointed a Companion of the Most Distinguished Order of St Michael and St George (CMG) in 1993.

Q: Let's start at the beginning and think about your earliest formulation as an economist. What were the 'dinner table conversations' when you were growing up that might have shaped your outlook and your thinking?

A My father was a businessman in his own business and your question makes me think about the influence that may have had in particular. He didn't talk much to us about business but words like 'debtors' would come into the conversation; so there was a language of business that I became familiar with. I also realized that activity in business was not constant and probably became aware of economic cycles although I wouldn't have called them economic cycles at that time.

My parents always encouraged me and my brother with our school, university and other activities. I obviously had a very competitive streak back then and it wasn't suppressed; in fact, it was probably encouraged. Winning was good. That was an attitude at home and an attitude at school. I make that comment because it has been quite influential throughout my career as has my fierce sense of independence. That goes right back, so I must have been encouraged at home and at school to think independently, not just to tow lines but to express views honestly and openly.

Q: So when you went on to Victoria and enrolled in a BA, what were your intentions? Was economics always the goal or was it something that happened along the way?

A I had decided while at school that I was not going into the traditional occupations for women; I was going to do something different, although I knew that subjects like English were really important. I chose, right at the start, from day one, to do economics.

Q: Were any of your lecturers at university particularly influential?

A In those days a new student had to go and see a senior person in the Economics Department who happened to be Frank Holmes (NZAE Distinguished Fellow and Life Member). I always remember meeting him this first time, just because of the personality he was – enthusiastic about his students and his subject. He remembered me too because, he said, it was most unusual to have a female come in the door and say she wanted to do economics, especially one who was going to combine economics with music. We went on to work together very closely over the years on the New Zealand Planning Council and the Norwich Union and State Insurance Boards which he chaired. Obviously there was mutual respect there and I am sure he had an influence in getting me into those positions. At the end of his university career I was honoured to be invited to prepare one of the papers for his Festschrift (published). This was a wonderful relationship from beginning to end.

The other influential person was Peter Lloyd (NZAE Distinguished Fellow). Peter was another young lecturer in the Economics Department of Victoria University. A wonderful lecturer, voice carried, he enthused about trade theory and international trade. You're not thinking at the time "oh I love macro-economics" or "I love trade theory" because you are trying to get through your exams. Later on, now that you have asked me to reflect, I realise the influence they had on my later interests in macro-economics, trade liberalisation, barriers to trade, the whole CER process and then wider liberalisation in the Asia/Pacific region.

I must have been a great disappointment to Peter Lloyd on the occasion when he asked: "So why did you do economics?" I am sure he was expecting some quite ambitious or idealised response but all I said was that "my brother had the text books". He said "Oh!" I then felt the need to explain further: "Seriously Dr Lloyd, there were actually two reasons – the first was to do something different and this was assisted by my brother having the text books[1]." I doubt that his disappointment dissipated. Nonetheless, in the late 1990s we co-authored two books[2] - a great work experience - and I was honoured to be invited to present a paper at his Festschrift (published) when he retired from the University of Melbourne.

Another influence was Les Castle who whetted my appetite for the theory and economics of competition. He was very involved with PAFTAD (Pacific Free Trade and Development) and the conference being hosted by New Zealand in Auckland at the time I was President of NZAE. During this time I learned the dry professor I listened to at university had a wicked sense of humour and was just wonderful to work with.

Q: So did economics have an intuitive connection for you?

A Yes, and my competitive streak fitted well with developments in my professional life. And, continuing with the independence theme, I knew when I left university that I wanted to be an independent agent. I didn't have a clear idea of what this was going to be but I ruled out government employment. It just happened that a position of research assistant came up at the NZIER at the end of my Bachelor's degree. Some of my fellow students were going on to further study and I could have done that but looking back I don't think it was a difficult choice for me – I wanted that job.

I applied for the job and got it. That was a good move for me and I stayed there for quite a long time. And in 1975 I set up in Auckland as an independent research economist, which I still am.

Q: Was the breadth of the type of projects you worked on at NZIER what really laid the foundation for your later consultancy work?

A Absolutely. But first of all it was about the people I worked with. There was Allan Catt (Acting Director when I arrived) followed by Jim Rowe and Dennis Rose as Directors. They gave you a bit of rope, that independence again. Then there were the staff. We were quite small and I just loved working there, so the years ticked over. Third layer of people - the Board. The Board comprised the then top names in business – such as Dr Gert Lau, Sir Clifford Plimmer, and Bill Steele, who all took a real interest in the Institute and in the staff. I recall editing the *Quarterly Survey of Business Opinion* (QSBO) and contributing to *Quarterly Predictions* (QP) and then having conversations with these gentlemen – no undue influence or anything but a display of their interest in and support for what we were doing and the value of applied economics.

On the breadth of work, QSBO and QP were the Institute's mastheads. I ended up being the editor and manager of QSBO which involved analysing and monitoring the survey results, writing the reports, developing the questionnaire and managing the publication and distribution process. I used to enjoy that as QSBO was (and still is) such an important survey. My role in QP was much less sophisticated than now in terms of access to databases and analytical tools, but wonderful macro stuff.

And then a big decision for the NZIER Board was whether or not the Institute should get into the business of contract research, rather than totally relying on income derived from members' subscriptions and a RBNZ grant. The Governor of the RBNZ was then *ex-officio* on the Board so there was a strong link there. It was quite a big decision for the Board because they valued and protected the Institute's independence. They resolved to go that way with care and I got the first contract. It was from the N.Z. Ethical Pharmaceuticals Association Inc. and I prepared *A First Assessment of the Costs and Benefits Associated With Drug Usage in New Zealand Mental Hospitals* - my first publication.

I don't think you could do that assignment today. These were the early days when drugs were being introduced as a treatment for mental illness and as substitutes for the former modes of treatment. The only usage data available were found on the patient's record at the end of the bed where doctors recorded the quantum of individual drugs prescribed. So I analysed these records in two mental hospitals as the starting point for an assessment. Today the databases and the literature available would be quite different. Mine was but a 'first assessment' and I suppose it was that idea of how cost-benefit analysis could apply in a wide range of areas, including healthcare.

1 For those interested the text books were Paul Samuelson and Kenneth Boulding.

2 *International Trade and Competition Policy: CER, APEC and the WTO; and Promoting Competition in Global Markets – A Multi-National Approach*

I also got very involved in competition issues in the retail sector. For one, there was no question in my mind that retail trading hours had to be liberalised. I am absolutely staggered that they are still having discussions on retail trading hours in Australia. It seems like the distant past.

The short answer to your question is that the Institute certainly prepared me for my later consultancy work. I had the foundation of both macro-economic forecasting and varied research projects. The break came when my husband Noel and I decided to move to Auckland when the company he worked for in Wellington shifted its head office there (1975). As it turned out, this was the best decision for my career as well as his.

With the move to Auckland three things made the transition to independent consulting a real option. The Institute did not have an office or branch in Auckland at this time and there was nothing on the horizon that suggested this was going to happen. But they said I could go on being editor of QSBO for a couple of years. The second thing was that while at the Institute, I'd been doing some contract work for an Auckland consortium of planners and researchers on regional impact work. When they heard I was coming to Auckland they said they'd like to give me a position as a member of the team to look at the regional economic impact of the Huntly Power station. The third influence was Professor Conrad Blyth who at that time was a Trustee at the Institute and taking an interest in the researchers. When I said I was moving to Auckland he said he would give me an office and I could do some tutoring at the University of Auckland where he was Head of the Economics Department. The contract work took off and then the New Zealand Planning Council came into the picture in the late 1970s. So I started to enjoy the advantage of independence and flexibility.

Q: How did your time on the Planning Council shift your thinking and impact on your involvement across the sectors?

A The Planning Council experience, over several years, was very rich in terms of its leadership, the quality of people we had on the Secretariat and the range of policy issues that we had to address. It enabled me to keep in touch with all my Wellington colleagues and really fostered my interest in policy, the role of government, and applied economics. That led to my being appointed to the Taskforce on Tax Reform (the McCaw Committee). At the same time it enriched my role at the University which started off as tutoring and shortly after Stage I lecturing then applied Stage II lecturing. I'm not a born teacher so it was a baptism by fire in those large classes. Every now and again you get a tap on the shoulder at a concert or a play and someone says "you taught me Stage I economics". "I'm glad to see you survived" I respond.

When at the end of 1985 I came to accept the invitation to go onto the Commerce Commission in Wellington I couldn't continue in the same role at the University. They had an interest in me going across to the Graduate School of Business as it was then. So I kept that association with the University even though I was in Wellington for three days every single week and would come back and teach on Fridays. Yes, it seems exhausting now. As my career developed down the competition law and policy path, along with governance roles, my teaching turned to these areas and I ended up teaching competition law at both under-graduate and masters levels, until 2010.

Q: This interest, or passion, for competition policy saw you involved in international work on trade liberalisation and competition law/policy. Could you tell us about some of the people and adventures you had there?

A This international dimension has been very important to me. Closer Economic Relations with Australia (CER, 1983) might have been the beginning of that. But it was Sir Brian Talboys who got me into the field so to speak. He was really like the elder statesman of the international body of PECC (Pacific Economic Cooperation Council) and wanted to make sure that New Zealand kept on being represented in its various activities. He presented me with the initial challenge of representing the New Zealand Committee of PECC (NZPECC) at an international seminar on Pacific Island Nations. This was my first exposure to an incredible regional network of researchers, government officials and business people who make up the tripartite body of PECC. I succeeded Sir Brian as NZPECC Chair and therefore became an ex officio member of the PECC Board. I was also active with Robert Scollay in PECC's Trade Policy Forum and enjoyed much support from Professor Gary Hawke who was on the NZPECC Board.

We found that the interest in competition policy in international fora was mainly confined to competition law which was regarded as a trade-related issue. So in the Trade Policy Forum we started to take an active interest in the wider role and definition of competition policy in relation to the economic development objectives of PECC and APEC. I came to lead PECC's competition policy group; the important thrust was that competition policy went well beyond the adoption of a competition law and was important in its own right, rather than being a subsidiary or subset of trade policy. Instead, trade policy and trade liberalisation should be seen as a critical component of competition-driven policy.

It was at this point I met up again with Professor Peter Lloyd who also became involved in PECC's work on the interface between trade and competition policy. During the 1990s our group evolved a set of competition principles for the diverse mixture of developed and developing economies in PECC and APEC – an important step forward as there was no 'one size fits all' competition policy or law. These competition principles ultimately gained formal acceptance within PECC as the PECC Competition Principles for guiding the development of a competition-driven policy framework for APEC economies. Following their publication we started the process of trying to get them accepted by APEC. I would have to say it was a career highlight when at the APEC Economic Leaders' meeting in Auckland in 1999 the APEC Competition Principles, based on the PECC Principles, were formally endorsed. This was the culmination of a lot of work in the preceding years with a great group of colleagues from all around the region. And it was wonderful that Sir Brian Talboys saw the product of that international exercise in cross-border cooperation.

For me, there's been a complementarity at work here – my interest in competition, five years as a member of the Commerce Commission, then specialising in my private practice as a researcher, expert witness and advisor in that field, all feeding into this international work as well as my University teaching. More recently, I have had some involvement in Australia's major competition policy review and am delighted that the independent panel has adopted a comprehensive approach to this topic.

Q: In addition to your competition focus you have taken on governance roles, serving on the Boards of a number of New Zealand listed companies. Again, you can see the pathway of this development but how much of what you learned in those early days, both at University and NZIER, positioned you for your roles on those Boards?

A I was quite conspicuous because I was doing a lot of things, in a lot of areas and I was a female economist which was unusual. So, prior to being appointed to Marac in 1985 and to Fletcher Challenge at the beginning of 1986, I guess I had a number of runs on the board as a professional. And there was also an aspiration on my part to participate around the corporate board table as part of my career development. Appointment to the Fletcher Challenge Board was an extraordinary breakthrough which, with an incredibly supportive team of people, launched the governance part of my career.

Q: From the listed company boards I am presuming you could take a lot of the learnings from that to the not-for-profit boards you serve on?

A Absolutely and I think that hits the nail on the head. Not-for-profit boards have to pay a lot of attention to governance. Governance is not just something that happens 'over there'. Effective governance is equally important for not-for–profit organizations and I am a strong advocate for having appropriate governance skills, arrangements and processes in place. After all, this is all about accountability and reputation.

Q: Are there any significant differences in the role for not-for-profits, particularly when there is a high percentage of the work of these organisations that is done by volunteers?

A One difference is that the Board itself is most often made up of volunteers. If they are professional and qualified people this should not make any difference to how they fulfil their responsibilities. It is the responsibility of management to get the best fit between the volunteers they engage and the specific needs of the organization, as well as ensuring that appropriate policies apply (covering health and safety for example).

Q: The role on these different sorts of boards, RBNZ, corporate and voluntary, the similarities and differences in the governance of these three would also feed back into your work on governance more generally?

A Most certainly. Each governance role provides continuous learning opportunities and there will always be new issues requiring careful judgment. In terms of similarities, you can't move away from the need for directors to understand the principles and protocols for guiding sound and effective governance of an organization. These are worth writing down and keeping up-front. They set expectations and the tone at the top. I tend to think of governance in the broadest sense - that is, the principles should guide everything that we do and that we have an influence on in our Board roles. The rest is learning on the job and particularly from examples of good (or bad) governance.

While the underlying principles are the same, the role of the RBNZ Board is very different in that it does not have a decision-making function but is required by statute to keep under constant review the overall performance of the Bank and its Governor. The Board may also give advice to the Governor on any matter relating to the performance of the Bank's functions and the exercise of its powers. This is all part of the Bank's accountability structure and reflects the importance of its mandate.

Q: What advice would you give to young economists starting out in their career?

A To make that investment in your education and then to have a good starting position. That first stepping stone is important and gives you a breathing space for thinking about where your interests and expertise might lie. Don't be too hasty in deciding what to specialise in or where you would like to end up.

I think as a young economist you ought to belong to your professional association(s) and participate in their conferences, share your learnings, share your insights, across borders of thinking, especially as the range of applications of economics has broadened. I joined NZAE early on. That was a wonderful forum for meeting most of the economists who were around then. It was a much smaller Association but, still, there was a mix of academics, public sector economists, some researchers (NZIER) and a few like Jack McFaull (Life Member of the Association) who were in industry-specific agencies. As all the key economists of the time were involved, you felt very much part of the economics profession.

Another thing I would put emphasis on is inter-disciplinary work and understanding. Don't get locked into your jargon but take opportunities to communicate the benefits of economics frameworks. Economic thinking can offer an ability to analyse, to stand back and tease out the issues requiring resolution. The real world is about different perspectives and viewpoints. We need to be able to have constructive conversations with those in other disciplines.

THE FIVE-MINUTE INTERVIEW WITH... ADAM JAFFE

1. **When did you decide that you wanted a career in economics?**

   I went off to university intending to do physics, but when I got to MIT I noticed a lot of really smart people doing that. The latent economist in me understood that I might do better elsewhere, so I switched to chemistry. But then I realized that chemists have to work in smelly laboratories and are judged by how precisely they can measure things. I finished the chemistry degree, went to work for a while (see next answer), and then applied to econ PhD programmes. Somehow they thought that the fact that I had taken a total of two economics courses disqualified me. So I went back to MIT as a non-degree student and took a few 200-level econ courses, including from young Assistant Professors named Larry Summers and Hank Farber. With their recommendations, I reapplied to PhD programmes with more success, and enrolled at Harvard.

2. **Did any particular event or experience influence your decision to study economics?**

   With my chemistry degree and an interest in environmental policy, I went to work for the Environmental Defense Fund in New York. In the 1970s, EDF was ahead of other environmental organizations in advocating the use of economic analysis and economic instruments. I came to see that environmental problems are all about resource allocation, and so decided to get an economics PhD.

3. **Are there particular books which stimulated your early interest in economics?**

   The Wordly Philosophers by Robert Heilbroner was my first introduction to the Big Ideas in economics. I was also very taken by the exchange in the now-defunct journal The Public Interest between Robert Solow and John Kenneth Galbraith, which began with Solow's review of *The New Industrial State* and evolved into an extended debate on the role of economists in public discourse. I wish more economists today thought and talked about these issues (and I certainly wish more economists could write as well as Galbraith and Solow).

4. **Did any teachers, lecturers or supervisors play a significant role in your early education?**

   I had the extraordinary good fortune to meet Zvi Griliches as a first year PhD student. He remained my teacher, mentor, friend and idol until his tragically early death. His insight into data and economics combined with unbounded generousity of spirit is unmatched in my personal experience. He defined by example the Yiddish word "mensch," which doesn't really have an equivalent in English. Even now, I often find myself confronting some economic question or issue by asking "what would Zvi have said?" If I can come up with the answer to that question, I usually find I have nailed the problem.

   I was also lucky to be able to bicycle down the river from Harvard to MIT to take Environmental Economics from Bob Solow when he was first developing the course. In that course I came to appreciate—in a way that had escaped me when I took the core theory courses—the deep relationship between the mathematical techniques of optimization and the broader normative agenda of economics.

5. **Do you have any favourite economists whose works you always read?**

   Joel Mokyr, because I learn fascinating facts about history, plus deep insight into the long-term drivers of technological change and economic growth. Bronwyn Hall, because the econometrics are always airtight. Michael Kremer because he makes me think about things that never occurred to me before.

6. **Do you have a favourite among your own papers or books?**

   "University Versus Corporate Patents: A Window on the Basicness of Invention" *Economics of Innovation and New Technology*, 1997, was the first project in my collaboration with Manuel Trajtenberg and Rebecca Henderson, which led to the creation of the NBER Patent Dataset and launched the most productive research line of my career. It was rejected by three journals and took us 8 years to get it published. It has received 610 citations according to Google Scholar.

7. **What do you regard as the most significant economic event in your lifetime?**

   It is hard to tie to a single "event," but the digital revolution in information processing and communications has transformed the world economy in a way that is qualitatively and quantiatively unique.

8. **What do you like to do when you are not doing economics?**

   I like to hang out with my wife Pam and my kids Sonia and Michael. I like to cook (and eat and drink wine). I sing with the choral group Cantoris, as well as with my Ipod. I love the outdoors: tramping and birdwatching. I am also a Boston Red Sox fan. (They play a strange variation on cricket in which the fielders wear gloves and people complain if a game lasts longer than 3 hours.)

FROM THE 2B RED FILE

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

More sex! Splendid - now I have your attention. Conscientious followers of this column (both of them?) will have read *The Armchair Economist*. I continue to be a fan of this author, and although the market of popular economic tomes (economics for airport book stands) is increasingly crowded, I can unreservedly recommend *Steven E. Landsburg (2007) More Sex is Safer Sex: The Unconventional Wisdom of Economics (New York: Free Press)*.

Landsburg has a PhD in mathematics (University of Chicago) and has published in learned mathematics journals. Despite this, his writings are totally free of equations and any technical lingo. Furthermore unlike *Freakonomics (Steven D. Levitt and Stephen J. Dubner, 2005)* there is nary a scrap of evidence or data – Landsburg's hallmark is to rely solely on logic. He teaches economics at the University of Rochester (where his outspoken and often controversial views have, from time to time resulted in a rebuke from the university's President and protests from students). I suspect his classes must be a sheer joy if the style of his teaching is anything like his writing.

The book draws in part on the author's long-running column in the magazine Slate. For those of you curious about the title, the opening chapter argues that the probability of contracting an STD would be lower if the pool of those prepared to engage in casual sex were expanded by the more sexually reserved being prepared to sleep around a bit more. And Landsburg never seems to shrink from the search for policy responses to the challenges he presents. In this case he makes the case for highly subsidised condoms, as while a condom user reaps the benefits of protecting himself, he also protects future partners – and he cannot capture any of the benefits he confers on them.

It would seem *de rigueur* to have a blog if you want the world to read your daily insights and marvel at your erudition – Landsburg does not disappoint (http://www.thebigquestions.com/blog/). His latest offering is to point out that Larry Summers's argument In the Washington Post) that cheaper oil will simply encourage greater consumption, and hence raise the social cost of the environmental externalities, is flawed. He uses 101 Economics to show the market supply curve and the marginal social cost curve move down to the right in tandem, leaving the social cost "triangle" unaltered.

Landsburg relentlessly argues that good incentives lead to good outcomes. This will hardly be news and few would argue. But he eschews the ordinary and mundane and, armed with this mantra, marches into new territory: pay the commissioners at the Food and Drug Administration with shares in pharmaceutical companies. This would counter their tendency to be overly cautious and not take into account the costs they impose by with-holding approvals for new drugs. Or, observing that jury duty is one of the few jobs where there is no performance assessment, then he argues that jurors who convict a defendant who is subsequently exonerated, should be fined (or their fees withheld). My punchline: it gets mighty hard to sustain the case for referring to economics as the "dismal science" after reading Landsburg!

There is no end of writings on the origins of the Global Financial Crisis; and the topic will doubtless attract scholars and PhD hopefuls in economic history for decades to come. The outpourings will reflect a mix of ideology (the neo-Keynesians have had a field day), conspiracy theorists (it was all due to nasty bankers) and critiques of economic modelling (recall Queen Elizabeth on a visit to the LSE asking "why hadn't economists predicted the credit crunch?"). One author sees potential doom and gloom: *Stephen D. King (2013) When the Money Runs Out: The End of Western Affluence (New Haven, CT: Yale University Press)*. It was sufficiently "doomy and gloomy" for a reviewer for the Financial Times to title his review: A Pessimist's Guide to the Great Recession.[1]

King's central thesis is that the Western economies are not only broke but broken. As a consequence, we would be deluding ourselves were we to think that all that is needed is to get the right mix of a macroeconomic policy together with some better regulation, in order to restore growth and return to the golden years. Periods of stagnation lead to unrest, loss of trust, tensions between the haves and have-nots, or between young and old; and standard bits of macro stabilisation policies just ain't going to fix things.

So what would King do? In the first instance he recognises there are no quick fixes and is modest about his proposals acknowledging that at best they would "make the process of adjustment easier" (p.232). The good news is he eschews the global taxes on capital promoted by Picketty. But his alternative: "to encourage creditors to think twice before they send their savings abroad" so that they will realise if the debtor falls over they too will take losses. Let us set aside for a moment any practical issues of mounting a global financial literacy campaign for international bankers and investors and ask Mr King: what is it about the current system that leads investors to operate with a sub-optimal level of information?

His second proposal is the formation of a fiscal club where a member could access support "without having to pay an excessively painful interest rate" (p.237). To the extent that this idea reflects the need for some fiscal integration to complement the European Monetary Union, then most would agree. But one can hear Angela Merkel saying (in a rather irritated voice), "hang on a minute Mr King – I thought that is exactly what Germany has done for Greece!"

Third he would allow a government to announce a debt reduction strategy based on "a process to automatically reduce the deficits, with an exemption in periods of economic contraction". This would best be termed the "wet bus ticket approach" to discipline and fiscal responsibility to which Mrs Merkel could be heard snorting: "OK, Mr Tspiras, but when do we get repaid?"

1 See: http://www.ft.com/intl/cms/s/2/49f46b5a-ceb7-11e2-ae25-00144feab7de.html

Next Mr King suggests “a new monetary framework.” Older readers may well recall our own Rob Muldoon who “campaigned persistently overseas about the dangers to the world economy of third-world debt and the need to reform the international monetary system.”[2] King’s version is simply to forget inflation targeting and have central banks focus on targeting the “value of national income.” Readers are invited to list the 10 reasons why this is a bad idea.

King endorses macro-prudential polices (to stop banks from acting in ways in that are not in their shareholders’ interest?), supports greater labour mobility to offset any tendencies to restrict capital flows, thinks we all need more financial education and would have universities give greater emphasis to economic history. Which leads me to ......

Well written, accessible books on economic history are always welcome on my bedside table (whose size incidentally, needs to be increased to at least 2m2 to accommodate the constant overflow). The final author in this issue is an archaeologist and ancient historian who serves as the Professor of Classics and Anthropology in the George Washington University (Washington, DC). His primary fields of study are biblical archaeology, the military history of the Mediterranean world from antiquity to present, and the international connections between Greece, Egypt, and the Near East during the Late Bronze Age (1700-1100 BCE).

With such a CV one might have expected a story of digs, of ancient kingdoms or the military escapades of the classical era. In actual fact *Eric H. Cline (2014) 1177BC: The Year Civilization Collapsed (Oxford: Oxford University Press)* is an economic tale among the best. From 3000 BC to around 1200 BC the kingdoms in the Agean, the Near East and Egypt had flourished; this was the Bronze Age and a period of technological and cultural evolution. But in the space of a few decades (centred on 1177 BC) this all came to a crashing halt. It was then many centuries later before there was a renaissance laying the foundations for classical Greece.

Cline sees the current economic shambles and Greece and the possibility of a retreat from its international links, the rebellions of the Arab spring, the failure of Syria as a nation a state, the threats of IS to Iraq, the thousands of refugees in Lebanon and Jordan as history repeating itself. Both events heralded a collapse of a globalised system.

And in exploring the underlying causes of the collapse at the end of the Bronze Age, it is the importance that Cline places on the integrated nature of the economies of the kingdoms and the extent of trade between them that will fascinate economists. He details the many interconnections that brought the Egyptian and Hittite empires, and the Mycenean civilization close together and facilitated an extensive network of exchanges of goods.[3]

2 See: http://archives.govt.nz/has/politicians-papers/robert-muldoon-official-biography

3 For an excellent review see: https://www.insidehighered.com/views/2014/04/23/review-eric-h-cline-1177-bc-year-civilization-collapsed

NZ-UK LINK FOUNDATION: VISITING PROFESSORSHIP PROGRAMME - 2016

The NZ-UK Link Foundation is pleased to announce that applications are now sought for the Visiting Professorship Programme 2016. The London-based educational charity is keen to promote cultural links between New Zealand and the UK with a series of talks (four lectures, one in London and three in other venues) and events through a secondment to the School of Advanced Study (www.sas.ac.uk) in the University of London, over a three-month period in the Spring or Autumn 2016.

Required academic focus

The Foundation anticipates that the Visiting Professor (VP) will establish a high profile in the UK, especially in London. It, therefore, seeks high calibre candidates whose research interests must contribute to an understanding and appreciation of some important aspect of the contemporary relationship between the UK and NZ. It is also essential that the proposed research field and expertise of the candidates be relevant to the Foundation’s purpose and of sufficient interest and contemporary importance as to engage leading opinion formers and key decision makers in the UK. It is felt important that the chosen VP should have good communication skills and be capable of attracting and engaging the Foundation’s target audiences.

The Foundation’s VPs can come from almost any academic discipline - from history to environmental science, from economics to social policy, from political science to trade, and so on. For 2016 the Foundation is particularly interested in applicants whose areas of interest are in one of the following fields:

- History (including Military History, Ancient History and History of Art)
- Literary Studies
- Philosophy
- Law

Applicants will be senior academics working at Professorial level. The Foundation does not expect that candidates should be limited to those with NZ nationality but candidates must have an excellent understanding of the circumstances in both the UK and NZ so as to be able to make a significant contribution to intellectual debate about aspects of the bilateral relationship.

The Panel welcomes applications from all other disciplines and academic schools as it did in 2010 when the first NZ-UK Link Foundation Visiting Professorship to the UK was awarded to Professor Margaret Wilson, Professor of Law and Public Policy at Waikato University and subsequently in 2011 with Professor Jonathan Gardner from the School of Biological Sciences Victoria University and 2013 with Professor Anne Smith from the College of Education, University of Otago and Professor Arthur Grimes, Professor of Economics at the University of Auckland. In 2014 the VPs were and Professor Robin Gauld, Centre for Health Systems, University of Otago. For 2015 the VP is Professor Jacques Poot, National Institute of Demographic and Economic Analysis, University of Waikato and Professor Michael Baker, Department of Public Health, University of Otago.

For more information, please go to:
http://www.nzuklinkfoundation.org.uk/visiting-professorship/

‘FRAMES’ - REAL LIFE ECONOMICS

Stuart Birks, k.s.birks@massey.ac.nz

In the traditional tale, six blind men each attempt to describe an elephant. They touch different parts of the elephant and, by analogy conclude that an elephant is like a wall, a tree, a snake, and so on. Similarly, with our theories we construct analogies for the economy and society. Should we consider that one of the blind men has the ‘right’ description of an elephant? Framing the issue in this way, it is unlikely that any specific economic analogy correctly describes economic activity. Economic pluralism with an added layer of realism is likely to provide a better understanding than a single theoretical perspective.

Several Indian economists on returning to India after an overseas education, often in the US, found that their training did little to help them understand the activity that they saw around them. For some, this has led to the development of alternative descriptions. C. T. Kurien uses the term ‘real life economics’ to describe his preferred, ground-up, approach.

Similar dissonance can also be experienced in the west, but it can be difficult to persuade many established economists to see the problem. Kuhn (1970, p. 5) described normal science research as, ‘a strenuous and devoted attempt to force nature into the conceptual boxes supplied by a professional education’. *Plato’s allegory of the cave* also comes to mind. What is reality, the artificial world of our theories on which we focus or the real world outside?

Pressure to conform is perhaps an inevitable aspect of group identity even in an informal setting. Within the NZAE it has in the past been debated whether economists should see themselves as a profession, with the Association serving as its professional body (and so having responsibility for standards, registration, and disciplinary processes). This idea was floated on council and rejected some years ago, but constraints still exist. Economists, at least in the “mainstream”, have clear ideas of “best practice”, meaning accepted conventions which should be followed for research to be of an acceptable standard. Alternative approaches are likely to require much supporting argumentation, and to be viewed very critically, if not rejected out of hand.

Does this mean that we are overly reliant on one simplified view of the elephant? There are signs that we are. Among other things, the *Non-Equilibrium Social Science* group is reacting to the use of static analysis with its focus on equilibria which are assumed to exist and, commonly, to be attained. A focus on equilibrium equates to a consequentialist view, looking at the end state without looking at the processes used to get there. It is also a construct of the artificial, static framing of the situation. In the real world we find that there is no such thing as an equilibrium. We have a flow through time, with participants entering into and withdrawing from a particular market or area of activity. There is no auctioneer waiting until there is common agreement before trades are to proceed. Many trades can actually take place at various prices, or trades may fail to occur because the price the potential participants observe at the time is something unacceptable to them (even if they would be prepared to trade at an “equilibrium price”). In our stories, excess demand and supply are driving forces in markets, but do they really exist? In many real world instances they may be ephemeral, disappearing as soon as the actors decide to do something else.

The issue of process, the process of adjustment in markets for example, is also something highly significant, as some of those who have been observing markets in reality have noticed. Omkarnath (2012) and Kurien (2012) contend that a theory based on consumers and producers trading directly with each other simply does not fit reality. In practice there are potentially a large number of intermediaries and they can be very influential.

Omkarnath also has problems with the idea that there are prices of products and prices of inputs, whereby you could consider product markets with input prices fixed. For the majority of producers, many of their inputs are actually the outputs of other producers (see, for example the celebrated case of Apple described by Kraemer, Linden, and Dedrick, 2011), and the outputs that they are creating then go on to be the inputs of other producers. So it is highly problematic to build explanations of economic activity based on these two distinct sets of prices, one of which can be assumed constant while the other varies.

Even *ceteris paribus* assumptions can be suspect. They require an absence of links between the different determinants of the various economic phenomena under consideration. It may be that it is simply not possible to change some things while holding other things constant.

Marginalism is central to neoclassical microeconomics, but how realistic is it to assume that there is this infinite range of options available to people and very small changes are possible? In reality there is lumpiness, with a discrete number of options, limited flexibility, and potentially large jumps from one situation to another.

The idea that atomistic individuals operate independently also assumes away the whole process of society and community interaction and relationships between individuals that are central to much of people’s everyday lives. A structure that assumes away so many dimensions of actual real-world activity is bound to lead us to question its direct relevance to the situations that we actually face. So what we have are tools, or sets of tools that describe highly artificial structures with inbuilt biases. An inbuilt bias of much of mainstream economics is that we should be relying on markets and that we can actually conceive of a world based solely on markets. This is considered to be relevant to our system of mixed economies, where governments play a large part and much activity occurs within institutions or organisations, far away from any trading structure. To see this as sufficient on its own might not be the most sensible approach to take. Perhaps we can do better.

One step in this direction could be to start from the real world so as to give a context for analysis. It is important to see models and model estimation as only one component of analysis. There has to be recognition of the assumptions and other aspects which have to be considered, along with frequent reference back to the real world. As a starting point, a clear recognition of the role and significance of framing is required, not least in the teaching of economics.

Kraemer, K.L., Linden, G., and Dedrick, J. (2011) Capturing Value in Global Networks: Apple’s iPad and iPhone. http://econ.sciences-po.fr/sites/default/files/file/Value_iPad_iPhone.pdf

Kuhn, T.S. (1970) The structure of scientific revolutions (2 ed.). Chicago: University of Chicago Press.

Kurien, C.T. (2012) *Wealth and illfare: An expedition into real life economics.* Bangalore: Books for Change.

Omkarnath, G. (2012) *Economics: A primer for India.* Hyderabad: Orient BlackSwan.

BLOGWATCH

By Paul Walker (paul.walker@canterbury.ac.nz)

Many economics bloggers around the world have noted the passing of one the true greats of 20th century economics, Gordon Tullock. See James Bovard <http://jimbovard.com/blog/2014/11/05/ gordon-tullock-r-p/>, Peter Boettke <http://www.coordinationproblem.org/2014/12/remarks-read-to-honor-gordon-tullock-at-the-2014-sea-meetings-extended-version.html>, Eamonn Butler <http://www.iea.org.uk/blog/gordon-tullock-rip>, Tyler Cowen <http://marginalrevolution.com/ marginalrevolution/2014/11/gordon-tullock-has-passed-away-at-age-92.html>, Harry David <http://fee.org/blog/detail/gordon-tullock-student-of-society>, Brian Doherty <http://reason.com/ blog/2014/11/04/gordon-tullock-rip>, David Friedman <http:// daviddfriedman.blogspot.co.nz/ 2014/11/memories-of-gordon-tullock.html>, Mark Perry <http://www.aei.org/publication/gordon-tullock-rip/>, William Shughart <http://blog.independent. org/2014/11/05/gordon-tullock-r-i-p/>, Ilya Somin <http://www.washingtonpost.com/news/volokh-conspiracy/wp/2014/11/05/gordon-tullock-rip/>, Mark Thornton <http://mises.org/blog/gordon-tullock-rip> and Ryan Young <https:// cei.org/blog/gordon-tullock-rip>. Cowen makes the point that Tullock only ever took one course in economics, from Henry Simons. He was, like Ronald Coase, almost entirely self-taught in the subject.

Everyone's second (or third) favourite Marxist, Chris Dillow, at the 'Stumbling and Mumbling' blog <http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/>, has noticed a similarity between Jeremy Clarkson and central banks. Perhaps not the most obvious comparison but it's all about rules versus discretion (and punching Piers Morgan) <http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2015/03/jeremy-clarkson-as-central-bank.html>. Dillow also notes that Nigel Farage (leader of the UK Independence Party - UKIP) wants to scrap a lot of discrimination laws. This is, from one perspective at least, not completely outrageous. There is, after all, a stronger barrier to discrimination than mere law – market competition. As Gary Becker pointed out many years ago a competitive labour market provides strong incentives to keep our prejudices out of our business decisions. The force of competition will make even the most sexist/ homophobic/ racist employer see that by hiring only heterosexual men of Anglo-Saxon descent, they limit the talent pool accessible to them, which is not good business. Especially when talented applicants can go out and work for a competitor. But Dillow then asks, While there is some truth in Becker's theory, just how much? <http://stumblingandmumbling.typepad.com/stumbling_and_mumbling/2015/03/ on-anti-discrimination-laws.html>.

At 'VoxEU.org' <http://www.voxeu.org/article/ > Holger Mueller, Paige Ouimet and Elena Simintzi look at the relationship between "Wage inequality and firm growth" <http://www.voxeu.org/article/wage-inequality-and-firm-growth>. Rising wage inequality has received much attention recently and this column describes new evidence on the determinants of the 'skill premium', that is, the wage difference between high and low-skilled workers. There are two basic findings: 1) larger firms have grown substantially and 2) skill premia are larger at larger firms. They therefore conclude that the growth of larger firms could help explain growing wage inequality.

Also at VoxEU, Ilan Noy puts forward a "DALY measure of the direct impact of natural disasters" <http://www.voxeu.org/article/daly-measure-direct-impact-natural-disasters>. He argues that it is difficult to evaluate the economic impact of natural disasters in the absence of an established metric for measuring the total damage. Noy develops a systematic index that measures the economic cost of catastrophes as well as the human cost. He notes that his measure shows that low income countries face higher costs of disasters for a variety of reasons. Some recent disasters, including the earthquake that hit Christchurch, are evaluated as case studies.

Tim Harford, at his 'Undercover Economist' blog <http://timharford.com/>, considers the problem of "Man v machine (again)" <http://timharford.com/2015/03/man-v-machine-again/>. He explains that the Luddite-type anxiety about machines killing jobs which has laid dormant for many years has recently begun to enjoy something of a resurgence. The neo-Luddites believe that machines are altering the balance of economic power, favouring owners and low-skilled labourers at the expense of skilled workers. For example, journalists fear that their jobs are under attack from technological change in a number of ways — by moving material online, where, thus far, it is proved hard to develop a business model that allows publishers to charge money for subscriptions or advertising; by empowering unpaid writers (e.g. economics bloggers) to reach a large audience via their blogs; and even by introducing robo-hacks, algorithms that can extract data from corporate reports and turn them into financial journalism written in plain(ish) English.

At the 'Free Banking' blog < http://www.freebanking.org/> Kevin Dowd asks the question "Should a Bank in Difficulties Receive Assistance?" < http://www.freebanking.org/2015/01/24/should-a-bank-in-difficulties-receive-assistance/>. His short answer is no, but he goes on to consider the additional question of, If the government is even considering intervention in what it (rightly or wrongly) sees as an emergency and it thinks that "something-really-ought-to-be-done-NOW", then what should we advise the government to do - other than nothing, which it won't do?

Timothy Taylor looks at "The Economics of Media Bias" at the 'Conversable Economist' blog <http://conversableeconomist.blogspot.co.nz/>. Taylor argues that research on media bias and its political effects is certainly not settled but he sees the literature as suggesting that: "There's lots of political bias in the media, mainly because media outlets are trying to attract customers with similar bias. But in the world of the Internet, at least, people of all beliefs do surf readily between news websites with different kind of bias. The growth of television to some extent displaced the role of newspapers and lowered the extent of voting. For the future, a central question is whether a population that gets its news from a mixture of websites and social media becomes better-informed or more willing to vote, or whether it becomes a population that instead becomes expert at selfiesm, cat videos, World of Goo, Candy Crush, Angry Birds, and the celebrity-du-jour" <http://conversableeconomist.blogspot.co.nz/2015/03/the-economics-of-media-bias.html>.

At 'The Impact Blog' <http://blogs.lse.ac.uk/impactofsocialsciences/> Deborah Lupton presents survey findings that point to the benefits and risks associated with academics using social media. Any academic who uses social media needs to weigh up and balance a number of competing desires, demands and objectives, she says. Use of social media facilitates the development of scholarly communities and the exchange of ideas, it helps to connect scholars and the sharing of material between them but it also draws time away from other academic pursuits. Also the speed and rapid churn of ideas, as well as the use of social media for self-promotion and PR purposes, contribute to increased time pressures, competitiveness and striving for "impact" that characterises contemporary "fast academia" <http://blogs.lse.ac.uk/impactofsocialsciences/2014/06/24/should-academics-be-using-social-media/>.

At the `Economists do it with models' blog < http://www.economistsdoitwithmodels.com/> Jodi Beggs takes us on "Adventures In Bad Journalism, Seasonal Adjustment Edition…". She points out that journalists, and editors, need subject matter expertise so that they can vet articles for claims such as seasonal adjustment is about adjusting for changes in weather! <http://www.economistsdoitwithmodels.com/2015/03/13/adventures-in-bad-journalism-seasonal-adjustment-edition/>.

FINE LINES: BID-RENT CURVES

Arthur Grimes (Motu and University of Auckland) arthur.grimes@motu.org.nz; a.grimes@auckland.ac.nz

A bid-rent curve shows how much a firm is prepared to bid to rent a plot of ground at a particular location. Firms in high value industries such as legal (and economic!) services are prepared to bid high amounts of money to locate near the centre of a city while firms in low value industries (e.g. warehousing) bid less for land in the city-centre but may outbid high-value firms for land on the city periphery. Thus high-value firms locate in the CBD and low-value firms locate on the periphery.

McCann (2008 and 2013) uses bid-rent curves to show how globalisation and agglomeration can lead to the hollowing out of a city's high value services. In Figure 1, space is shown along the horizontal axis. There are three city-regions: X, Y, Z; each with two industries: H (high-value) and L (low-value). Each city has two bid-rent curves (one for each industry), drawn here as straight lines. The bid-rent curve for the high-value industry (H) for city X (BR_{XH}) is shown as the line segment (a, b); the other five bid-rent curves are marked (e.g. BR_{ZL} is the bid-rent curve for the low-value industry for city Z).

The industry that bids highest for a plot of land will win the auction for that piece of land. The dark line in Figure 1 shows the envelope of the two curves, which is the rent received by the landowner at a particular location. Below the horizontal axis, we show the resulting city-industry configuration; X_L, for instance, shows that that segment of land is occupied by the low-value industry of city X. Each city in Figure 1 has a combination of high and low-value industries with the low-value industries on the city peripheries and the high value industries in the city centres.

Now consider what happens if technology changes so that the high-value industry is increasingly productive in the larger cities (shown here as X and Z) and less productive in the small city (Y). For instance, better communications may make it no longer profitable for a lawyer to locate in city Y since residents in that city can access a larger, more specialised, team of lawyers in cities X and Z. The legal firm that hitherto occupied the city-centre in Y accordingly lowers its rent bid and is now outbid by the 'low-value' industry. This outcome is shown in Figure 2. Here we see that the entirety of city Y is taken up with low-value industries and we are left with two high-value city centres (X and Z), each with low-value peripheries, while all of city Y now comprises low-value industries. Arguably, this is what we are seeing both within New Zealand (e.g. the hollowing-out of smaller cities and rural towns in favour of Auckland) and across countries (e.g. the move of head-offices from Auckland to Sydney, Melbourne, Singapore and Hong Kong). The bid-rent curves explain it all!

References

McCann P. 2008. 'Globalization and Economic Geography: The World is Curved, Not Flat', *Cambridge Journal of Regions, Economy and Society,* 1(3), 351-370.

McCann P. 2013. *Modern Urban and Regional Economics (2nd ed.).*Oxford: Oxford University Press.

Fig 1: A Three-City-Region Economy, each with High & Low Value Industries

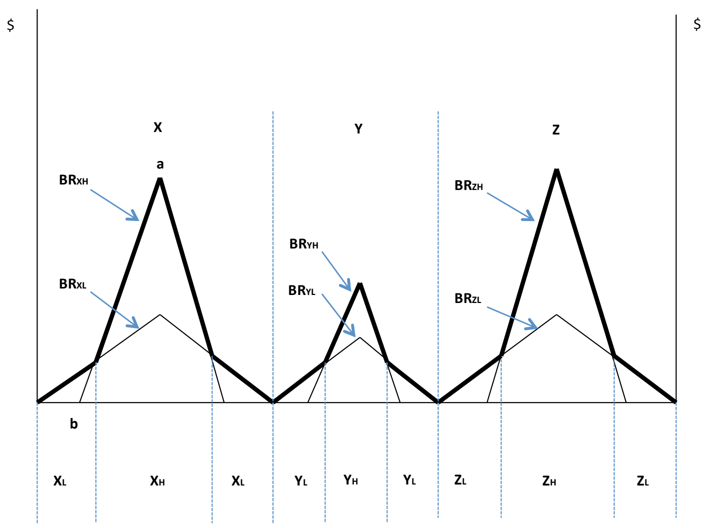
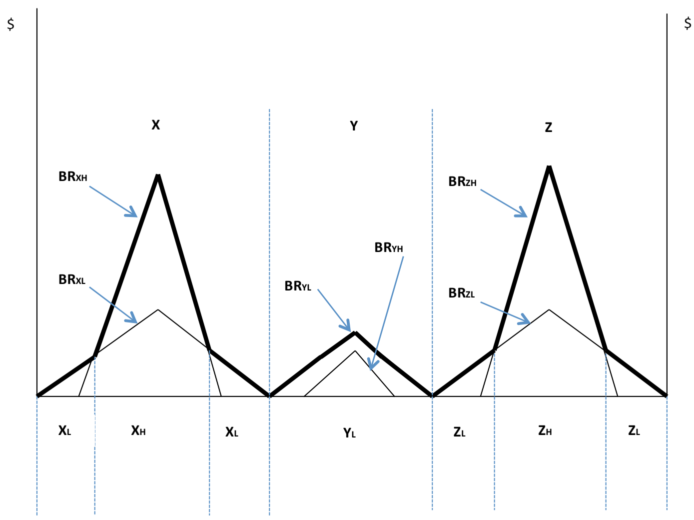


Fig 2: A Three-City-Region Economy, where Y has only Low Value Industries



RETURN TO BUDGET SURPLUS IN 2015: DOES IT MATTER?

By Norman Gemmell

In the run-up to the 2015 Budget in mid-May, there will no doubt be plenty huffing and puffing in the media over whether or not the government will meet its self-imposed target of an operating account surplus by the end of the 2014/15 fiscal year in March. Regardless of the speculation and conclusions come Budget-time, it will not be until near the end of 2015 that the final set of government accounts are available to answer the question definitively, by which time it will probably be politically and economically irrelevant.

The Official Data

It is already clear from the 2015 Budget Policy Statement (PBS) published last December that the government and the Treasury take slightly different views on the prospects for a surplus for the 2014/15 year. As Figure 1 shows, Treasury's forecast in the PBS– which will be updated before the Budget – predicts a slight financial account deficit for 2014/15. The government clearly feels more optimistic, stating that 'the Government believes those [final] accounts will show an OBEGAL surplus, due to the underlying strength of the economy' (BPS, 2015, p.4).

Does it matter whether the outturn is a small deficit or surplus for 2014/15? As with many questions around the government budget, the answer depends on circumstances. First, what are the longer-term trends in the budget surplus/deficit, and are they sustainable? Second, how resilient would the government budget be, faced with a major new shock to the New Zealand economy, such as it experienced in the aftermath of the global financial crisis (GFC) or the Canterbury earthquakes?

Are Budget Trends Sustainable?

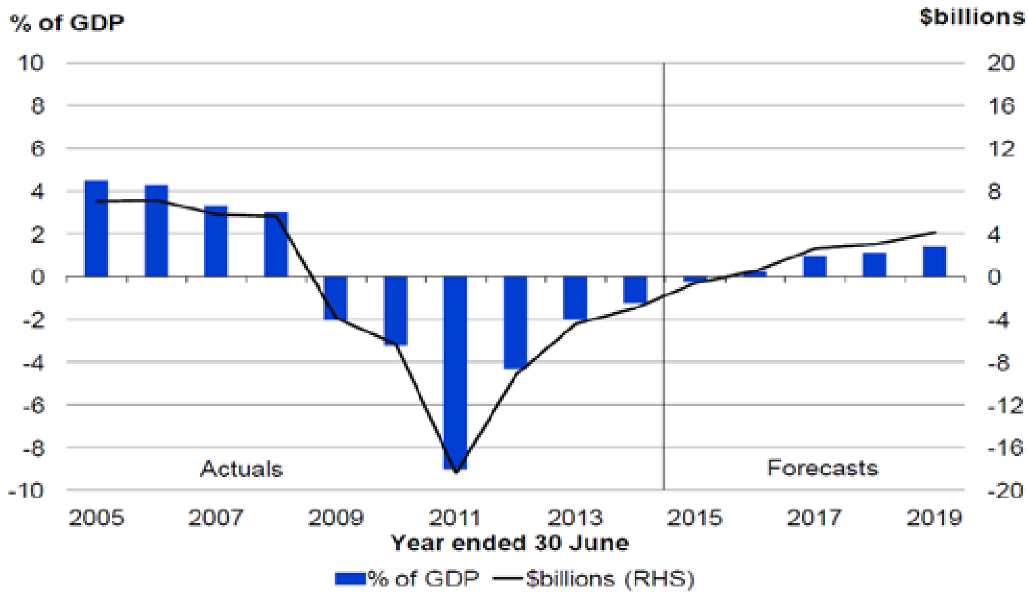
Figure 1 shows the budget over the last ten years and the next five. This reveals at least three important circumstances that matter. First, the budget was in a healthy surplus of around 3-4% of GDP in the lead-up to the GFC, and had been in surplus for several years earlier. Secondly, the GFC precipitated a rapid deterioration of the budget balance, equivalent to a fall of around 12% of GDP (from +3% to –9%) from 2008 to its low point in 2011. Thirdly, a combination of a buoyant economic recovery in New Zealand since 2011, and a persistent programme of careful government budgeting since 2009, has generated the substantial increase in the budget balance evident in Figure 1, with forecast surpluses to continue through to 2019.

Various fortuitous external circumstances helped to soften the blow of the GFC on New Zealand's economic performance, such as a relatively unaffected banking sector and favourable trends in world commodity prices. Without these, together with the healthy budget surplus before the crisis, there can be little doubt that the required economic and social adjustment post-GFC would have been much more substantial.

Lessons from Abroad

The performances of the Greek and Spanish economies and their currently perilous fiscal positions are often held up as examples of the adverse consequences of poor fiscal management. But being members of the common currency Eurozone has had a fundamental role to play in their fiscal

Figure 1 Total Crown Operating Balance before Gains and Losses (OBEGAL)



Source: BPS (2015, page 4)

outcomes and current economic predicaments. This makes them unsuited as relevant counterfactuals for New Zealand. For a small open economy like New Zealand, the UK with its floating exchange rate provides a much better comparator. The UK went into the GFC following a deteriorating fiscal balance over several years (from a budget surplus up to 4% of GDP in the late 1990s to regular deficits of 2-3% by the mid-2000s).

As a result, UK public sector debt levels were already around 40% of GDP in 2008 when New Zealand's had fallen to only 17%. UK public debt then rose to almost 60% by 2011, is still rising, and is forecast to peak at over 80% next year, when New Zealand's is expected to peak at just over 26%.

What might this tell us about long-term trends and sustainability of fiscal deficits? One lesson surely it that, though the UK has not suffered the same degree of fiscal implosion as Greece and Spain and the intensely painful adjustment that follows, it has had to undertake a much more substantial fiscal adjustment programme than New Zealand. The top income tax rate has been raised to 50%, while a temporary increase in the VAT rate and cuts to real public spending were implemented.

Yet, UK real GDP per capita remains stubbornly below pre-GFC levels, with the country still struggling to get its public finances in balance and its public debt down to levels that markets believe are sustainable. This is despite the fact that the increase in deficits in the UK following the GFC was, if anything, slightly less than in New Zealand. The UK budget deficit (as a percent of GDP) worsened by about 9 percentage point from 2008 to a trough in 2010 (from a balance of -2% to -11%). This compares with the 12 percentage point decline in the New Zealand balance, 2008-11.

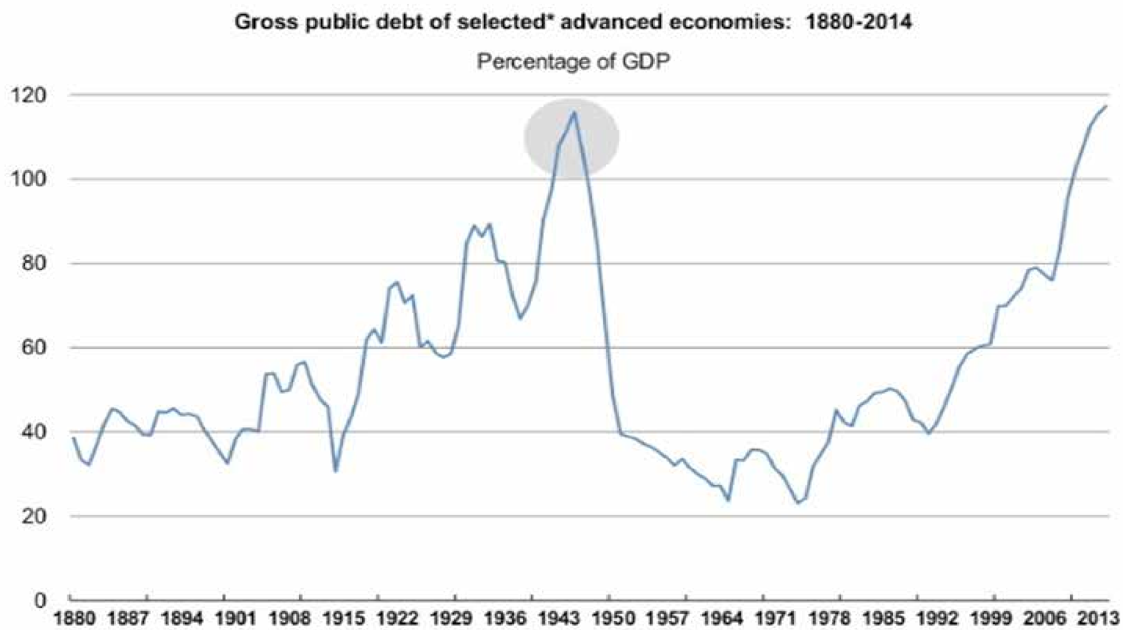
Longer-Term Trends

One reason why this shock was less severe in New Zealand in its effects on both the government's finances and the economy more generally was undoubtedly in part due to the favourable long-term trend before the GFC and the credibility of the fiscal adjustments the government introduced after it. These made recovery from the shock a less daunting task, avoiding some of the worst effects of public spending cuts. They also provided greater assurance to private markets that New Zealand could weather the economic and fiscal storm.

All of this adds up to the forecast trend in New Zealand's deficits in Figure 1 (whatever the precise outcome of the 2014/15 fiscal balance) that represents both a rapid turn-around from the GFC-induced deficits and a prospect of sustainable surpluses with relatively benign public debt trajectories into the immediate future.

Looking further ahead, there are longer-term fiscal implications from the effects of demographic ageing on future public spending on health and welfare. Achieving a budget balance or surplus on 'average' over an economic cycle will become harder into the future as these persistent fiscal costs have to battle for priority among all the other normal demands for public spending. Debate over the 2014/15 surplus or deficit could soon become peripheral compared with the more substantive issue of how big a trade-off might be required between future spending priorities, tax and deficit levels.

Figure 2 Long-Term Public Debt to GDP Ratios in OECD Countries[1]



1 Countries included are: Australia, Canada, France, Germany, Italy, Japan, Korea, Spain, UK, US.

Source: OECD Sovereign Borrowing Outlook, 2014

Resilience to Shocks and Fiscal Buffers

One lesson that emerges from looking at responses to past fiscal shocks in OECD countries is that, for many countries over the post-World War I (WWI) period, the inevitable increases in fiscal deficits during recessionary episodes, have been followed by insufficient fiscal readjustment. Thus, budget balances failed to recover to pre-recession levels before the next downturn hits. Restoring fiscal balance after downturns, even with strong government commitment, takes time to achieve, especially with recessions as severe as the GFC. These patterns are evident in OECD public debt data shown in Figure 2.

The dominant feature of Figure 2 is the dramatic rise, and peak, in public debt associated with World War II, followed by a rapid decline as reconstruction boosted economic growth rates and tax revenues, while defence spending was reduced and war debt repaid.

A second important feature of the chart is the clear tendency for cyclical peaks and troughs in the debt ratio to shift up over time both before WWI and from the 1960s onwards. It seems that governments were good at stepping in with fiscal support to alleviate the adverse effects of economic downturns on living standards. But worryingly, they appear much less good at making the less palatable subsequent decisions required to restore fiscal health.

So, unlike in New Zealand, when a major global shock hit OECD countries public finances in 2008-09, many of them did not have the fiscal buffers to avoid massive public debt increases to levels that markets could no longer be persuaded were sustainable or recoverable. In New Zealand, by contrast, fiscal deficits should (at worst) be all but eliminated in 2014/15, and public net debt levels peak at only 26% before tracking down again.

Future Risks

Surely then New Zealand has nothing to worry about? In my view this would be a risky premise on which to base future budget settings. Firstly, economists have not been good at identifying a 'safe' or prudent level of public debt for a country, even before the GFC struck. Is it 20%, 40% or 60%? What is clear is that this safe level will be quite different for different countries, depending on various other conditions that they face. As a small open economy, highly dependent on a volatile commodity sector and with relatively high levels of foreign (private sector) borrowing, New Zealand's 'safe' public debt levels are likely well below those of many other larger, less commodity-dependent OECD countries.

Secondly, in common with most of the OECD, New Zealand's population ageing is expected to generate a persistent growth in per capita demand for pensions and health care over several decades. If innovative and equitable ways to finance these privately are not found, the burden will inevitably fall on the public purse. This is a new phenomenon (except in Japan which is several decades ahead of most other OECD countries in this respect).

These new demands will have to compete for priority with all the other public spending headings, while tax systems are struggling to keep up with the more mobile tax bases that increased globalisation and international migration bring. As a result, maintaining a safe fiscal buffer to help withstand those fiscal shocks and cyclical downturns is likely to be harder, not easier, in future.

Returning to the question of whether it matters whether we return to surplus in 2014/15, the answer is, no: these small margins over a few years are insignificant in themselves. However, we should care if they become a longer-term trend, and if the government is not planning ahead for the increasing difficulty of funding voters' demands for public spending. This may happen slowly and incrementally, which makes it easy to ignore. But as the post-GFC world has shown, failing to tackle these seemingly inconsequential issues on a year-by-year basis, is like the smoker who persistently thinks that 'just one more' cigarette will not increase the likelihood of lung cancer. The country's long-term fiscal health is just as vulnerable and just as important.

THE CHANGING PRICE OF DISASTER RISK FOLLOWING AN EARTHQUAKE

By Levente Timar, Arthur Grimes and Richard Fabling[1]

Motu

Motu Economic and Public Policy Research

New Zealanders are keenly aware of the devastation caused by the Christchurch earthquakes of September 2010 and February 2011, plus the many other aftershocks. Unreinforced masonry buildings and brick structures, in particular, were susceptible to damage or ruin. Most people, however always knew that this was the case in a major earthquake. Almost everyone who considers purchasing a house in a seismically active zone such as Wellington thinks about whether they wish to be living in a brick house during 'the big shake'.

After the Canterbury quakes, however, a new word entered the general lexicon: liquefaction. The extent of damage that resulted from the shaking of ground subject to soil liquefaction was a surprise to many of us, though not to scientists who had long warned about liquefaction dangers. Most of us prior to September 2010 probably never thought about liquefaction potential when purchasing a house. The Canterbury earthquake sequence can therefore be seen as a source of new risk information to home buyers in New Zealand. Our paper asks whether house purchasing decisions changed as a result of this new information, particularly within a seismically active zone.

We hypothesise that people already incorporate construction-related earthquake risks into the price they are prepared to pay for brick and other non-weatherboard houses prior to the Christchurch earthquakes. As a result, the price of such houses should not have changed following the quakes. By contrast, we hypothesise that, before the earthquakes, people did not incorporate risks associated with liquefaction potential into the price they were prepared to pay for houses built on affected soil types, but that this changed in the aftermath of the disaster. If this were the case, the price of liquefaction-prone houses would have fallen (relative to the price of other houses. However, we also expect that this risk is really only relevant for seismically active areas and will not be material elsewhere.

Data were sourced from PropertyIQ to compare pre and post-earthquake sale prices of properties in two urban areas of the country outside of Canterbury: Hutt City, a seismically highly active area and Dunedin City a relatively low-seismicity area. In each location, we estimated how the pricing of earthquake-related risks changed following the Canterbury earthquakes. We used a repeat sales approach to test for changes in risk premia associated with soil liquefaction potential and different house construction types.

The repeat sales method allows us to control for all unchanging house attributes, including those that are unobserved in our data. By exploiting two types of risk (one previously ignored and one well-recognised by households) across two areas with differing levels of background seismicity, pre- and post-earthquake, we use a difference-in-difference-in-difference approach to test our hypotheses about how people respond to a new clearly defined risk that is important only in certain circumstances. Importantly for the interpretation of our results, information on liquefaction potential was available to prospective property buyers in both cities long before the earthquakes: both city councils have disclosed the risk through Land Information Memoranda issued for affected properties. Evidence suggests this information was almost universally ignored prior to the Canterbury quakes.

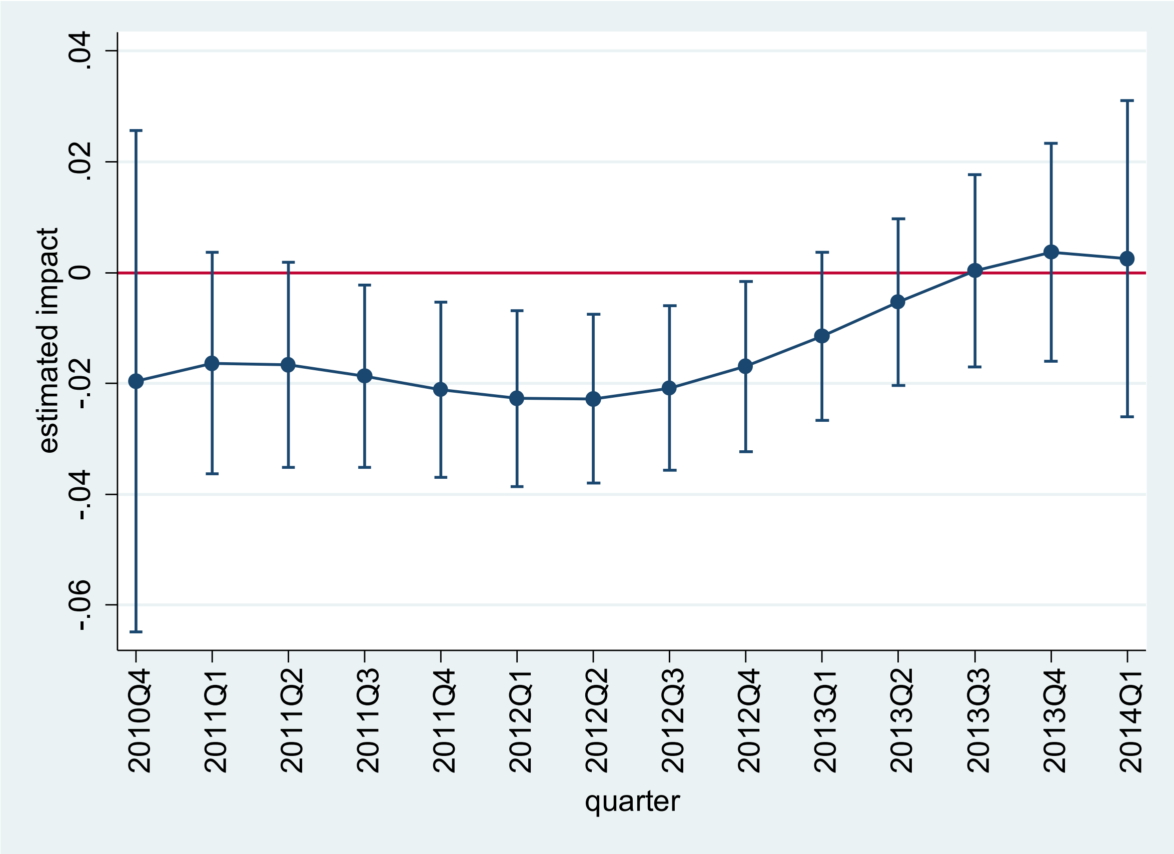
We find no evidence that the price of known construction risk (i.e. brick and other non-weatherboard construction) changed in either seismic area. We also find no evidence of a change in the price of liquefaction risk in the low-seismicity area (Dunedin City) following the Christchurch earthquakes. However, we do find strong evidence that a liquefaction risk discount emerged in the high-seismicity area (Hutt City) immediately following the first earthquake. These findings are all in accord with rational responses to a natural disaster.

However, the results suggest that the liquefaction risk discount in the high-seismicity area dissipated after about two years and has disappeared entirely since then. This finding is illustrated in the accompanying figure. Prices of houses in the liquefaction zone of Hutt City fell by 2% immediately after the first earthquake (after adjusting for house characteristics and other market movements affecting Hutt City). The 2% discount figure is stable for nine consecutive quarters and is statistically significant from quarters 4 to 9 following the first quake. After nine quarters, the discount diminishes and no trace of it remains within another year.

This finding is similar to those identified in previous international empirical studies on responses to natural hazard events. While we cannot rule out entirely that the time-varying risk premium is a rational response to policy uncertainty (e.g. because of changing expectations around insurable versus non-insurable risks or around future insurance premia), we find it more plausible that it reflects behavioural responses to risk.

1 This is a summary of the authors' paper: That Sinking Feeling: The Changing Price of Disaster Risk Following an Earthquake. *Motu Working Paper,* 14-13.

Estimated post-earthquake risk discount for liquefaction: Hutt City



Note: Vertical bars represent the 90% confidence interval. A value of -0.02 corresponds to a discount of 2%.

One of these behavioural responses is associated with cognitive dissonance literature in which people may have preferences not only over states of the world, but also over their beliefs about the states of the world. Essentially, this leads them to manipulate their beliefs so that they ignore bad events to which they may expose themselves through their choices. We postulate that when liquefaction risk has high salience (shortly after the earthquakes) it will be reflected as a discount since its prominence in the media makes it difficult for a prospective house purchaser to ignore. However, as its salience diminishes over time, the marginal prospective purchaser may override the risk if other features of a house make it an otherwise preferred choice.

Our results suggest that there may be a case for a public policy role to improve property market outcomes. At a minimum, greater highlighting of liquefaction risk for a house located in a high seismicity area (e.g. giving even greater prominence than currently to liquefaction risk on the house's LIM report) may be warranted so as to increase the ongoing salience of the risk to prospective purchasers. Alternatively, given the New Zealand government's ownership of EQC, the provider of natural disaster insurance to owners of residential properties, government could require EQC to differentiate its premia according to seismicity combined with liquefaction potential.

These interventions may lead to a more efficient pricing of houses (ultimately affecting development and location decisions) in the presence of behavioural or other features that lead at least some people to downplay known risk elements. However, despite the possible efficiency gain, these interventions would not necessarily be welfare enhancing if the cognitive dissonance explanation holds and people do indeed prefer to believe that the risk is inconsequential.

MEASURING THE WEALTH OF NEW ZEALANDERS

By Ann Ball (Statistics New Zealand)

Measures of wealth from a household perspective are important for policy makers. They are also used to inform debate about such issues as saving rates and indebtedness. Between 1 July 2014 and 30 June 2015 Statistics New Zealand is collecting data to provide information on this topic.

The data are being collected using additional questions that have been added to the Household Economic Survey (HES) this year. This will enable analyses of wealth and income from the same collection. The last time wealth was measured in detail was in the 2001 Household Savings Survey, although some wealth data were collected in the longitudinal Survey of Family, Income and Employment (SoFIE) between 2003 and 2008.

Topics covered in detail include: property owned (by type of property); mortgages; equity in businesses; net wealth held in trusts; and superannuation scheme entitlements.

Topics covered in less detail include: financial assets; consumer durables; student loan debt; and other debt.

The location of the assets and liabilities is also identified (whether in New Zealand, Australia, or Other).

In order to capture wealth in enough detail the sample size for this collection has been increased from 5,000 households to 8,000 households. There is no targeted over-sampling of certain households based on their income levels or ethnicity. HES is a face-to face survey that asks questions of people living in private dwellings aged 15 years and over. This means that no data will be captured from people living in non-private dwellings such as hostels or hospitals.

To make the questions easier to answer, respondents are being asked about the value of assets and liabilities separately. The collection looks through any businesses or trusts respondents are involved in by asking for more detail on the assets (and corresponding liabilities) held in those businesses and trusts. Superannuation schemes will be classified as KiwiSaver schemes, other defined contribution schemes, or defined contribution schemes.

Purpose and uses

- The information delivered by this survey will inform retirement, social, economic and savings policy, including:
- The Commission for Financial Literacy and Retirement Income's Review of Retirement Income Policy (three yearly).
- The on-going role of the Ministry of Social Development and the Families Commission in monitoring social and economic wellbeing.
- The Treasury's analysis of changes in household saving patterns over time, especially in relation to KiwiSaver.
- The Reserve Bank's analysis of the vulnerability of the household sector to economic shocks, particularly around the property market.
- Provide data that can inform the relationship between macro/micro measures of wealth and saving
- It will have the additional benefit of providing measures of household income and net worth together in the same output dataset. This will enable a more sophisticated understanding of the material standard of living of New Zealanders.

Output

The first release of data is planned for the first-half of 2016. This is expected to take the form of an information release, tables available on the website, and a micro-dataset accessible in the Statistics New Zealand data lab. More outputs may be available at a later data.

Beyond 2015 further development is planned to set up a regular, 3-yearly collection of wealth statistics. This will take place as part of the regular HES collection cycle.

For further information contact the author at ann.ball@stats.govt.nz

THE GOVERNMENT ECONOMICS NETWORK (GEN)

By Joanne Leung

New GEN Committee

Following the committee members election at the AGM in November 2014, we are delighted to introduce our new committee:

- Veronica Jacobsen, Chair, Ministry of Business, Innovation and Employment
- Joanne Leung, Deputy Chair, Ministry of Transport
- Michele Lloyd, Treasurer, Statistics New Zealand
- Girol Karacaoglu, John Creedy and Joey Au, NZ Treasury
- Bronwyn Croxson, Ministry of Health
- Donna Provoost, Office of Children's Commissioner
- Jason Timmins, Ministry of Business, Innovation and Employment
- New member: Patrick Nolan, Productivity Commission

Save your date for the GEN 2015 conference

Following the success of last year's conference on how economics is adapting to changing environment, the 2015 GEN conference will be held on 30 November 2015. This conference will focus on what emerging issues economists need to know over the next 5 years and the skill sets required.

The preliminary line-up of speakers includes:

- **Professor Robert Wade,** London School of Economics – Prior to joining LSE, Professor Wade worked at Institute of Development Studies, Sussex University, World Bank, Princeton Woodrow Wilson School, MIT Sloan School and Brown University. Professor Wade published widely and is the author of several books including *The Strange Neglect of Income Inequality in Economics and Public Policy* in 2014. His research interests include globalisation and trends in world poverty and income/wealth distribution; functioning of multilateral economic organizations (eg World Bank, IMF, WTO); the US Empire and the developing countries and industrial and technology policies, especially in developing countries.

- **Professor Warwick McKibbin,** Australian National University – Professor McKibbin has published more than 200 academic papers as well as being a regular commentator in the popular press. He has authored or edited 5 books including *Climate Change Policy after Kyoto: A Blueprint for a Realistic Approach* with Professor Peter Wilcoxen of Syracuse University. His research interests include macroeconomic policy, international trade and finance, greenhouse policy issues and global demographic change.

Please keep an eye out on our website (www.gen.org.nz) for more information and pencil the date in your daily. We look forward to seeing you again at the conference.

Training courses

There are a number of new training courses available over next three months:

- Introductory Labour Economics by Simon Chapple (24 April to 1 May 2015)
- Introduction to Cost-Benefit Analysis by Adam Jaffe (4-5 May 2015)
- Good regulatory Practice: New Thinking, New Developments and New Tools by Peter Mumford, Shane Kinley, Karl Simpson and Jonathan Ayto (18-26 May 2015)
- Productivity growth for maximum wellbeing by Patrick Nolan (30 June to 9 July 2015)

If you would like to sign up to any of these courses, please visit our website www.gen.org.nz.

GEN and VUW public finance debates

- **Debate 1:** Today's policy settings unfairly favour the baby boomer generation (20 April 2015)
- **Debate 2:** Economic evidence should play a greater role in health policy evaluation (20 May 2015)
- **Debate 3:** The 'investment approach' provides a helpful new tool for public spending policy and evaluation (date TBA)

To register, please email libby.wright@vuw.ac.nz at least one week in advance.

To subscribe to our mailing list for regular updates on events, please email info@gen.org.nz.

THE *CHAIR IN PUBLIC FINANCE* AT VICTORIA UNIVERSITY OF WELLINGTON

Norman Gemmell

The Chair in Public Finance (CPF) was established by the Victoria Business School in 2011. In addition to financial support from the university, the Chair is sponsored by PwC and three New Zealand government departments – the Ministry of Social Development, Inland Revenue, and the Treasury. Professor Norman Gemmell was appointed as the inaugural Chair in November 2011, having previously been a professor of economics in the UK and a policy adviser in the UK and New Zealand public services.

The CPF is one of several externally-sponsored chairs in the Business School. For example, they include a *Chair in Disaster Economics*, currently held by Professor Ilan Noy. The idea behind these chairs is to encourage the development of academic research, teaching, and public engagement that meet two important principles. Firstly, they aim to satisfy the university's highest academic standards for rigour, independence and international quality. Secondly, they aim to be demonstrably relevant to the wider public and private sectors.

In pursuing these objectives, the CPF is supported by an Advisory Board with representatives from the university and sponsoring organisations, and an administrator, currently Ms Libby Wight. In addition, the CPF works with a number of students, interns, analysts in government agencies, as well as several internal and external research associates. These include, for example, other tax specialist in the School of Accounting and Commercial Law (where the CPF is formally located within the Business School) such as Professor John Creedy and Associate Professor Lisa Marriott.

The CPF's work programme involves three main types of activity: research; public engagement; and capability building.

Research

The main task is to undertake *public finance* research, broadly defined (nowadays more usually referred to by economists as 'public economics' research) that seeks to address issues of importance for policy, and for the public and private agencies involved in policy advice. This includes the economics of taxation, macro/fiscal and social welfare policy, and goes some way towards explaining why the CPF's core sponsors have offered their support.

- Among the topics that have figured prominently in the CPF's research agenda over the past three years are:
- Fiscal sustainability – how does, and should, demographic ageing affect tax and public spending choices?
- Income inequality and fiscal incidence – how is New Zealand's levels and trends in income inequality affected by tax and social welfare spending and what are its age and gender dimensions?
- Behavioural responses to taxation. How have New Zealand income taxpayers responded to income tax reforms? Do companies respond to corporate tax signals?
- Are the costs of government-provided services in New Zealand high or low by international standards? If so, why?

For many of these research topics, access to public finance related databases is crucial and various government agencies (especially Treasury, Inland Revenue and Statistics New Zealand) have been especially supportive in enabling access to New Zealand's often unique microdata.

To disseminate initial research results by the CPF and research associates, a working paper series was established in 2012: *Working Papers in Public Finance*. This currently produces around twelve papers per year and is available at: http://nzpublicfinance.com/working-papers-in-public-finance-series/.

Public Engagement

This is about raising awareness or 'taking public finance to the public'. Both within the public service and beyond there is often limited understanding of the economic principles underlying good tax or fiscal policy. The CPF can help to improve that by clarifying key results from tax research and communicate those in non-technical terms that are more suited to policy advice and public debate. Among the methods we have used to do this are the New Zealand Public Finance (NZPF) website at www.nzpublicfinance.com; a regular e-Newsletter sent to a large subscriber e-mailing list, public lectures, Budget events, and an annual series of *public finance debates*. The forthcoming 2015 debates in April and June will be the fourth such series, co-sponsored and organised with the Government Economics Network. This year's debates will cover such issues as: 'is the government's so-called "investment approach" to welfare a suitable tool for wider public spending decisions?', and 'should health policy choices and evaluation rely more on clinical evidence than economic appraisal?'.

Capability Building

If good public finance research, teaching and policy advice is to be sustained, the next generation of economists will need to be persuaded that this area of economics is interesting, useful and policy-relevant. Hence mentoring and training public sector analysts and students is vital. The CPF does this through encouraging students and public servants to pursue Masters and PhD degrees in public finance with an emphasis on policy applications. Supervision of honours students' theses and tapping into Victoria's summer internship programme also helps to generate useful public finance research while up-skilling the individuals involved. Emphasis is placed on enhancing presentation and communication skills as well as basic research training.

Encouraging research on *New Zealand* that might otherwise be neglected is a key objective set for the CPF by the Advisory Board. However, such a domestic focus is not the exclusive or even primary objective. Making New Zealand research count internationally is also important, whether by publishing in internationally read and recognised journals, sharing research results in international, as well as domestic, forums or encouraging prominent overseas experts to visit and engage with some of New Zealand's specific public finance research agendas.

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 School of Economics and Finance, 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.

James Alvey

Senior Lecturer , Ph.D. (Toronto)

James is researching the connections between economics and ethics. He is currently working on a book on ethics and economics in Adam Smith.

Faruk Balli

Associate Professor, Ph.D. (Houston)

Faruk's research areas mainly cover, but are not limited to, macroeconomic aspects of international finance, international portfolio allocation, income and consumption smoothing, and modelling the volatility in asset prices. Currently he is working on the nexus between agricultural commodity prices and stock returns. Another project is on the global determinants of the frequencies of emigrants' home visits.

Stuart Birks

Senior Lecturer, Ph.D. (Massey)

Stuart is further progressing work on economic pluralism and methodology, including a project for the World Economics Association providing critical commentaries on economic topics and texts and a proposed book on 'reserves, qualifications and adjustments' required for economics to more accurately reflect the real world.

Sue Cassells

Senior Lecturer, Ph.D. (Massey)

Sue is currently researching in two areas. One is the use of choice modelling to value environmental goods and services and the other is the knowledge gap around environmental management in the context of small and medium enterprises.

Jing Chi

Associate Professor, Ph.D. (Reading)

Jing is currently working with Jing Liao and Xiaojun Chen on the following project: "Political connection and earnings management is China". It examines the impact of political connections on earnings management behaviour in Chinese stock markets.

Anne de Bruin

Professor, Ph.D. (Massey)

Anne's current research is on aspects of entrepreneurship, particularly in relation to women's creative and social entrepreneurship. She is also exploring how cross-sector collaboration for social innovation can be theorised.

David Ding

Professor, Ph.D. (Memphis)

David's current areas of research interest are in market microstructure, corporate governance, corporate social responsibility, and emerging markets issues. His current projects include: (1) The Geography of Corporate Social Responsibility (with Jeff Wongchoti and Christo Ferreira); (2) Decimalization and IPOs (with Charlie Charoenwong and Tiong-Yang Thong) and (3) Warrants and their Underlying Stocks (with Nuttawat Visaltanachoti and Charlie Charoenwong).

Hans-Jürgen Engelbrecht

Professor, Ph.D. (Queensland)

Hans-Jürgen is currently pursuing two main areas of research: 1. A comparison and assessment of different approaches to macro-economic 'wealth accounting' and sustainability measures. 2. New developments in innovation studies, in particular the normative assessment of innovation compatible with evolutionary economics. Other research is associated with PhD supervision (analysis of high school drop-out in Indonesia).

Simona Fabrizi

Senior Lecturer, Ph.D. (Toulouse and Bologna)

Simona's research lies in the area of economic theory and design, and includes (i) the interplay between innovation theory and information economics; (ii) topics in antitrust economics, including competition and pricing in network industries, as well as pricing and framing of consumers in the presence of reference-dependent preferences; (iii) mechanisms underpinning corruption and lobbying activities; (iv) the economics of 'attack and defense' to study cybercrime, biological attacks, diffusion of rumours, and perpetrated contagion mechanisms more in general; and, (v) topics in decision theory and experimentation.

Panos Fousekis

Associate Professor, Ph.D. (Penn State)

Panos' research interests are in agricultural economics, analysis of price relationships in the physical and the product quality space, and in food industrial organization.

Paul Gallimore

Professor, Ph.D. (Keele)

Pauls' main research area is property studies. He is currently working on a project on "The information and bargaining roles of commercial brokers when investors are uninformed" (with Yu Liu and Jon Wiley, Georgia State University).

Rukmani Gounder

Professor, Ph.D. (Queensland)

Rukmani is currently working on a number of projects that focus on Pacific Island nations. They include: Remittances and their developmental impact in Fiji; the role of agriculture in Fiji; household level impact of poverty in Fiji; the Recognised Seasonal Worker Scheme and its impact in the case of the Pacific Island nations.

Wei-Huei (Wendy) Hsu

Senior Lecturer, Ph.D. (Massey)

Wendy's current research interest is the value of venture capital and private equity. Related working papers include the announcement effect of investments by private equity firms in the U.S. and Australia.

Chi Lei (Oscar) Lau

Lecturer, Ph.D. (Michigan State)

Oscar is researching reciprocal relationships in analogy to market transactions under the game theory framework. He is also modelling inter-temporal choices under uncertainty using expected utility. Lastly, he is planning to research the effect of geography on socio-economic outcomes.

Max Li

Senior Lecturer, Ph.D. (Singapore)

Max is interested in real estate investment risk and return modelling, especially for real estate investment portfolios without historical time series. He is currently working on the following research papers: 1. Parametric modelling of the ex-ante direct real estate risk measure and return estimation; 2. the non-linear exposure measurements of the time varying real estate risk; 3. an empirical foreign exchange pricing model under the stochastic discount framework.

Xiaoming Li

Associate Professor, Ph.D. (Strathclyde)

Xiaoming is currently working on whether and how government economic policy uncertainty impacts output/employment, investment, consumption, as well as volatility and expected returns in financial markets. The two largest economies, the U.S. and China, are being examined in investigating these research questions.

Jing Liao

Lecturer, Ph.D. (Massey)

Jing is currently working on the following paper (with Karren Lee-Hwei Khaw and Udomsak Wongchoti): "Male-only Board, State Control and Corporate Risk-Taking". The research examines the corporate risk-taking behaviour of Chinese listed firms in male- and state-dominated settings.

Iona McCarthy

Senior Lecturer, MBS (Massey)

Iona is currently involved in research into post remediation stigma of leaky homes (with Song Shi and a research student), and research with the One Farm team into modelling future dairy farm systems.

Sasha Molchanov
Associate Professor, Ph.D. (Miami)

One strand of Sasha's current research focuses on the impact of political environment on financial markets. He explores how exporting to politically-risky nations affects exporters' investment efficiency. He also studies how orientation of a ruling political party affects corporate performance. Another strand of Sasha's work looks at trading strategies, and, in particular, momentum effects in stock returns. He analyses various risks of momentum strategies, and develops trading rules.

Brendan Moyle
Senior Lecturer, Ph.D. (Waikato)

Brendan's current research includes the ongoing analysis of the illegal ivory trade in China using search-cost metrics, analysing the harvest behaviour of butterfly farmers in Papua New Guinea and very recently, the start of a project investigating the links between Asiatic black-bear poaching and bear-bile farms in China.

Hatice Ozer-Balli
Associate Professor, Ph.D. (Houston)

Hatice is currently working on many diverse topics. Just to mention a few: 1. Four separate projects about efficiency issues of Micro-Finance institutions of South-Asian countries using several methods, including Data Envelopment Analysis, truncated Bootstrapped regression modelling and Stochastic Frontier Analysis. 2. Vegetable consumption behaviour in Iran: an application of the full-box-Cox Double Hurdle Model. 3. Risk sharing across countries: the importance of tourism activity. 4. Determinants of drop out-rate in higher secondary schooling in Indonesia.

Kim Hang Pham Do
Senior Lecturer, Ph.D. (Tilburg)

Kim Hang's current research interests are in developing the theoretical frameworks as well as empirical analysis for understanding (1) the impact of natural resources and agro-ecosystems on sustainable development and inequality at the national or regional level, particularly in developing countries; (2) the role of international development institutions in managing transboundary natural resources.

Sam Richardson
Lecturer, Ph.D. (Massey)

Sam is presently researching into the economic impacts of sports facilities and major sports events in New Zealand, as well as examining the nature of sports-generated remittances in the South Pacific.

Christoph Schumacher
Professor, Ph.D. (Massey)

Christoph is working on several projects that investigate sports betting markets looking at issues such as risk preferences, the favourite longshot bias, learning and strategic betting in paramutual markets. He is also working on a project that analyses prospective payment systems in the health sector.

Shamim Shakur
Senior Lecturer, Ph.D. (Boston College)

Shamim's main research interests are in the area of international trade, agricultural policy and financial economics. Most recent research activities in terms of refereed publications include WTO trade negotiations, regional trade cooperation and computable general equilibrium (CGE) modelling. His current research is focusing on regional trade policies in Asia-Pacific.

Song Shi
Senior Lecturer, Ph.D. (Massey)

Song is currently working on the following research projects: 1. Demand for neighbourhood density: Evidence from the 2011 Christchurch earthquake (with Yuming Fu, National University of Singapore). 2. Uncertainty and apartment price setting: A real options approach (with Yang, Zan and Wei Zhang, Tsinghua University, and David Tripe, Massey University). 3. Declining New Zealand homeownership rate (with Steve Bourassa, Florida Atlantic University).

David Smith
Senior Lecturer, Ph.D. (Massey)

David is undertaking research on corporate finance in general and the capital structure of New Zealand companies in particular. Areas of interest include: the relationship between a firm's capital structure and its product markets, how quickly firms readjust toward target debt ratios, firm financing choices, corporate disclosures, and the value relevance of accounting numbers.

David Tripe

Associate Professor, Ph.D. (Massey)

David is working on a number of banking and financial system issues, including efficiency/productivity analysis, microfinance, and the related issues of bank capital and systemic risk (How much additional capital do banks need to protect the system against potential systemic breakdown?).

Pushpa Wood

Director, Financial Education and Research Centre, Ph.D. (Victoria, Wellington)

Pushpa is working on the following projects: 1. Exploring the spending habits of Maori women in two age groups. 2. Developing a National Financial Literacy Strategy for Timor Leste – this is a combination of a consultancy/training and research project. 3. Capability building at a grass root level to deliver financial literacy – a Maori training delivery model. In this project we are testing and assessing several delivery models.

Martin Young

Professor, Ph.D. (Massey)

Martin is currently working on several projects related to the pricing of convertible bonds, with various groups of co-authors (e.g. with Jonathan Batten and Karren Khaw, and with Yun Feng, Bing-hua Huang and Qi-yuan Zhou).

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: $130 ($120 if paid by 31 March)
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 McKevitt - 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

MEMBER PROFILES WANTED

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