Welcome

The Economic Society of Australia warmly welcomes you to the Gold Coast, Queensland, Australia for the 37th Australian Conference of Economists.

The Society was formed 83 years ago in 1925. At the time, the Society was opposed to declarations of policy and instead focused on open discussions and encouraging economic debate. Nothing has changed today, with the Society and the conference being at the forefront of encouraging debate.

This year we have a large number of papers dealing with Infrastructure, Central Banking and Trade.

Matters of the greatest global importance invariably boil down to be economic problems. Recent times have seen an explosion of infrastructure spending, after world-wide population growth has seen demand outpace aging supply. The world has become more globalised than at any time since World War I but the benefits of this (and the impact on our climate) has been questioned by some.

At the time of preparing for this conference we could not have known that it would have been held during the largest credit crisis since the Great Depression. The general public and politicians both look to central banks for the answers.

We are also very pleased to see a wide selection of papers ranging from applied economics to welfare economics. An A – Z of economics (well, almost).

Another feature of this conference is that we have gone out of our way to bring together economists from all walks of life, in particular from academia, government and the private sector. We are grateful to all of our sponsors, who are as diverse as the speakers.

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Published November 2008
© Economic Society of Australia (Queensland) Inc
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Unless we have specifically been requested to do otherwise, all the papers presented at the conference are published in the proceedings in full. A small number of papers will have versions that have also been made available for special editions of Journals, Economic Analysis and Policy, and the Economic Record. Authors will retain the right to seek additional publication for papers presented at the conference so long as it differs in some meaningful way from those published here.

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Abstracts - Contributed and Special Session

Ackland, Robert, Steve Dowricky and Benoit Freyensz:

Measuring Global Poverty: Why PPP Methods Matter

We present theory and evidence to suggest that, in the context of analysing global poverty, the EKS approach to estimating purchasing power parities yields more appropriate international comparison of real incomes than the Geary-Khamis approach. Our analysis of the 1996 International Comparison Project data confirms that the Geary-Khamis approach leads to substantial overstatement of the relative incomes of the world's poorest nations and to misleading comparisons of poverty rates across regions. Similar bias is found in the Penn World Table which uses a modified version of the Geary-Khamis approach. Estimation of both the level of global poverty and its location is very sensitive to the choice of index. The EKS index of real income is much closer to being a true index of economic welfare and is therefore to be preferred for assessment of global poverty.

Alam, Khorshed:

An Economic Analysis of the Public-Private-Community Partnership: The Case of Solid Waste Management

This paper assesses the economic efficiency of the public-private-community partnership in urban solid waste management in Dhaka City. Waste Concern, a local non-government organization, trialled a partnership approach by integrating all the key stakeholders involved with waste generation, management and disposal in order to improve services and enhance living conditions. The conventional approach of solid waste management is based on the concept of ‘collection-transport-dumping of waste’, whilst this new approach demonstrates that recycling and composting can be a viable option to turn waste into treasure and achieve sustainability. This paper, based on the successful pilot program at the micro level in a Dhaka City suburb, builds a macro model for the city and provides an economic analysis of its social desirability. The analysis shows that the economic benefits of the partnership model exceed its costs under different scenarios.

Alam, Khorshed and Md Shahiduzzaman:

Inflation and food security: Some emerging issues in developing countries.

Rapid rise of cereal and other food prices in the current phase have provoked deep concern regarding food security in developing countries. While a vast majority of people in developing countries are already suffering from widespread malnutrition, the rapid rise of prices of food items is likely to make them more vulnerable. Most of the poor are the net buyer of food items and food prices shocks on their livelihood are quite large. Among the key factors which appear to account for the secular rise of food prices are the global pressure of excess demand and inelastic supply due to low agricultural expansion and adverse weather conditions. Furthermore, climate change is expected to constrain the agricultural growth in the coming decade, creating food insecurity for millions of malnourished people in developing countries.

Anbarci, Nejat and Jungmin Lee:

Discretionary Behavior and Racial Bias in Issuing Traffic Tickets: Theory and Evidence

Recently, community leaders, police departments and administrators, policy-makers, legislators, influential media and the public at large in the U.S. have increasingly been concerned about major racial disparities in officers’ issuing traffic tickets. Ascertaining the extent to which an observed disparity reflects racial bias is the crucial issue here. We use a theoretical model in which motorists, picking the speed to travel at, take into account the probability of getting ticketed and the speed that the officer will cite, while officers - net of the cost of ticketing motorists - maximize a benefit function generally increasing in the speed of ticketed drivers; this benefit function, however, is general enough to allow officers to give some drivers a break by citing them at a lower speed than they were traveling. Our empirical findings indicate that police officers are engaged in discretionary behavior; e.g., using prominent cutoff speed levels in ticketing drivers as well as giving them a break via underreporting the speed. We find that white male officers are the most lenient. African-American officers are relatively stricter than white or Hispanic officers. We detect a bias by minority officers against male minority drivers. In addition, we find interesting results on officers’ leniency or racial bias influenced by drivers’ demographic characteristics, vehicle type, day of the week, time of the day, officers’ experience, and the racial composition of the neighborhoods at which officers issue tickets.

Anderson, Kym, James Giesecke and Ernesto Valenzuela:

Distorted Agricultural Incentives and Australian Economic Development

Throughout the post-World War II period, farmers and hence rural areas in Australia have been discriminated against by policies at home and abroad. At home, manufacturing protection policies far more than offset
agricultural support policies in Australia, so the farm sector and rural incomes were smaller than they would have been without those policies — but domestic reforms in the past three decades have virtually removed that source of discrimination. However, Australian farmers and farming regions are still affected by the impact on Australia’s terms of trade of agricultural protection/taxation abroad. On the one hand, the growth of agricultural protection in rich countries has had an adverse impact on Australian farmers. On the other hand, developing countries have effectively been taxing their farmers with not only manufacturing protection but also farm export taxes, which improved Australia’s terms of trade and farmer income. Both of those elements of discrimination from abroad have diminished over the past two decades, so their net effect on Australia is an empirical question. This paper summarizes new evidence on (a) the changing extent of those domestic and foreign distortions over the past half-century, (b) the net impact on Australia’s terms of trade of current distortions to agricultural and other goods markets (derived from the World Bank’s Linkage CGE model of the global economy), and (c) the effects on rural vs urban regions and households within Australia of the terms of trade impact of policies abroad as of 2004 (derived from the TERM CGE multi-regional model of the Australian economy).

Bandara, Jayatilleke S.:

Trade Liberalisation and Poverty: The South Asian Experience

The link between trade liberalisation (or, more broadly, globalisation) and poverty has arguably become one of the most debated topics in international trade and development in recent years, for a number of reasons. Firstly, poverty reduction has become a main priority of national governments and global institutions such as the UN and the World Bank since the setting of millennium development goals (MDGs) by the United Nations (UN). According to MDG 1 (the poverty goal), the world needs to reduce absolute poverty by half between 1990 and 2015 on the basis of the international poverty line (using a US$1-a-day poverty line). Secondly, poverty has become an important issue as a result of the social and political consequences of rapid globalisation (UNCTAD, 2004, p.68). In a recent report, UNCTAD (2004, p.67) argue that trade can play an important role in reducing poverty in both least developed and developing countries, although the link between trade and poverty is not clear and automatic. Finally, recent food price rises have made achieving MDG 1 even more challenging for policy makers in developing countries and international organisations.

Bashar, Omar H.M.N.:

Does Monetary Policy Matter in a Less Developed Economy? Evidence from Bangladesh

This paper explores the role of monetary policy in the context of a less developed economy. Monetary transmission mechanisms in less developed economies can be quite different from an industrialized economy, as unlike industrialized countries, these economies are characterized by the small size of organized financial markets, limited substitutability between money and other assets and weak fiscal and monetary institutions. We utilize the Structural VAR approach to analyze the monetary transmission process and impacts of monetary policy on different macro variables in Bangladesh. Monetary policy shocks are identified using non-recursive contemporaneous restrictions, which are based on the Central Bank's reaction function and the structure of the economy. We found strong evidence for the interest rate channel of monetary policy in Bangladesh. Our findings indicate that monetary policy shocks are important sources of fluctuations in the rate of interest, output and prices. Expansionary monetary policies are found to be harmful for achieving price stability in Bangladesh, as they not only increase the prices permanently, but also make the price level more volatile. We also found the evidence of a long lasting effect of monetary policy on output, which suggests that contractionary policy measures may create sustained recession in Bangladesh.

Basov, Suren:

Monopolistic screening with boundedly rational consumers.

In this paper I revisit the monopolistic screening problem for the case of two types assuming that consumers are boundedly rational. Since the consumers are boundedly rational, the revelation principle does not apply and the choice of the selling mechanism is in general with the loss of generality. I show that if the monopolist restricts attention to mechanisms which offer menus of two choices, the profits are lower than in the case of full rationality by the terms of order $\ln \lambda / \Lambda$, where $\lambda$ is the degree of rationality of the consumers. The monopolist, however, can approximate the profits she earns under assumption of full rationality, by using a more elaborate message game.

Bateman, Hazel and Amandha Ganegoda:

Australia’s disappearing market for life annuities

We analyze the small and disappearing market for life annuities in Australia by estimating the net benefits of annuitization. The costs of annuitization are derived from estimates of the money’s worth of Australian annuities, while the benefits are measured using a utility-based metric of a lifecycle consumer’s valuation of longevity insurance. In an extension to previous analysis we recognize that a minimum consumption
stream is important to retirees, and incorporate a consumption floor into the lifecycle consumer’s utility function. As well, our optimization problem includes pre-existing annuitization in the form of Australia’s means-tested age pension. We find that despite the large decrease in the money’s worth of Australian annuities over the past decade, it would still be optimal for Australian retirees to annuitize all or at least part of their retirement wealth. We suggest that the very thin and fading market for life annuities in Australia may also be due to supply-side constraints and conclude that any credible solutions to Australia’s puzzling annuity market should probably be sought from the realms of behavioral finance.

Bianchi, Robert:

The Search For Hedge Fund Alpha

This paper analyses the performance of the global hedge fund industry to determine whether alpha, or risk-adjusted excess returns are earned. The efficient market hypothesis questions whether professional investors such as hedge funds can produce superior returns over and above a passive investment strategy. The study examines 7,355 surviving and non-surviving global hedge funds for the period 1994-2006. This paper proposes a simple multi-factor model which is easier to implement in comparison to more complex option-based frameworks that are proposed in the literature. The multi-factor framework employed in this study demonstrates that the returns of individual funds and the systematic return of the global hedge fund industry can be replicated with passive investment strategies in global financial markets. This study reveals little alpha or manager skill in this sample of hedge funds and therefore questions the validity of high management fee structures in this segment of the global funds management industry.

Blacklow, Paul and Aaron Nicholas

Assessing graduate employment in the presence of endogeneity and sample selection bias.

This paper examines the probability of a recent university graduate obtaining full-time employment by degree of study. It allows for degree choice to be endogenous (self-selection bias) and adjusts for those graduates not in the labour force who are not typically considered in graduate outcome studies (sample-selection bias). The self-selection problem is able to be identified by using a unique data set that combines data from the 2005 and 2006 Australian Graduate Destination Survey with data from the University of Tasmania’s (UTAS) student administration database, which includes students’ pre-tertiary school results. Degree choice is modelled using a Nested Logit, while labour force participation is modelled using a Probit. Using a ‘Heckman’ type methodology, the modified Inverse Mills Ratios (pseudo-residuals) from the Nested Logit and from the Probit are included in the final Probit model for Employment. While sample-selection is found to be insignificant, self-selection is significant. Allowing for self-selection significantly reduces the probability of employment for graduates of certain degrees, suggesting that better students select these degrees at UTAS.

Blackwell, Boyd:

The economics of ocean outfalls and wastewater in Australia: Some empirical evidence on a dog’s breakfast.

Much has been achieved in Australia since the release of the Hilmer (Hilmer et al.1993) report in 1993, especially in the recent decade with water reform. Prices are beginning to reflect full costs of supply. Water entitlements are now tradeable instruments across the country. The same engagement of the reform agenda can not be said for urban waste water and ocean outfalls. Much of urban water conservation relies on prohibition or regulation. This paper presents a theoretical framework for analysing the re-use and disposal of waste water in urban communities in Australia. Many of these communities, especially all the state capitals, rely on ocean outfalls to dispose of their waste water. The framework takes a broad view of the value of recycling water and helps to analyse why the market for recycling fails. The reasons are classic. Prices for water use do not reflect their full cost. Externalities are not internalised. Services are monopolised where natural monopoly theory is questionable. The paper also presents survey evidence as to whether we may change our preferences for how we manage our waste water if we visit an outfall or treatment plant. Responses do change as a result of visiting these sites and this might be part of finding an improved understanding of, and solutions to, our water problems.

Bloch, Harry and Benjamin K. Agbenyegah:

Growth and Productivity in Australia

This paper empirically investigates and identifies the main contributing factors to output and productivity growth in Australia for the period 1950-2005. Cointegration and a vector error-correction model are used along with Granger causality tests, impulse response functions and forecast error variance decomposition analyses to achieve these objectives. Accumulation of human capital and investments in information and communications technology (ICT) are identified as significant in the cointegration analysis of production in Australia and should be included in the long-run production relationship along with fixed capital and labour employed. The vector-error correction model estimates further provide evidence that human capital and ICT are important drivers of output growth in Australia, so their omission from standard productivity measures leads to inaccurate measures and may mislead policy formulation, planning and budgeting decisions.
Stuck in the Middle: An Experimental Study on Sharing a Strategic Advantage in a Binary Choice Game

Brokaw, Alan J., Patrick Joyce and Thomas E. Merz:

This paper reports results from experiments on non-cooperative, 3-person, binary-choice, repeated games. With the first mover alternating in a windshield wiper fashion, the unique subgame-perfect equilibrium in a one-shot game never affords the player stuck in the middle the opportunity to free ride. Under the expanded strategy space of repeated play, the player stuck in the middle may adopt a strategy of blocking the first mover from free riding thereby eliciting responses resulting in a sharing of the free-rider payoff. Our experiments (i) indicate that the free-rider payoff was not reserved for the first mover and (ii) shed light on the ramifications of adopted orders of play for a repeated-interaction game applicable to real-life voting by legislators.

Vulnerability of Natural Gas Supply in the Asian Gas Market

Cabalu, Helen and Chassty Manuhutu:

Gas supply interruptions, increasing gas prices, transportation and distribution bottlenecks, and a growing reliance on imports over longer distances have renewed interest on gas vulnerability in Asia. Japan, Korea and Taiwan are heavily reliant on LNG imports for their gas supplies from Malaysia, Brunei, Indonesia, Australia and the Middle East. Countries like Malaysia, Thailand and Singapore import gas via trans-border pipelines. This paper examines the relative vulnerability of eight gas-importing countries in Asia for the year 2006 using four market risk indicators and two supply risk indicators. Using principal component analysis, a composite index of gas vulnerability is estimated by combining the individual indicators. The analysis demonstrates inter-country differences with respect to individual and overall indicators of gas vulnerability and two individual indicators were more significant than the others in influencing the overall gas vulnerability results.

Public-Private Wage Gap in Australia: Variation along the Distribution

Caia, Lixin and Amy Y.C. Liub:

Previous research on public-private wage differentials in Australia is scarce and has focused on the central parts of the conditional wage distribution. Using the first six waves of the Household, Income and Labour Dynamics in Australia (HILDA) survey, this study applies quantile regression models to examine whether the sectoral wage effect varies along the wage distribution. For females, we find public sector wage premiums for almost the entire wage distribution and the premiums are relatively stable except at the extremities of the distribution. For males, the premiums decrease monotonically and are negative for the top half of the conditional wage distribution. The decomposition results show that the observed differences in individuals and job characteristics account for a substantial proportion of the overall sectoral wage gap.

The Determinants of Household Risky Asset Holdings: Background Risk and Other Factors

Cardak, Buly A., and Roger K. Wilkins:

We study the portfolio allocation decisions of Australian households using the relatively new Household Income and Labour Dynamics in Australia (HILDA) survey. We focus on household allocations to risky financial assets. Our empirical analysis considers a range of hypothesised determinants of these allocations. We find background risk factors posed by labour income uncertainty and health risk are important. Credit constraints and observed risk preferences play the expected role. A positive age gradient is identified for risky asset holdings and homeownership is associated with greater risky asset holdings. A unifying theme for many of our empirical findings is the important role played by financial awareness and knowledge in determining risky asset holdings. Many non-stockholding households appear to lack the experience and financial literacy that might enable them to benefit from direct investment in stocks.

The four E’s: education, earnings, experience and externalities

Carne, Kerry:

Externalities to differing levels of educational attainment are measured, at more levels of education than has previously occurred. Results are consistent with the literature in indicating that greatest externalities attach to highest levels of educational attainment and so greatest gains accrue to greatest shifts in the skills spectrum. However the expectation that productivity and thus earnings increase monotonically with experience is not confirmed for most educational-attainment groups.

The Determinants of Household Risky Asset Holdings: Background Risk and Other Factors

Cheng, I-Hui, Ying-Yi Tsai and Leonard F.S. Wang:

R&D, Strategic Delegation and Market Share Competition

R&D This paper investigates the role of spillovers in determining manager’s decisions of investment and the owner’s choices of incentives between a profit-market share framework. We consider a three-stage game in which two firms with homogeneous products pursue oligopolistic competition in the market and each owner delegates the production and R&D decisions to a manager. Each manager’s objective is guided by an incentive scheme which is a weighted sum of profits and market share. It is found that with higher R&D spillovers both firms commit more competition.
since rival firms also benefit from cost-reducing R&D spillovers, therefore they invest less in R&D. In this case, the owner may choose higher weights for market share under certain condition. The cost of investment in R&D also affects the weight on market share. When R&D is relatively costly, the owner may choose lower weights for market share.

Chiswick, Barry R. and Paul W. Miller:

The “negative” assimilation of immigrants: A special case.

Research on the economic or labor market assimilation of immigrants has to date focused on the degree of improvement in their economic status with duration in the destination. This pattern has been found for all the immigrant receiving countries, time periods and data sets that have been studied. The theoretical underpinning for this finding is the international transferability of skills. This paper addresses whether positive assimilation will be found if skills are very highly transferable internationally. It outlines the conditions for “negative” assimilation in the context of the traditional immigration assimilation model, and examines the empirical relevance of the hypothesis using data on immigrants from the English-speaking developed countries (i.e., the UK, Ireland, Canada and Australia/New Zealand) to the United States. Comparisons with the native born are also presented to test whether the findings are sensitive to immigrant cohort quality effects. Even after controlling for cohort effects, “negative” assimilation (a decline in earnings with duration) is found for immigrants in the US from the English-speaking developed countries.

Chowdhury, Shyamal and Futoshi Yamauchi:

Has Decentralization in Indonesia Led to Elite Capture or Reflection of Majority Preference?

Elite capture in the context of decentralization and democratization is a general concern in public good provision in developing countries. In this paper, we have empirically examined this hypothesis using a large rural households survey conducted in Indonesia concerning access of households to road, electricity, and drinking water services. In Indonesia, prior to decentralization, local infrastructure was supplied by a centralized authority that had the potential to provide infrastructures that did not match heterogeneous local preferences. After the introduction of the decentralization, local infrastructure decision is taken by elected local authorities. It, however, runs the risks of elite capture. We have examined if access to infrastructure reflects’ majority’s preference or results in elite capture in the decentralized period taking the allocation under the centralized regime duly into account.

Chowdhury, Khorsheed:

Balassa-Samuelson Effect Approaching Fifty Years: Is it Retiring Early in Australia?

This paper tests empirically the Balassa-Samuelson (BS) hypothesis using annual data for Australia. We applied the ARDL cointegration technique developed by Pesaran et al. (2001) and found evidence of a significant long-run relationship between real exchange rate and Australia-US productivity differential during the period of 1950-2003. We found that a one per cent increase in labour productivity in Australia relative to the US will lead to 5.6 per cent appreciation in the real exchange rate of Australia. We suspect that the elasticity coefficient is “over-estimated” due to the exclusion of relevant explanatory variables. The dynamics and the determinants of the real exchange rate movements are numerous; they include terms of trade, interest rate differentials, net foreign liabilities among others along with labour productivity differential.

Clarke, Harry:

Adaptation Investments to Offset the Effects of Climate Change

One approach to rationalising policies for addressing potentially catastrophic climate change when such policies may prove unnecessary is to suppose the policies provide a form of social insurance even in the presence of pure uncertainty. Then, provided the policies are effective, such insurance can be justified as a precautionary or minimax response. Even if the policies are potentially ineffective however intervention can be justified as an attempt to minimise the regret experienced by future generations. This reasoning extends to justify ‘all weather’ policies provided such policies always reduce policy costs. If, however, policy decisions provide ‘all weather’ benefits in only certain states of the world, this rationale breaks down. Minimising regret can establish a case for ‘mixed’ policy responses provided adopting a policy mix precludes the chance that intervention will fail altogether. Precautionary policies and policies which minimise regret are computed for a simple, dynamic, adaptive climate change planning problem and sufficient conditions for policy maker pessimism provided.

Coate, Bronwyn:

Who Benefits from the Growing Market for Indigenous Art? Evidence of Indigenous Differences and Creative Achievement in Australia

Since the mid C20th the market for Australian indigenous art has rapidly expanded. The Australian experience in this respect reflects a broader international trend of growing demand for tribal and indigenous art. After defining what is meant by indigenous art, this paper explores some of the reasons underlying the increased interest in tribal and indigenous art which has driven up prices for such works. While the growth in the market for Australian
indigenous art is clearly apparent, a more contentious issue associated with the growth has been whether or not the indigenous communities producing art works have benefited from the increasing demand and higher prices. On this front, evidence of how global art markets impact artists and those living in remote indigenous communities is mixed. After presentation of some of the evidence on how the growth in the market for indigenous art has affected Australian indigenous communities, the paper concludes with a discussion of policy implications.

**Coccia, Mario:**

*What is the optimal rate of public and private R&D investment to maximize productivity growth?*

Governments in modern economies devote much policy attention to enhancing productivity and continue to emphasize its drivers such as investment in R&D. This paper analyzes the relationship between productivity growth and levels of public and private R&D expenditures. The economic analysis shows that the magnitude of R&D expenditure by business enterprise equal to 1.74% (% of GDP) and R&D expenditure government - Higher education of 1.025 (% of GDP) maximize the long-run impact on productivity growth. These optimal rates are the key to sustained productivity and technology improvements that are more and more necessary to modern economic growth.

**Coleman, William:**

*Gauging Economic Performance under Changing Terms of Trade: Real Gross Domestic Income or Real Gross Domestic Product?*

The paper presents a simple theoretical case for the superiority of Real Gross Domestic Income to Gross Domestic Product. It is shown that, in a multi-period version of the familiar neoclassical model of a small open economy, a temporary improvement in its terms of trade will increase welfare and RGDI, and produce excess an excess of exports over imports; but will decrease real GDP, on account of it creating an constant prices excess of imports over exports.

**Connolly, Greg:**

*Is the Trailing Inflationary Expectations Coefficient Less than One in Australia?*

In estimating the expectations-augmented Phillips curve to determine whether or not Australia has a so-called ‘NAIRU’ (or ‘NAWRU’), the results are dependent on whether or not the inflationary expectations coefficient is less than one. However, a number of conceptual, specification and econometric flaws of past efforts to estimate this coefficient are identified in this paper, all of which tend to lead to making a wrong conclusion that Australia has a ‘NAIRU’ (or ‘NAWRU’) when indeed one is not present. One set of flaws (for reasons explained in the paper) has been to use exogenous and/or prospective inflationary expectations variables. Instead, as explained in this paper, trailing expectations, based on past prices or wages should be used. Also, a common practice has been to use changes over four quarters of a year in the logarithm of wages (or prices or unit labour costs) as the dependent variable and to use the dependent variable, lagged by only one quarter, as the primary inflationary expectations variable. As is shown in this paper, this specification leads to a bias in the estimated coefficient of the inflationary expectations variable unless the true value is 1.0. When the true value is less than one, the specification bias will be upward. After explaining the specification bias, Monte Carlo estimation is used to show how under some circumstances it could lead to the wrong conclusion about the presence of a ‘NAIRU’ or ‘NAWRU’.

**Cooray, Arusha:**

*The financial sector and economic growth?*

The Mankiw-Romer-Weil (1992) augmented Solow model is extended to incorporate the financial sector in this study. Distinguishing between financial capital, physical capital and human capital, the study attempts to identify in particular, the effects of financial capital on economic growth. The financial capital augmented model is tested on 36 emerging and developing economies. Strong support is found for the financial capital augmented model.

**Crane, Lin, and Sue O’Keefe:**

*The Paradox of National Water Savings*

One of the claimed benefits of the federal government assuming greater control over water policy is that it will resulted in a more unified and holistic response to the extant problems in the Murray-Darling Basin. This paper is used to explore the veracity of this argument against the backdrop of recent initiatives outlined in the Federal government’s ‘Water for the Future’ manifesto. We argue that a naïve understanding of concepts such as ‘water use efficiency’ is likely to stymie any purported basin-wide gains from a national approach to water policy.

**Crettez, Bertrand and Regis DeLoche:**

*An Economic Analysis of the Aldo Moro Kidnapping and Assassination*

In Rome, on March 16, 1978, the Red Brigades kidnapped Aldo Moro. They kept him a prisoner for fifty-five days, and ultimately killed him. Why did they decide to kill Moro? It appears that they did not improve their situation by doing so. Our paper answers this question by building mainly on the model of kidnapping by Selten (1977). We develop an integrated game-theoretic model that reliably captures both the problem of kidnapping for some sort of non-monetary ransom and the problem of assassination of prominent political figures. We embed our model within the
historical evidence surrounding the Moro case. We show that, in the Moro case, there is a continuum of equilibria implying the death of the hostage.

Deng, Xin, and Zhong Qin:

*Ownership Structure, Performance and Determinants of Share Diffusion in Family Businesses: Evidence from China*

It has long been debated about the impact of ownership structure on firm's performance. Most existing studies look at established companies in developed world where the market mechanism is well-developed. Listed companies are the most frequently used sample. While there are many benefits to use information of listed companies to study relationship between ownership and performance, an important part – family firms – has largely been neglected. This paper explores the impact of ownership structure on performance of family business in a context of under-developed market environment. Using a survey data of 296 private family firms in Ningbo City, China, we find both management and single largest shareholder's ownership is positively related to firm's performance. However, family's shareholding does not have significant impact on performance, suggesting different impact of management and family shareholding even if the former is part of the latter. Further inquiry on firm's willingness to give shares to managers who are not family members indicates that while nearly half of the firms are willing to provide shares to professional managers so as to align their interests to that of the owners, weak corporate governance mechanism and under-developed market may discourage such practice. Our findings support both agency theory and endogenous ownership theory to an extent, and reveal factors that may lead to or hold share diffusion among young family businesses in emerging market.

Dharmaratna, Dinusha:

*Price Responsiveness of Residential Water Demand in Sri Lanka*

The determination of appropriate pricing for water is a key to improve efficiency of the pipe-borne water supply system. The existing literature on residential water demand has primarily focused on developed countries and very few studies on developing countries. This paper fills part of this gap by formulating a demand model for residential water for Sri Lanka to assess the potential of pricing policy as a piped water management tool. This study estimates residential water demand from Cobb-Douglas and Stone-Geary functional forms using aggregate household data for sixty months for fourteen districts. Price elasticity ranges from -0.06 to -0.37 and the income elasticity varies from 0.04 to 0.14. Stone-Geary form yields comparable results to Cobb-Douglas. Moreover, Stone-Geary specification provides an estimate of the portion of water use that may not be responsive to price as 5 – 6 cubic meters per month per household. Thus, results here conform the previous studies that demand for water is price and income inelastic. However, low price responsiveness of residential water demand can be used for important policy implications by the Water Board.

Dickenson-Jones, Giles, and Albert Wijeweera:

*An Empirical Analysis of Price and Income Elasticities of Papua New Guinea’s Exports*

A large amount of existing trade literature focusses on the estimation of aggregate trade elasticities and their implications for trade policy. Although the use of aggregate data is often necessary due to disaggregated data being unavailable, policies based upon such trade models may be inapplicable to individual export sectors. This research contributes to the literature through estimating both disaggregated and aggregated export demand elasticities for Papua New Guinea’s exports using a single-equation specification under a cointegrating framework. We find a cointegrating relationship exists in all instances and that disaggregated price and income elasticities differ from our aggregate estimates. Whilst our results support currency appreciation, the research is limited by use of a single equation functional form.

Dijkstra, Bouwe R. and Anuj J. Mathewa:

*Liberalizing Trade in Environmental Goods*

Trade liberalization in environmental goods is high on the agenda of the current Doha round. We examine its effects in a model with one domestic downstream polluting firm and two upstream firms (one domestic, one foreign). The domestic government sets the emission tax rate after the outcome of R&D is known. The upstream firms offer their technologies to the downstream firm at a flat fee. The domestic upstream firm’s R&D incentive may increase or decrease with trade liberalization. It will decrease when its own existing technology is relatively inefficient and when the foreign firm’s existing technology is relatively efficient. The expected pollution, consumer surplus and the welfare is generally higher under free trade.

Donald, Bruce:

*Emerging patterns of Australia’s linkages with East Asia: a place in production networks?*

This paper examines how Australia’s trade and investment fits with the emergence of production networks in Asia, and the implications of Australia’s trade with Asia of these production networks. While Australia’s traditional commodity based exports have flowed from its relative resource endowments, there has been an increasing pattern of both imports and exports of manufactures, and in particular parts and components, to those economies in Asia most engaged in production networks. Many of manufactures exports.
are air-freighted. Australia is also increasingly linked by both inward and outward FDI to economies in Asia, but also has strong links with US MNEs. There is some preliminary evidence that Australia is providing the services essential to link the various parts of physical production in manufacturing production networks, and may be part of the emergence of production networks in services in the Asia-Pacific.

Doulcatiros, Chris:

Theory Competition and Selectivity Are All Economic Facts Greatly Exaggerated?
The aim of empirical analysis is to inform researchers and policy makers about the magnitude of key economic relationships and thereby serve the public interest. Science takes stock from the findings of numerous independent studies (Hunter and Schmidt, 2004). As research accumulates, the underlying associations are revealed with greater clarity and precision. However, valid inferences require representative observations. Over the past decades, economists have been concerned with the representativeness of publicly available empirical estimates. Do authors submit, and journals accept, only statistically significant findings or those findings that are in accord with economic theory? Is empirical economics distorted by publication selection?

Dreger, Christian and Jürgen Wolters:

M3 money demand and excess liquidity in the euro area
Monetary growth in the euro area has exceeded its target since 2001. Like wise, recent empirical studies did not find evidence in favour of a stable long run money demand function. The equation appears to be increasingly unstable if more recent data are used. If the link between money balances and the macroeconomy is fragile, the ra tionale of monetary aggregates in the ECB strategy has to be doubted. In contrast to the bulk of the literature, we are able to identify a stable long run money demand relationship for M3 with reasonable long run behaviour. This finding is robust for different (ML and S2S) estimation methods. To obtain the result, the short run homogeneity restriction between money and prices is relaxed. In addition, a rise in the income elasticity after 2001 is taken into account. The break might be linked to the introduction of euro coins and banknotes. The corresponding error correction model survives a battery of specification tests.

Dulleck, Uwe, Franz Hackl, Bernhard Weiss and Rudolf Winter-Ebmer:

Behavior of Online Shoppers
In this article we propose a two stage procedure to model demand decisions by customers who are deciding about several dimensions of a product. We then test our procedure by analyzing the behavior of buyers from an Austrian price comparison site. Although here a consumer will typically search for the cheapest price for a given product, reliability and service of the supplier are other important characteristics of the retailer. In our data, consumers follow such a two stage procedure: they select a shortlist of suppliers by looking at their willingness to pay only; among these shortlisted suppliers finally, they trade off reliability and price to a large extent.

Earl, Peter E. and Tim Wakeley:

Student constructed learning and the potential for cognitive dissonance in the teaching of perfect competition
This paper uses basic ideas from cognitive learning theory to assess the model of perfect competition from the perspective of an active learner. The story told about the competitive process is shown to be problematic when students try to reconstruct it for themselves. In particular it has the potential to generate cognitive dissonance. An alternative approach to teaching competition as process is outlined which is based on ontological foundations and inductive learning rather than deductive analysis from core axioms. This approach may be more suitable for business students in particular.

Engelbrecht, Hans-Jürgen:

Happiness and the Sustainable Wealth of Nations
The World Bank has provided estimates of total wealth and its major subcategories for a large group of countries in 2000. Total wealth has been interpreted by some to be a measure of social welfare and the object of the sustainable development paradigm. This paper contributes to the debate about the relative merits of subjective versus objective well-being measures in the context of sustainable development. Using scatter diagrams, correlations and regression analysis, it explores bivariate relationships between the wealth estimates and a widely reported measure of average subjective well-being (SWB) or ‘happiness’. For comparative purposes, correlations between GNI per capita and the wealth estimates are also reported.

The cross-country wealth-happiness relationship is very similar to the income-happiness relationship. However, differences emerge for wealth subcategories. First, the high correlation between total wealth and GNI per capita is mostly due to produced capital and, to a lesser extent, intangible capital, but not to natural capital. This raises doubts about the appropriateness of total wealth as a well-being measure in the context of sustainable development. Secondly, SWB is more highly correlated with intangible capital than produced capital, and least with natural capital. Thirdly, when the most natural capital intensive countries are excluded as outliers, the relationship between SWB and natural capital becomes much stronger. This is especially noticeable for high
income countries. Therefore, putting more emphasis on SWB in the context of sustainable development should shift attention further toward natural capital, but lessen the relative importance of produced capital.

**Espinosa, Miguel, Pietro Bonaldi and Hernán Vallejo:**

Representations and identities for homogeneous technologies.

Using up to nine different ways to represent a homogeneous technology, this paper proves explicit one to one identities between most of those different representations of a technology, outlining the homogeneity properties of each representation. These identities, which allow to shift from one representation of a technology to another -and which are summarized in a matrix of identities - can be useful since they provide a tool to obtain explicit functional forms for homogeneous technologies. They can also be useful to simplify computational procedures when different representations of a technology are needed. Finally, the document also refers explicitly to some aspects of producer theory that are often neglected or treated in a marginal way in the literature, such as the inverse supply, the non conditional cost and the inverse input demand functions.

**Fry, Tim R.L., Linda Grahlmann, Tristan Masters and Campbell Aitken:**

Motivations of home-grown tobacco (chop-chop) smokers

Survey evidence suggests that over a third of Australians are aware of unbranded tobacco (chop-chop); however, such data does not tell us why smokers choose to smoke chop-chop. We present results from a qualitative study of chop-chop smokers, particularly focusing on our participants’ motivations for smoking chop-chop relative to licit tobacco. Our results show that economic factors play a large role in the decision to smoke illicit tobacco.

**Gammon, Marie:**

Women at Work - 1966, 1985, 2008 What Has Changed?

My interest in women at work stretches back over 40 years. It was the reason for extensive research I carried out in the 1960’s, further research in the 1980’s and now another look at how women’s position has changed as the economy has changed and grown.

Some of the changes have been for the better for women – for those women who have become better educated and trained and are able to fill the new types of occupations that abound. But there is still a gender gap in pay, and there is still occupational segregation.

Those women with less education and training and with family commitments do less well. As women move in and out of the work force because of family pressures, many tend to be confined to part-time and/or casual work with low or lower rates of pay.

There is still much to be done to achieve a harmonious relationship between paid work, domestic work and family care for every worker in the economy.

**Gan, Quan and Robert J. Hill:**

Measuring Housing Aordability: Looking Beyond the Median

We draw a distinction between the concepts of purchase aordability (whether a household is able to borrow enough funds to purchase a house) and repayment aordability (the burden imposed on a household of repaying the mortgage). We operationalize this distinction in the context of a new methodology for constructing aordability measures that draws on the value-at-risk concept and takes account of the whole distribution of household income and house prices rather than just the median. Empirically we find that the distinction between purchase and repayment aordability can be pronounced. In the Sydney prime mortgage market over the period 1996 to 2006, repayment aordability deteriorated very significantly while purchase aordability remained quite stable. This difference can be attributed to the loosening of credit constraints in the mortgage market which it seems has carried through primarily into higher house prices.

We also consider how median house-price-to-income ratio measures of aordability can be extended to take account of the whole distribution of income and house prices. We propose a new quantile based measure which indicates that the housing aordability problem may be systematically worse than suggested by standard median measures.

**Haidar, Imad, Heping Panb, and Siddhivinayak Kulkarni:**

Analysis of the Relation Between Crude Oil Futures Prices and Spot Price Using Nonlinear Artificial Neural Networks

As the oil demand continues to surge ahead and production continues to decline, it is believed that oil prices will continue to rise to unprecedented levels. As a reference, in 2004, the crude oil price was averaging $41 per barrel while it is above $130 in today’s market. This oil price increase is affecting the economy from both developing and developed countries. This paper investigates the possibility of using oil futures price to forecast spot price direction for short term, one day ahead using multilayer feedforward neural networks. The data was preprocessed to reflect the direction and the turning point of the price. Our approach is to create a benchmark based on lagged value of pre-processed spot price, then add pre-processed futures prices 1, 2, 3, and 4 months for maturity one by one and also altogether. For all the experiments, that include futures data as an input, the results show that on the short term, one day ahead, there is...
weak evidence to support futures price do hold new information on the spot price direction. This evidence is stronger for futures 1, 2 months to maturity.

**Harding, Ann, Quoc Ngu Vu, Robert Tanton and Yogi Vidyattama:**

*Improving work incentives for mothers: the national and geographic impact of liberalising the Family Tax Benefit income test*

The effective tax rates and possible work disincentives created by Australia’s tax and welfare systems have been receiving extensive policy attention in recent years. The imminent mass retirement of the baby boom cohort and structural population ageing have caused many countries in the developed world to review whether their tax-transfer systems could provide greater incentives to work. Earlier research has identified Family Tax Benefit Part A as one of the key causes of high effective marginal tax rates for many families. In this study we test two possible FTB-A reform options, both of which involve reducing the income test withdrawal rates associated with the FTB-A income test. We examine both the national and small area impact of these policy shocks. The modelling suggests that the options would be an effective way to reduce effective marginal tax rates for around 400,000 parents of FTB-A children, would benefit almost 900,000 families, and would deliver additional assistance to middle income families living on the outskirts of our cities, many of whom have been adversely affected by recent interest rates and petrol price increases.

**Harrison, Robin and Samantha Hettihewa:**

*The impact of macroeconomic variable and demographic structure on share prices - The case of New Zealand.*

This paper uses quarterly time series data to investigate the impact on New Zealand share prices (from 1990 to 2006) of macroeconomic variables and demography. Following from Poterba (2001), real GDP, interest rates, inflation and the housing price are used in the model. Co-integration and Error-Correction mechanisms show the specified models to be robust, the variables under study are co-integrated and long-run relationships are defined between variables. During the 16 year review period, NZ share prices were significantly affected by demography—in particular, numbers in the 45-65 age category. The findings of this study are significant and important—this is the first attempt to quantify the impact of demographic changes (e.g. baby boomers) on share prices in New Zealand. High growth in the NZ share market, its growing integration with the global economy make it an important part of the rapidly growing Asia-Pacific region and increase the importance of this study in providing essential information for policy makers, global investors and financial institutions.

**Hettihewa, Samantha and Christopher S. Wright:**

*Globalization, demography, history and the Australian investor.*

Ever seeking to increase returns at a given or lower risk levels, investors are finding that globalisation and market integration are making it more difficult to achieve their targets by diversifying their portfolios across nations. Australia moved from being a poor investment prospect in the last third of the 20th Century to becoming fourth in world competitiveness. In contrast, the New Zealand economy has become even more dependent on volatile agricultural commodities and faces serious infrastructure issues that may hinder its efforts to enhance or even retain its competitiveness. This paper projects from the recent history of the Australian and New Zealand economies to consider how they are likely to fare in resolving the early 21st Century challenges of globalization and demography and asks if Australasian investors should consider investing closer to home.

**Hickson, Hayley Bree and Alfred Michael Dockery:**

*Is ignorance bliss? Exploring the links between education, expectations and happiness*

The emerging “happiness” literature within the economics discipline, which takes self-reported happiness as an alternative measure of wellbeing, has provided a number of challenges to the policy inferences drawn from analyses of wellbeing based on the traditional theory of utility. Much of the happiness literature has focused on how different demographic, personality and economic factors effect happiness, and particularly the importance of income. The results from multivariate regression models in a number of these papers have shown an unexpected negative relationship between educational attainment and happiness, although this result has largely passed without comment. In setting out to investigate this result, we anticipated that the negative association appeared because education has a positive effect on other variables, such as employment status, earnings and health, which are controlled for in the models. A reduced-form model that removed these indirect effects would, surely, show a positive relationship between education and happiness. Remarkably, we find that the negative relationship between higher educational attainment and happiness persists in such a model based on data from the Household, Income and Labour Dynamics in Australia Survey. We hypothesise that the relationship arises because of the interrelationships between individuals’ educational attainment and their life expectations, but tests of several model specifications designed to capture expectations do not negate the finding that more educated people are less happy. The results pose a quandary for the acceptance
of self-reported happiness as a valid measure upon which to draw policy inferences.

Higgs, Helen:

*Modeling Price and Volatility Relationships in the Australian Wholesale Spot Electricity Markets Using Constant and Dynamic Conditional Correlation Multivariate GARCH Models*

This paper examines the inter-relationship of wholesale spot electricity prices among the four regional electricity markets in the Australian National Electricity Market (NEM): namely, New South Wales, Queensland, South Australia and Victoria using the constant conditional correlation and Tse and Tsui’s (2002) and Engle’s (2002) dynamic conditional correlation multivariate GARCH models. Tse and Tsui’s (2000) dynamic conditional correlation multivariate GARCH model which takes account of the Student t specification produces the best results. At the univariate GARCH(1,1) level, the mean equations indicate the presence of positive own mean spillovers in all four markets and little evidence of mean spillovers from the other lagged markets. In the dynamic conditional correlation equation, the highest conditional correlations are evident between the well-connected markets indicating the presence of strong interdependence between these markets with weaker interdependence between the not so well-interconnected markets.

Hirschberg, Joe and Jenny Lye:

*A Geometric Comparison of the Delta and Fieller Confidence Intervals*

The comparison of the Delta and Fieller confidence intervals for the ratio of normally distributed means has long been of interest. The contribution of this paper is the construction of a common geometric representation of both the Delta and the Fieller intervals defined by two related optimization problems which are subject to a common constraint. The diagrammatic solution to these problems can be used to examine how earlier comparisons based on alternate analytic relationships and simulations have resulted in the particular conclusions they report. We find that along with the univariate statistics for the denominator and numerator, the agreement of signs of their correlation and ratio is crucial in determining the degree to which the intervals based on the Fieller and the Delta coincide.

Hodgkinson, Ann and Abbas Valadkhani:

*Exploring student engagement for Generation Y: a pilot in Environmental Economics*

This paper reports on a pilot study involving the redesign of a third year Economics subject according to principles of engagement as they relate to the discursive Generation y student. The study involved a review of the literature, redesign of the subject to a blended learning format and evaluation of the design. The data collected included pre and post NSSE scores, subject grades, student surveys and qualitative feedback from individual students. While the redesign of the subject was constrained by available resources, and the implementation hindered by various systemic factors, it was found that in general the redesign did improve student engagement. In particular, it was found that the success of the scaffolded assessment tasks and the use of in-class activities as a means of revising for exams was significant. One issue that continues to perplex is the students’ mixed attitudes to attending lectures. Perhaps most importantly, the study indicates that by third year where traditional modes of teaching have characterised their curriculum, students have developed surface approaches to learning that cannot be corrected through individual third year courses.

Hodgkinson, Ann and Abbas Valadkhani:

*Community valuations of environmental quality in coastal lakes: Lake Illawarra case study*

This study illustrates how the hedonic pricing method can be used to help assess the benefits associated with environmental improvement expenditure in an urban setting. It provides a case study for Lake Illawarra in southern NSW, utilising relatively easily accessible secondary data, and a semi-logarithmic regression form. The HPM valuation assumes households will pay more for a property near a desirable environmental feature, holding all other determinants of price constant. The value achieved here was substantially greater than either expenditures to date or the actuarial valuation of the Lake. The study demonstrates the applicability of the technique and recommends its further development and use for this type of public decision-making, and so justifies further environmental improvements on this asset. A range of other data was also generated by the methodology that adds to the usefulness of this approach for general planning purposes.

Huynh, Elisabeth:

*Portfolio Allocation and the Endogeneity of Wealth in Australian Households*

This paper studies the main determinants for household share of risky assets held in wealth using the Household Income Labour Dynamics Australia survey. The fractional model is proposed for the first time to portfolio allocation literature to account for the proportional dependent variable. In most cases considered the fractional model specification is favoured over the widely used tobit suggesting it is suitable for modelling portfolio holdings. Although wealth is important in explaining portfolio holdings and attitudes to risk, little attention is devoted to correcting for potential endogeneity of wealth. This study allows for endogenous wealth using a two-stage method in determining the average partial effects. Endogeneity is supported and the bias is large enough to be considered important.
Innes, James:

Assessing the efficiency of impact reducing management measures in fisheries

When attempting to mitigate the environmental impacts of fishing gears there are typically multiple criteria against which the performance of any measures can be assessed. If the gains are non-commercial (i.e. non-market) in nature, formally determining how well measures perform becomes more difficult.

This study uses the analytic hierarchy process (AHP) to quantify the relative preferences of stakeholder groups for one impact reduction objective over another in the context of European mobile demersal fisheries. An advantage of this methodology is that it allows for the inclusion of non-commercial benefits. Preferences are quantified and allow ranked group-specific weights relating to the reduction of discarding and other in situ impacts to be derived. The relative weights placed on the sub-objectives within each of the two objectives are also determined. The variability of preferences at both the intra- and inter-group level is considered and the potential implications with regard to perceptions of success discussed.

Establishing a measured order of preference for individual criteria allows the significance of reductions in any impacts (essentially non-market gains) to be determined. It should also facilitate more targeted and efficient approaches to the process of impact alleviation within these fisheries.

Islam, Asadul and Mark N. Harris:

Medium and Long-term Participation in Microfinance: An Evaluation Using a Large Panel Data Set from Bangladesh

The objective of this paper is to estimate the impact of different lengths of participation in microfinance, and to distinguish the short-term participation effects from the medium- and long-term ones. It utilises a new, large and unique panel data set with detailed information on microfinance participation in Bangladesh. The three waves of data enable us to identify continuing participants, leavers from the program and new entrants. We estimate differing treatment effects based on a household’s treatment status (as defined by their length of time in a particular program). Due to the long duration between the first and final (third) survey waves (8 years), and different categories of participants, we are able to estimate, for the first-time, the short-, medium- and long-run impacts of microfinance, and also the impacts of long and medium term duration in program participation. We employ different estimation strategies including “difference-in-difference-in-difference” and “propensity score” methods to control for selection bias. The overall results indicate that the regular participants gain in terms of increased consumption, self-employment income, other income and assets. The impact estimates indicate that larger benefits can accrue from long-term participation. The results also indicate that benefits may continue to exist even after program exit.

Islam, Asadul:

Child labour and schooling responses to access to access to microcredit in rural Bangladesh.

Microcredit is found to improve household welfare by increasing income, consumption, and reducing poverty in many developing countries. However, little is known about its effect on human capital formation. This paper evaluates, using a large survey data from Bangladesh, the impact of access to microcredit on school attendance and work of children in rural Bangladesh. It uses a novel source of exogenous variation in treatment intensity among households in different villages to estimate the causal effect of access to microcredit. The empirical results indicate that household’s participation in a microcredit program may exacerbate child labour situation and reduce school enrolment. The effects are more pronounced on girls than boys. Younger children, in particular, can be strongly affected. The estimated impacts also vary by income, education and asset holding of households with the children of poorer and less educated households being more adversely impacted by a household’s microcredit borrowing.

Jensen, Paul and Beth Webster:

What Creates Abnormal Profits: Collusion, Efficiency or Strategy?

The debate regarding the determinants of persistent abnormal profits is re-examined using a new approach to the measurement of profits which explicitly accounts for intangible capital. Abnormal profits are estimated using data on tangible and intangible capital for 1600 Australian firms over a 16 year period. The determinants of abnormal profits are then estimated using variables collated from separate accounting and administrative company records data as well as an in-house survey of innovation and management practices. Our results imply that firm-specific factors relating to efficiency and strategy are much larger than the industry-specific effects of collusion.

Kamalakanthan, Abhaya and Sukhan Jackson:

Supply Imbalance of Doctors in Australia:
A Qualitative Analysis of the Retention and Recruitment of Rural GPs

Australian estimates of the doctor-to-population ratios for the cities, regional and remote areas exceed the 0.71:1000 benchmark ratio of the Commonwealth Department of Health and Ageing. However, statistics are misleading because they do not account for the time and distance involved to see a doctor in the less densely populated rural and remote areas. Rural Australians have poorer access to medical services than their urban counterparts. This is a qualitative study of the problem of
retention and recruitment of rural doctors. In 2006-08, 13 in-depth structured interviews were conducted to target the three main interest groups – Federal and State governments, professional associations and training institutions (medical schools and hospitals). We analyse the results within the framework of the public interest theory and the special interest theory. Specifically we are interested in questions related to the supply of general practitioners (GPs) in rural areas: How can Australia more successfully retain and recruit local and overseas-trained doctors? What support mechanisms do rural GPs require? What is the role of non-financial incentives? And how can rural general practice be better promoted?

We found from the interviews that in the future, the provision of better financial and non-financial incentives tailored specifically to GPs working in the rural areas would be crucial to attracting and retaining more doctors in these areas. Future key initiatives include developing faster and more flexible training programmes, offering rural GPs and specialists the same remuneration rates, and providing overseas-trained doctors with a standard accredited orientation programme. GPs should also be encouraged to teach at the university level to show students the variety that exists in both general practice and rural practice.

The conclusion is that the three interest groups interviewed have a number of policy recommendations that could help to improve the current GP supply shortage situation in Australia’s rural areas. The rich information that was analysed in this paper could only have been obtained from face-to-face in-depth interviews, and not from publicly accessible sources. Qualitative research is a useful complement to the traditional quantitative studies of economic issues and should be conducted more often in the future.

Kates, Steven and Alex Millmow:

The ‘History Wars’: The Near Death Experience of the History of Economic Thought in Australia

This time last year the study of the history of economic thought and economic history within the Australian universities system found themselves in the midst of a battle for their very survival. On the surface it was no more than a banal, administrative issue dealing with the classification of various academic disciplines and their constituent groupings. But because within this reclassification the aim was to relocate HET out of the economics discipline into a catch-all social sciences grouping far removed from economics, the study of the history of economics in Australia was faced with almost immediate extinction. And while for the time being, HET remains within the economics classification, the entire episode should provide an important warning not only to us in Australia, but also to our colleagues overseas about the dire position that the study of HET now finds itself in.

Kauzi, Gae and Thomas Sampson:

Is the kina a commodity currency?

Since the kina was floated in 1994 its US dollar value has undergone substantial fluctuations. This paper estimates a model of the determinants of the kina/US dollar exchange rate using quarterly data from 1995-2005. The international price of Papua New Guinea’s commodity exports is found to have a strong effect on the exchange rate. A 10 percent increase in commodity prices is estimated to cause the kina to appreciate by 4 percent immediately and by a further 6 percent in two quarters time. No other variable included in the model has a robust effect on the value of the kina. These results support the view that Papua New Guinea is highly vulnerable to external commodity price shocks. This is important for politicians and policy makers to know so that macroeconomic policies, including monetary policy, can take into account changes in commodity prices and the implications of effective spending where it matters for tomorrow, and that government policies and fiscal management should not be over-emphasized/over-credited for the stability the economy has enjoyed over the last 5 years.

Khanam, R. and R. Ross:

Child Work and Other Determinants of School Attendance and School Attainment in Bangladeshi children aged 5–17 years using data from a survey based in rural Bangladesh. This paper first looks at school attendance as an indicator of a child’s time input in school; then it measures the “schooling-for-age” as a learning achievement or schooling outcome. The results from the logistic regressions show that school attendance and grade attainment are lower for children who are working. The gender-disaggregated estimates show that probability of grade attainment is lower for girls than that of boys. Household permanent income, parental education and supply side correlates of schooling (presence of a primary (grade 1-6) school and secondary (grade 6-10) school in the village) are found to be significant determinants of schooling in rural Bangladesh. The results of this study further show that the effect of household permanent income, parental education and presence of secondary school is higher for grade attainment than school attendance.

Kifle, Temesgen and Dr Parvinder Kler:

The Determinants of Financial Satisfaction: Evidence from African Immigrants in Australia

According to the 2006 Census 2 in 9 Australians were born overseas and various studies of immigrant assimilation have occurred by looking at the labour market success of immigrants. However, a study that focuses on employment/unemployment, though
important, does not give a full picture of immigrant assimilation because it excludes individuals not in the labour force. One type of study, that includes individuals who are employed, unemployed and not in the labour force, is based on self-reported life satisfaction data. The panel-type HILDA Survey provides source of data about different aspects of life satisfaction. Based on this data set our preliminary findings show that African immigrants in Australia are less satisfied with their financial situation compared to almost all other groups. Further investigation reveals that variables such as age, labour force status and education play a significant role in determining financial satisfaction of the African-born people in Australia.

Kim, Jae H., Iain Fraser and Rob J. Hyndman:

Improved Interval Estimation of Long Run Response from a Dynamic Linear Model: A Highest Density Region Approach

This paper proposes a new method of interval estimation for the long run response (or elasticity) parameter from a general linear dynamic model. We employ the bias-corrected bootstrap, in which small sample biases associated with the parameter estimators are adjusted in two stages of the bootstrap. As a means of bias-correction, we use alternative analytic and bootstrap methods. To take atypical properties of the long run elasticity estimator into account, the highest density region (HDR) method is adopted for the construction of confidence intervals. From an extensive Monte Carlo experiment, we found that the HDR confidence interval based on indirect analytic bias-correction performs better than other alternatives, providing tighter intervals with excellent coverage properties. Two case studies (demand for oil and demand for beer) illustrate the results of the Monte Carlo experiment with respect to the superior performance of the confidence interval based on indirect analytic bias-correction.

Kim, Jae H. and Philip Inyeob Ji:

An Empirical Analysis of the Mean-Reversion Property of Real Interest Rates

This paper examines the mean-reversion property of real interest rates of a number of industrialized and East Asian countries. Many past studies have found the evidence of mean-aversion, which has been a puzzling outcome. From panel unit root testing and half-life estimation based on the bias-corrected bootstrap, we have found that the real interest rates are overall mean-reverting. It is also found that the real interest rates of industrialized countries show a slower rate of meanreversion than those of East Asian markets. For the latter, the speed of meanreversion has become slower after the Asian crisis. These results suggest that a market with a higher degree of market friction caused by government intervention show a faster rate of mean-reversion of the real interest rate.

Kónya, Lásló:

Panel Data Evidence of Human Development Convergence from 1975 to 2005

This paper studies the possibility of human development convergence in the world from 1975 through 2005. Human development is measured by the Human Development Index (HDI) trend and convergence across countries is tested for by the panel data approach of Ben-David (1993) and bootstrap critical values. Similar analysis is performed on the members of the Organisation for Economic Co-operation and Development (OECD) and on the European Union (EU) countries too. Moreover, it is also tested whether low human development countries had been converging to high human development countries, less rich OECD countries to rich OECD countries, and whether those countries that joined the EU in 2004 and 2007 had been converging to those member states that joined the EU earlier. The results suggest that in each case, the general rise of HDI was accompanied by convergence.

Kremmer, Michael L. and Duc-Tho Nguyen:

The Differential Impact of Policy Intervention on Fatalities among Drivers and Non-Driving Road Users in Queensland, 1989-2006

In this study we investigate the impact of the introduction of a range of safety measures on road fatalities in Queensland. The results indicate that there was a significant structural break in the fatalities data that coincided with the introduction of a number of policy measures, notably the increased implementation of the Random Road Watch program, installation of speed cameras, and increased use of random breath testing. The effect of the structural break was to reduce the average number of fatalities per month by 7.64, a fall of some 22%. This overall reduction comprised a fall of 5.18 per month in fatalities among drivers, and a fall of some 22%. This overall reduction comprised a fall of 5.18 per month in fatalities among drivers, and a fall of 3.14 per month among other road users. These imply an increase of approximately 5 percentage points in the share of total road fatalities accounted for by the non-driving group.

Lahiri, Radhika, and Elizabeth W. Richardson:

Public and Private Expenditures on Health in the Presence of Inequality and Endogenous Mortality: A Political Economy Perspective

In this paper we study a two-period overlapping-generations model in which mortality risk is endogenously determined by health investment in the form of private and public expenditures on health care. The proportion of public revenues that are used for the public provision of health care is also endogenous, and is determined by a political process, modelled in this context as the outcome of voting by agents. Agents are heterogeneous in their initial endowments of wealth inherited from the previous generation. We find that
the political outcome critically depends on the degree of substitutability between private and public health expenditures, and has interesting implications for economic growth and the persistence of inequality. The outcome also depends critically on initial conditions, and in some cases exists only if the political process allows a result that is based on the plurality rule rather than the majority rule. Numerical simulations of our model suggest that even in the case of majoritarian outcomes, the political outcome is often influenced by the preferences of the agents at the middle and top end of the wealth distribution. The political result is sometimes also characterized by the “ends against the middle” feature observed in Epple and Romano (1996a, 1996b). In the long run poverty traps may occur, and wealth distributions can be characterized by the emergence of “twin peaks” with the associated polarization of wealth.

**Lahiri, Radhika and Shyama Ratnasiri:**

*Growth Patterns and Wealth Inequality in the Presence of Costly Technology Adoption*

The stylized facts that motivate this paper include the diversity in growth patterns that are observed across countries during the process of economic development and the divergence over time in income distributions both across countries and within countries. We construct a two period overlapping generations model in which technology adoption is costly, and agents are heterogeneous in their initial holdings of wealth and capital. Given the households’ wealth level we examine how adoption costs influence the evolution of household income over time and the timing of transition to more productive technologies. We report the results of several numerical simulations of the model in order to characterize this transition. This is done by changing assumptions involving in the modelling of costs associated with technology adoption (i.e. whether they are fixed, varying with time, or household specific), and the values of preference parameters. We find that in a special case of our model, with costs associated with the adoption of more productive technologies fixed across households, inequalities in wealth and income may increase over time, tending to delay the convergence in international income levels. Initial inequalities in wealth also have an impact on the date of complete adoption of productive technologies. The model is also capable of explaining some of the observed diversity in the growth patterns of transitional economies. Interestingly, the model is capable of producing reversals and negative growth rates during the process of transition. Several of the model’s predictions are supported by empirical evidence based on a cross country data set.

**Lu, Xinsheng and Francis In:**

*The impact of monetary policy:
The high frequency responses of Australian financial futures to cash rate target announcements*

This paper examines the high frequency responses of Australian financial futures to monetary surprises using intra-day futures data. Using the event-window method with tick data to control for the endogeneity issue between market interest rates and the cash target rate, our empirical findings support that first, monetary policy announcements impact significantly not only on the short-term interest rate futures, but also on longer-term Treasury security futures markets. Second, the most significant responses of these markets occur in the event-window which contains the policy announcement. Third, a weak relationship between monetary surprises and the movements of stock index futures is also identified.

**Lye, Jenny and Joe Hirschberg:**

*A Re-evaluation of the Relationship between Drinking and Earnings*

A number of papers have reported a link between the consumption of alcohol and wages earned. This relationship has been found to be positive for low to moderate levels of alcohol but then turns to negative as the level of consumption reaches a certain level of consumption. Although this relationship differs between men and women and it also appears to be mitigated by other activities such as smoking very little of this research attempts to make inferences concerning the location of the point of inflection - the level of consumption where the negative aspects begin to dominate the relationship. Although this inflection point as been defined and in fewer cases a confidence interval has been constructed (for example MacDonald and Shields, 2001). In this paper we use the published evidence to make inferences concerning the turning points found in these studies.

The aim of this study to determine whether earlier studies’ results can be used to draw conclusions as to the nature of the turning point for the relationship between alcohol consumption and earnings. Alternatively, it may be that these studies do not have sufficient information to draw inferences about the level of alcohol consumption at which the down turn occurs. The rationale for the beneficial aspects of alcohol consumption is mainly due to conjecture about the socializing aspects of drinking and the allusion to the medical literature. The analysis we use is the Fieller solution for the construction of confidence intervals of the ratio of means. We can use the published results to infer sufficient information to apply the traditional Fieller method when the models in use are quadratic in the level of alcohol.
Ma, Le and Chunlu Liu:

*Estimating impacts of consumer prices on house prices*

Real estate is widely considered as a reliable hedge of inflation rate and there have been many literatures examining the inflation-hedging characteristics of the real estate. The study described in this paper focuses on testing the significances of impacts of consumer price on house price in eight Australia’s capital cities. The Autoregressive Distributed Lag model is introduced to obtain the estimates of the coefficients. The significances of the impacts are defined as the accept probability of t statistics of the coefficients. Analyses and comparisons of these significances suggested that the impacts of consumer prices on house prices depend on the inherent characteristics of cities.

Madsen, Jakob B.:

*Human Capital and Growth*

Using a new data set for human capital for 16 industrialized countries over the period from 1870 to 2006 this paper examines the extent to which productivity growth can be explained by educational achievement, educational knowledge spillovers through the channel of imports, and the interaction between educational achievement and the distance to the world technology frontier. The estimates show that educational attainment influences growth through the channel of imports and through the distance to the frontier. Educational attainment by itself only has temporary growth effects.

Mahony, Greg and Philip E. T. Lewis:

*Emerging Challenges for the Export of Australian Educational Services*

The success of the Australian education sector as an export industry is widely acknowledged; education and training services has grown from zero to an $A8 billion per year export industry in less than 20 years. However the growth of the important services export has not come without problems for the sector – especially the university segment of it. This paper provides an account of exports of Australian education and training explores the magnitude and dynamics of demand for overseas education and discusses a number of important issues raised for both Australia education and the university higher education sector in particular. Australia’s education and training sector faces new challenges and opportunities in the international arena. In this paper these challenges and opportunities are located in theoretical frameworks derived from the international business literature associated with internationalisation, mode of entry and strategic alliances. It is argued that such frameworks offer useful insights to the manner in which Australia and institutions might position themselves to meet these challenges and opportunities.

Mahuteau, Stephane and Massimiliano Tani:

*Labour market success and skill acquisition in the host country: effects on the duration and the labour force status of Moroccans, Algerians, and Tunisians migrants returning home from the European Union*

This paper studies the educational investment decisions of returning migrants while abroad in the context of their decisions about the choice of activity upon returning and the duration of migration. The theoretical model builds on Dustmann (1999), Dustmann and Kirchkamp (2992) and Mesnard (2004). Using data from the MIREM database we explore whether the type of skills acquired by migrants while abroad is related to the activity chosen upon return and the duration of migration. The results suggest that the type of education plays a significant role in the migration decisions of those returning as wage earners or self-employed. In particular, there is a clear positive relationship between being self-employed and having previously invested in vocational education in the host country. There is also a strong positive relationship between investing in university education abroad and becoming a wage earner. As international migration facilitates skill transfers between developed and developing countries, the economic development of the latter will increasingly depend on migrants’ ability to access educational and vocational training in the developed world aside from university education. Returning migrants with vocational and professional training tend to be self-employed after returning home, and by so doing they contribute to reducing poverty in the host country.

Makin, Anthony and Paresh Narayan:

*Has international trade in saving improved US economic welfare?*

The historically large US current account deficit, at over six per cent of GDP, has become a major source of international policy concern and is central to ongoing debate about “global imbalances.” Although other OECD economies, notably Australia, New Zealand, the United Kingdom, Portugal, Spain and Iceland, have also run large external deficits relative to GDP in recent years, the US easily remains the largest international borrower economy in absolute terms, attracting an exorbitant three quarters of global capital inflows (IMF 2006). Policy makers worry that sizeable external deficits and large capital inflows increase economies’ exposure to sudden shifts in investor sentiment that may precipitate currency and financial crises and recession (IMF 2006, BIS 2007). Accordingly, the IMF (2007), through multilateral consultation with the US, China, Japan, the Euro area and Saudi Arabia, has reacted to the widening imbalances by proposing a program of co-ordinated international policy adjustment. Yet whether the huge US current account deficit is an international economic problem that threatens global financial stability is subject to vigorous debate.
The impact of job loss on family dissolution

The objective of this paper is to examine the impact of job loss on the probability of family dissolution. The negative income shock due to job loss can cause stress on the partnership; also, a partner’s job displacement may convey new information about him. The analysis is based on the sample of all married/cohabitating couples with man in paid employment from the British Household Panel Survey (BHPS). Controls are included for individual and couple characteristics and match-specific variables. In order to correct for the possible endogeneity of job loss we use data from the employment histories and link all the job losses with the reasons for terminating the employment spell. Our model analyses the impact of different types of job changes on marriage stability. Adding the information about the industry workforce growth rate, we can identify redundancies (different from dismissals) in declining industries, and use this as an indicator of exogenous job loss. Results to date show evidence...

Mehrara, Mohsen, Seyed Mohammad Hossein Sadr, Mahdi Ahrari and Atefeh Shahabadi Farahani:

The Effects Of Globalization On Non-Oil Export Of Iran

In this study we aim to evaluate the effects of globalization with the precision and non-precision factors on non-oil export of Iran. The underlying objective of the paper is to provide support for a model that predicts these effects with the GMDH-neural network method as an instrument for complicated non-linear trends especially with the limited observations. We used International Trade Integration of Industry (IIT) as an index of globalization. The results indicate the globalization variables have much more effects on non-oil export in globalization process.

Mendolia, Silvia, and Denise Doiron:

The impact of job loss on family dissolution

The objective of this paper is to examine the impact of job loss on the probability of family dissolution. The negative income shock due to job loss can cause stress on the partnership; also, a partner's job displacement may convey new information about him. The analysis is based on the sample of all married/cohabitating couples with man in paid employment from the British Household Panel Survey (BHPS). Controls are included for individual and couple characteristics and match-specific variables. In order to correct for the possible endogeneity of job loss we use data from the employment histories and link all the job losses with the reasons for terminating the employment spell. Our model analyses the impact of different types of job changes on marriage stability. Adding the information about the industry workforce growth rate, we can identify redundancies (different from dismissals) in declining industries, and use this as an indicator of exogenous job loss. Results to date show evidence...

Martin, Will and Cong S. Pham:

Estimating the Gravity Model When Zero Trade Flows Are Frequent

In this paper we estimate the gravity model allowing for the pervasive issues of heteroscedasticity and zero bilateral trade flows identified in an influential recent paper by Santos Silva and Tenreyro. We use Monte Carlo simulations with data generated using a heteroscedastic, limited-dependent-variable process to investigate the extent to which different estimators can deal with the resulting parameter biases. While the Poisson Pseudo-Maximum Likelihood estimator recommended by Santos Silva and Tenreyro solves the heteroscedasticity-bias problem when this is the only problem, it appears to yield severely biased estimates when zero trade values are frequent. Standard threshold-Tobit estimators perform better as long as the heteroscedasticity problem is satisfactorily dealt with. The Heckman Maximum Likelihood estimators appear to perform well if true identifying restrictions are available.

McKenzie, Jordi:

Underlying Seasonality in the Presence of Increasing Returns to Information: Empirical Evidence from the Australian Motion Picture Industry

This paper investigates the apparent underlying seasonality in motion picture demand recently documented by Einav (2007). The research takes motivation from Einav’s study but considers a statistical approach to the exploration of underlying seasonality. Specifically, this paper builds upon Einav’s discrete choice model specification (approximately 50%).
that couples in which the husband experiences a job loss are more likely to dissolve in the following year and the negative effect is found from both exogenous redundancy and from dismissals. Hence there is evidence of multiple transmission channels through which displacements affects family composition.

**Mervin, Merehau Cindy and Sukhan Jackson:**

*Is there a significant relationship between hospital resources and long waiting time for elective surgery in Australian public hospitals?*

This paper analyses the effect of hospital resources on elective surgery waiting time in the Australian public hospitals. A quality attribute of health system responsiveness, waiting time is defined as the time that elapses between the physician’s decision to admit a patient for elective surgery after clinical assessment and the date of hospital admission.

Using the National Elective Surgery Waiting Times Data Collection (NESWTDC) for the period 1998-2005, we analyse waiting times for 8 specialty surgeries in Australian public hospitals. Hospital beds, nurses and specialist surgeons are used as proxies for the endogeneity of waiting times in a multiple regression analysis.

Our results show that available hospital beds negatively influence waiting times ($b_2 = -0.0043$ in Model 1). Interestingly, the number of nurses ($b_1 = -0.0025$ in Model 1) and specialist surgeons ($b_2 = -0.0758$ in Model 2) positively influence waiting times. This suggests that physical resources such as available hospital beds could improve waiting times and therefore hospitals should be adequately funded.

**Messinis, George:**

*Overeducation, overskilling and second generation Australians*

We utilise HILDA data over the period 2001-2005 to evaluate the performance of the second generation Greek-Australians and Italian-Australians in the labour market. We focus on the effect of overeducation, undereducation, languages-other-than-English (LOTE), and ethnicity on weekly earnings of full-time workers. The evidence has a follows: (a) most Greek-Australians are over-represented amongst the overeducated; (b) overeducation and overskilling can be attributed to a lack of new skills on the job, parental occupational status, non-English speaking overseas born, and unobserved characteristics of second generation females; (c) LOTE does not seem to make a contribution to earning of individual workers, and (d) the use of LOTE amongst the second generation groups has declined; second generation women in part-time employment are an exception.

**Miranti, Riyana, Ann Harding, Vu Quoc Ngu, Justine McNamara and Robert Tanton:**

*Children with Jobless Parents: National and Small Area Trends for Australia in the Past Decade*

This paper examines national and spatial trends in the number and proportion of children with jobless parents during the past decade. At the national level, we find that the number of dependent children living in households where no parent had a job fell from around 756,000 in 1995-96 to around 684,000 in 2005-06. This reflects the increasing employment rates in Australia. While there were across-the-board falls in the number of such children by age group, the sharpest decreases occurred for 0 to 4 year old children. The proportion of all dependent children living in jobless households also fell, from 15.6 per cent in 1995-96 to 13.8 per cent in 2005-06. Despite this progress, however, one in every 7 dependent children in Australia in 2005-06 still lived in a household where no parent had a job.

Our spatial analysis, of 1049 small areas, indicated that in three-quarters of the areas considered — covering 80 per cent of all children — the risk of children living in a jobless family fell between 2001 and 2006. Particularly positive is our finding that just over one-quarter of Australian children lived in areas where the risk of children being in jobless families fell by more than 4.1 percentage points between 2001 and 2006. Just over half of Australian children lived in areas where the risk of being in jobless family declined during the five years, although by less than 4.1 percentage points. However, gains were not equally spread across Australia. Some 5.5 per cent of Australia’s children lived in areas where the risk of being in a jobless family actually increased by more than 3.4 percentage points between 2001 and 2006. Almost a further 15 per cent of children lived in areas where the risk of being in a jobless family still increased during these five years, but by less than 3.4 percentage points.

**Mischa, Florian, Norman Gemmella and Richard Knelle:**

*Business Perceptions, Fiscal Policy and Growth*

This paper models business perceptions of alternative fiscal policy-related growth constraints. Different versions of an endogenous growth model with public finance are developed in which the government uses income taxation to finance different types of public services, public investment, or both. The paper then assesses the merits of business perceptions as guides for fiscal policy when governments are imperfectly informed. In most cases the models demonstrate that business perceptions may be misleading for policy making except when firms compare different types of public services or different types of public capital. In addition, it is shown that the theoretical predictions regarding how firms most likely rank fiscal policy-related constraints correspond fairly
well to the ranking of constraints by firms in the
World Bank’s Enterprise Surveys.

Mistry, Mitesh, Andrew Worthington, Dionigi Gerace and Chandra Gulati:
The impact of trading-restricted, business days and trading, non-business days on Australian small-cap, large-cap and market returns
This paper comprises an empirical analysis of trading-restricted, business days and trading, non-business days on the Australian Stock Exchange (ASX). Trading-restricted, business days refer to days where trading hours are shorter but business activity (including settlement) is normal; trading, non-business days refer to days where trading takes place almost normally but the settlement of securities is delayed. Seven days are included in the analysis: the Bank Holiday in NSW (non-business), Labour Day in NSW (non-business), Easter Thursday (early close), Labour Day in Victoria (non-business), Melbourne Cup Day in Melbourne (non-business), the last business day before Christmas (early close) and the last business day of the calendar year (early close). Three indexes provide different daily return measures: the All Ordinaries (market), 1958–2007, the Small Ordinaries (small-cap), 1994–2007; and the ASX100 (large-cap), 1992–2007. The trading-restricted, business day and trading, non-business day effect is examined using non-parametric and regression methods. The findings indicate return abnormalities on three days when trading and/or business activity is restricted: Melbourne Cup Day, the last business day before Christmas and the last business day of the year.

Mubarak, Adnan:
Role of foreign assistance in economic development of Pakistan.
This study evaluates the effectiveness of external development assistance provided to Pakistan. First the study critically goes through the foreign debt and aid profile in Pakistan. It has been established that Pakistan since its inception has received a large amount of foreign assistance for its development projects. But after 1980s Pakistan accumulated a huge amount of foreign debt, which is adversely affecting its growth performance. Second, the aid effectiveness issue is also evaluated in the context of Paris Declaration (2005). It becomes clear that both government of Pakistan and donors are jointly responsible to fulfill the declaration agenda. For that purpose several policy recommendations have been suggested both for the government of Pakistan and the donor countries and organizations. By overcoming the previous mistakes and following these suggestions the effectiveness of aid can be increased in the recipient countries.

Muenthaisong, Kasinee, and Unggoon:
WongtragoonCommercial farming and Contract Farmers in Thailand
This paper investigates the sustainability of commercial agriculture on small farms in Thailand that produce asparagus for export under contract farming system. Agricultural sustainability embraces the production, economic and marketing systems; and environmental and development policies. A theoretical conceptual framework is proposed for joint venture agribusiness when making decisions about sustainability on the basis of technical and economic efficiency. The economics model incorporates the Cobb-Douglas production function. Sustainability is measured for a sample of asparagus producers contract farming with a joint venture company. The costs of the environmental impact on soil and water are considered together with development policy implications in the context of sustainability. Results indicate that the labour, inorganic and organic fertiliser, seed, fuel and agro-chemical input factors have a significant effect on asparagus production. The elasticity value is >1 indicating an increasing return to scale. The technical and economic efficiencies of each factor show that farmers should increase or decrease their use in each case, in order to reach the optimal utilisation of each factor and obtain maximum profit. The environmental costs of asparagus production are calculated and analysed.

Nahar, Bodrun and Mahinda Siriwardana:
Analyzing the Impact of Trade Reforms on Bangladesh Economy: A CGE Approach
This study investigates the short run and long run effects of trade liberalisation using a static computable general equilibrium approach on the economy of Bangladesh. Trade liberalisation has been simulated by a complete removal of tariffs on imported goods and services and the impacts on the domestic economy is measured in terms of changes in output, employment, balance of trade, exports, imports and household consumption. Simulation results show that export oriented agricultural and manufacturing industries experience substantial increases both in the short run and long run, however, their extent are larger in the long run compared to the short run. Real consumption increases in the long run even though urban groups are in a better position than their rural counterparts.
Neri, Frank and Yumiko Meloche:

*Attendance and Performance in a Large Economics Class.*

In this paper we investigate whether lecture attendance is related to student performance in the multiple choice component of the final exam, for a large class of first year economics students. Our findings indicate that in this learning environment, lecture attendance was not statistically significantly related to academic performance. This result may cast doubt on calls to make attendance compulsory.

O'Donnell, Rod:

* Monetary and fiscal policy inconsistency in Australia and its wider implications.*

This paper discusses the current inconsistency between monetary and fiscal policy in Australia and its wider implications for policy mix design. Largely as a result of the resources boom, the Australian economy has reached its supply constraints and is effectively at full employment with significant inflationary pressures. At the same time as an inflation-targeting central bank has been restricting aggregate demand with contractionary monetary policy, governments with high budget surpluses have run expansionary fiscal policies by returning large portions of these surpluses to the private sector through spending and income tax cuts. Two questions are addressed. Firstly, why has coordination failure arisen, especially under governments who pride themselves on their economic responsibility? The answer is located in a preference for rules-based policy stances, and an inadequate appreciation of the extreme difficulties inherent in devising independent rules for autonomous agents that are consistent under all relevant circumstances. Secondly, what remedy is available? Here it is argued that, in view of the above difficulties, a suitably designed mix of rules and discretion is required, specifically a combination of flexibly implemented rules and constrained discretion.

O'Donnell, Rod:

* Why aren't economics departments providing graduates with desired skill sets?*

This paper argues that tertiary economic studies in Australia are not equipping graduates with the full set of skills requested by business, government and society. It locates the causes in an adverse combination of powerful forces that have restructured the Australian higher education system over the last fifteen years or so, and in a lack of serious interest, knowledge and incentives within universities. The skills in question are extremely important in fostering the innovation and productivity improvements that are widely recognised as vital to our future well-being. More positively, it is argued that the situation is remediable, provided new approaches are adopted in relation to human capital formation. These initiatives need, at all levels, to prioritise comprehensive skill formation, elevate the status of teaching, and provide resources adequate to the task. In relation to economics programs, the contention is that a well-designed course in pluralist economics which supplements existing orthodox courses provides the most effective way of inculcating the desired skill set in graduates.

Parasnis, Jaai and Svetlana Maslyuk:

* The Determinants of New Zealand Migration: Comparing Migration to and from Australia and the United Kingdom*

The paper investigates the determinants of New Zealand migration flows. New Zealand migration flows are of particular interest as New Zealand experiences high immigration as well as emigration. The impact of macroeconomic conditions on the arrivals from and departures to the two main migration partner countries, namely Australia and the United Kingdom, are analyzed. The findings using quantile regressions suggest that macroeconomic conditions are important for the flows to and from the United Kingdom but not for the Australian migration. Further, the impact of macroeconomic conditions declines over the sample period -1979 to 2007- suggesting that the recent migration may be motivated by other factors.

Pelli, Martino:

* Oil Shocks and the Great Moderation: Different Sources, Different Effects*

The oil shocks experienced in the 1970s were fundamentally different from those of the 2000s. Empirically, the share of variance of the real price of oil imputable to variations in oil production decreased from the 1970s while the share attributable to oil-specific demand shocks increased. I compare both periods and use near-VAR analysis to show that these two shocks have drastically different effects on real variables. The sources of the disruptions in the price of oil do therefore affect the observed behavior of the economy. This distinction is crucial in the context of a comparison between oil price shocks in the 1970s and in the 2000s as in Blanchard and Galí (2007). I show that an oil supply shock was recessionary in the 1970s and has no effect nowadays, thus corroborating the hypothesis of an improved monetary policy which does not respond to supply shocks; whereas, more surprisingly, an oil-specific demand shock was expansionary in the 1970s and is contractionary today.

Qin, Zhong and Guibin Zhang:

* Models of Trust-Sharing in Chinese Private Enterprises*

This paper presents two related models of development patterns of Chinese private enterprises. They illustrate incentive-based reasons for ownership arrangements of private enterprises, and highlight how institutional
foundations of trust, particularly government and family-based cultural values, play an important role in influencing the development of private enterprises. These models attempt to explain why government and family-based culture are crucial for the ownership structure and management of private enterprises. The main argument in the models is that the structure of family businesses can be viewed, in essence, as a form of trust-sharing (Guixi-sharing) arrangement within the firm. Furthermore, the increase in the prevalence of family businesses can be seen as a result of family trust replacing government trust in the firm's economic activities.

Rahman, Mohammad Mafizur:

*Australian Housing Market: Causes and Effects of Rising Price*

Australian economic growth and the welfare of Australians are very much related to housing sector. Recently housing affordability is a widely discussed issue among the politicians, academics and policy makers. This paper therefore analyses the current housing market conditions in Australia. The paper particularly examines the factors that caused increased housing price over recent years. Various effects of this housing price hike on the Australian economy are also evaluated.

Rastogi, Siddhartha K.:

*A Cross-Country Study for Exploring Skewed Female - Male Ratio*

Elimination of gender discrimination is one of the Millennium Development Goals of United Nations. Female-Male Ratio (FMR) is often used as an indicator of gender discrimination and bias in a society. FMR is also an important indicator of socio-economic development. Although ideal FMR is 1:1; however, that remains only a propositional possibility. The actual FMR in most of the societies is found to be tilting against females, which suggests a distortion of FMR due to higher average life span for females. This paper explores reasons of distorted FMR by identifying variables derived from existing research and literature. OLS Regression models are fitted on the data of 76 statistically selected countries over a period of 35 years. The main objective of the study is to use the findings for policy designs towards targeted FMR correction and eliminating gender discrimination. After checking and curing for multicollinearity, stepwise regression model is applied. The ensuing analysis suggests that among a host of variables, total fertility rate, female employment, per capita health expenditure, and population density are of critical importance and require policy attention for FMR correction. Finally, concluding comments are made along with indicating some limitations of this research, thereby suggesting future research outlook.

Resosudarmo, Budy P. and Frank Jotzo:

*Decomposing CO2 emission from fossil fuel combustions in Indonesia to understand the options for mitigation*

During the 1970s, 1980s, and 1990s, the Indonesian economy, measured by its gross domestic product (GDP), grew with an average annual rate above 7 percent, which was relatively fast compared to many other countries. The country's economy had also been transformed from a more agriculturally dominated economy to a more industrially dominated one (Hill, 2000; Resosudarmo and Kuncoro, 2006; Resosudarmo and Vidyattama, 2007). This fast growing economy, with a significant transformation toward industrialized activities, increased the amount of CO2 emitted from fossil fuel combustions. Consequently, there are three important facts related to Indonesia's CO2 emission from fossil fuel combustions.

Rodgers Joan R. and John L. Rodgers:

*Contributions of Longitudinal Data to Poverty Measurement in Australia*

Little is known about chronic poverty in Australia, yet this aspect of poverty should be important to policy makers, welfare organisations, charities and others. Until recently there was no way to reliably distinguish chronic poverty from transitory poverty in Australia because the only data suitable for studying poverty was cross-section data collected by the Australian Bureau of Statistics. That situation is changing. Six waves of longitudinal data are now available from the Household, Income and Labour Dynamics in Australia Survey, allowing the measurement of chronic and transitory poverty from 2000-01 to 2005-06. This paper explores the extent to which the longitudinal data adds to what is known about poverty from cross-section data. We find an imperfect correspondence between people's current poverty status and their chronic poverty status. Consequently, policies that aim to reduce chronic poverty using means-tested benefits will be partially misdirected if beneficiaries are identified using current income and some households experiencing chronic poverty may fall through the safety net.

Rushdi, Mustabshira and Jae H. Kim:

*Long run relationship between real stock return and inflation in Australia*

This paper evaluates the long run relationship between real stock return and inflation in Australia. We use the ARDL bounds testing for the existence of a long run level relationship, and the wild bootstrap to conduct small sample statistical inference for long run elasticity. Our testing is based on a simple bivariate model as well as a multivariate model constructed from a proxy hypothesis. Taking account of the shift in the Australian monetary policy to inflation targeting in late
1989, we found a long run level relationship between real stock return and inflation in Australia. The long run elasticity between the two is found to be negative, but statistically no different from zero. These results are in support of the empirical validity of the generalized Fisher hypothesis in Australia, indicating that the stocks have been a useful instrument to hedge against inflation.

Sadr, Seyed Mohammad Hossein, Mohsen Mehrara, Atefeh Shahabadi Farahani:

*Threshold effects in the relationship between oil revenues and growth in oil exporting countries*

A large literature suggests that there is a ‘resource curse’: natural resource abundant countries tend to grow slower than resource scarce countries (Gelb, 1988; Sachs and Warner, 1995, 1997, 2001; Karl, 1997; Gylfason et al., 1999; Auty, 2001; Sala-i-Martin and Subramanian, 2003). The literature offers six candidate explanations for the resource curse effect: Dutch disease, governance, conflict, excessive borrowing, inequality and volatility. However, while there is much evidence to support the curse hypothesis, the findings for oil-rich countries suggest that oil booms raise the growth of oil exporters. Spatafora and Warner (1995) investigate the impact on economic growth and development of long-run movements in the external terms of trade, with special reference to the experience of 18 oil-exporting countries. The results imply that Dutch disease effects are strikingly absent. Agriculture and manufacturing do not contract in reaction to an oil price increase. Similarly, Yang and Lam (2007) examines the relationship between oil prices and economic activities for 17 oil-rich developing countries based on cointegration analysis. Their results indicate that in the majority of cases, oil booms are followed by increases in both GDP per capita and investment. The economic development of the majority of sample countries, regardless of institutional quality, does not appear to be negatively affected by an oil boom, leaving the relation of oil revenues (or prices) with the other macroeconomic variables such as the economic growth debatable. Berument and Ceylan (2007)

Sakho-Jimbira, Maam Suwadu, and Céline Bignebat:

*Local diversification of income sources versus migration: Complements or Substitutes? A case study from rural Senegal*

Much has been written on the importance of diversification of activities in rural Africa. However, less attention has been paid to distinguish two diversification patterns, namely local diversification and migration, and their relationship. This paper examines whether they are complements or substitutes, by using original data from two Senegalese rural areas. We adopted a multivariate Tobit model to investigate the relationship between local diversification and migration, and a probit model to analyse the probability of being in National or International migration. Nontrivial finding suggests that local diversification and migration are substitutes, implying that migration is a form of insurance.

Sane, Renuka and John Piggott:

*Does age-pension means testing cause over consumption of housing?: evidence from Australia*

International evidence on home ownership and trade-down behaviour of the elderly (Venti and Wise 1987, 1989, 2001) points to a general reluctance of the elderly to draw down equity in their homes. In Australia, the mobility and trade-down decisions of the elderly are complicated by the means-tested nature of the age-pension. The value of the owner-occupier home does not count as an asset in the age-pension assets test. However, proceeds from the sale of the home count as an asset and the interest from the investment of these assets counts as income towards the income test. Therefore, any decision to liquidate wealth held in the owner-occupier home may reduce their age pension entitlements.

In this paper we study the home-ownership and trade-down behaviour of the elderly using the Household, Income and Labour Dynamics (HILDA) data set spanning 5 years from Australia. Our analysis suggests that the means test restricts trades in an important market, and influences the values of the trade-downs where they do occur. We suggest a possible policy solution involving the quarantine of the proceeds from the sale of the owner occupier home, to allow greater flexibility in residential transition amongst the elderly and a more efficient allocation of housing stock, wealth and consumption in retirement.

Sato, Kiyotaka, Zhaoyong Zhang and David Allen:

*The Suitability of a Monetary Union in East Asia: What does the Cointegration Approach Tell?*

The suitability of forming a monetary union in East Asia remains a hot issue in the study of the East Asian economies. Most of the existing studies focus on the symmetric issue of the fundamental shocks and the extent of correlation by applying the Blanchard and Quah [5] structural vector autoregression (VAR) technique, which includes the first-differenced variables in the model and examines only the bilateral relationship. However, the shock symmetry does not necessarily mean the co-movements of the real output variables between the countries concerned. The present paper employs the Johansen [11] cointegration test to check the long-run co-movements of real outputs among the East Asian countries, Japan and the United States to infer implication of forming a monetary union in the region. The results suggest that some groups of Asian NIEs plus the United States will be a potential candidate to form a monetary union. Mainland China is not suggested to be a member country of a
monetary union with any of the grouped economies. More interestingly, the ASEAN countries alone are not feasible to form a monetary union unless when Japan is included, which has important implications for the role of Japan towards a regional monetary union.

**Shapiro, Perry and Jonathan Pincus:**

*Efficiency and Equity in the Assemblage of Land for Public Use: The L2H2 Auction*

The burden of redevelopment projects, whether or not they ultimately benefit the communities in which they are undertaken, is borne disproportionately by those displaced. Neighborhoods are destroyed and residents are made to leave a home they love compensated only by its market value. The benefits and costs of redevelopment can only be estimated since there are no direct market tests. Here a mechanism, developed as an extension of two recent papers, one by Lehavi and Lichts (L2) and the other by Heller and Hill (H2), provides a market based efficiency test for a proposed project and a compensation rule that alleviates the disproportionate burden on displaced residents. Assembled property is sold at auction. The reserve price (the lowest price at which the assembled property will be sold) is set so that every displace resident receives at least the personal value of its property. A successful bid, one that claims the assembled property, is sufficient proof of efficiency.

**Sikdar, Shiva and Harvey E. Lapan:**

*Strategic environmental policy under free trade with transboundary pollution*

We analyze the effects of free trade on environmental policies in a strategic setting in the presence of transboundary pollution. Trade liberalization can result in a race to the bottom in environmental outcomes, which makes both countries worse off. In our model it is not the terms of trade motive, but the incentive, in a strategic setting, to reduce the incidence of transboundary pollution, i.e., the “carbon leakage effect”, that drives countries to relax domestic environmental policy. When command and control policies such as quotas are used instead of taxes, countries are unable to influence foreign emissions by strategic choice of domestic policy; hence, there is no race to the bottom. However, when permits are tradable across countries, unless pollution is a pure global public bad, there is a race to the bottom in environmental policy. In the free trade equilibrium, pollution is highest when taxes are used to regulate emissions, while internationally nontradable quotas result in the lowest pollution level. Quantity-based policies strictly welfare-dominate price-based policies.

**Siminski, Peter:**

*What Would the Average Public Sector Employee be Paid in the Private Sector?*

This paper estimates the average Australian public sector wage premium. It includes a detailed critical review of the methods available to address this issue. The chosen approach is a quasi-differenced panel data model, estimated by the Generalised Method of Moments, which has many advantages over other methods and has not been used before for this topic. I find a positive average public sector wage premium for both sexes. The best estimates are 6.7% for men and 10.5% for women. The estimate is statistically significant for men (p = 0.024) and for women (p < 0.001). No evidence is found to suggest that the public sector has an equalising effect on the wages of its workers.

**Singh Sarjit:**

*The Dynamics of Australian Poverty Persistence*

There are a number of reasons why people experience poverty for only a short period of time. For example, those who are transiting between jobs and live out of past savings are likely to be in poverty only briefly. This kind of poverty is considered to be transitory poverty and significantly differs from persistent poverty, where an individual has insufficient permanent income to meet the basic needs regarded to be normal in the communities in which they reside. Numerous studies have been undertaken on the rates of annual poverty in Australia. However, much less research has been done on rates of poverty persistence and even less on the dynamics of poverty. One of the main reasons for this has been the lack of available longitudinal data in Australia, which would enable the study of the dynamics of poverty. Therefore, the main aim of this paper is to contribute to the analysis of persistent poverty dynamics in order to assist those Australians who are, on a permanent basis, living in conditions that are below the minimally acceptable standard of living in Australia. This has been possible with the use of the Household, Income and Labour Dynamics in Australia (HILDA) Survey, to measure the rates of poverty transitions and persistence in Australia from 2001 to 2004, using the first four waves of the HILDA dataset.

The results presented in this paper suggest that the rates of poverty persistence are significantly lower than point-of-time estimates of poverty. The annual poverty rates for each wave of the HILDA is approximately 20 per cent, the rate of poverty persistence for the first two waves is approximately 14 per cent, the rate for the first three waves is approximately 11 per cent and the rate of poverty persistence for all the four waves is approximately 9 per cent. These results indicate that the overall rates of poverty persistence in this paper are some function of time, and tend to decrease at a decreasing rate for each subsequent wave. The paper also focuses on the year-to-year dynamics of poverty,
that is, the churning rate of those moving in and out of poverty in subsequent years, as this assists in providing a detailed account of poverty dynamics. This supports the production of a much richer set of poverty estimates on which appropriate policy decisions can be based upon.

**Sugaharaay, Kota, Zhiwei Cena, and Junko Doi:**

*Are they keeping up with Tokyo?: an empirical analysis of consumption externalities between regions of Japan*

This paper investigates whether consumption externalities are existing between regions of Japan. If there are consumption externalities between regions, it can be consider that the anxiety about regional disparity of Japan would be influenced by them. And thus, we should carefully design the policy of interregional redistribution, taking account of such externalities. For this purpose, we estimate the effect of reference variable on life satisfaction, employing a random utility model and the regional grouped data of subjective well-being. From the results of regression analysis, we found that the circumstance in Tokyo obviously has negative influence on life satisfaction in the other regions. Moreover, the other regions are keeping up with Tokyo.

**Susamto, Akhmad Akbar:**

*Government expenditure size and happiness: Empirical evidence*

This paper tests whether there is linear relationship between happiness and the size of government expenditure, and estimates how such a relationship is likely affected by the structure of government budget (including the percentage of expenditure allocated on certain types or functions of public sector activities and the revenue shares of taxes) and the quality of governance. The results show that the effect of government expenditure size is never in itself significant, and instead conditional on the way it is structured and governed.

**Suzuki, Tomoya:**

*Age, Wage and Suicide: Economic Modelling of Suicide*

This paper formalises an individual’s decision about suicide within a framework of lifetime-utility-maximisation models. This is in line with the literature on economic modelling of suicide. The novelty of the paper is to take into account income uncertainty. Income uncertainty reduces the expected utility of a risk-averse individual, making her/him more likely to commit suicide. On the other hand, income uncertainty creates a value to postponing suicide even when her/his income gets sufficiently low. This is because income uncertainty means that if things go well, she/he will get higher income in future.

Thus, income uncertainty has two opposite effects on suicidal behaviour. The main objective of this paper is to construct an economic model of suicide for investigating net impacts of income uncertainty on suicidal behaviour. For this purpose, it is assumed that the wage evolves according to a stochastic process. Then, the threshold wage, below which an individual commits suicide, is derived as a function of the parameters of the stochastic process assumed for the wage evolution. Impacts of changes in these parameters on the threshold wage are calculated. With the result, the paper shows how income uncertainty affects suicidal behaviour.

**Swift, Robyn:**

*How Much Do Improvements in Health Contribute to Economic Growth: Long-run Evidence from the OECD Countries*

This paper uses Johansen multivariate cointegration analysis to examine the relationship between health and GDP for thirteen OECD countries over the last two centuries, for periods ranging from 1820-2001 to 1921-2001. A similar, long run, cointegrating relationship between life expectancy and both total GDP and GDP per capita was found for all of the countries estimated. The relationships have a significant influence on both total GDP and GPD per capita in most of the countries estimated, with 1% increase in life expectancy resulting in an average 6% increase in total GDP in the long run, and 5% increase in GDP per capita. Total GDP and GDP per capita also have a significant influence on life expectancy for most countries. There is no evidence of changes in the relationships for any country over the periods estimated, indicating that shifts in the major causes of illness and death over time do not appear to have influenced the link between health and economic growth.

**Tang, Xueli and Debasis Bandyopadhyay:**

*Redistributive Policies and TFP Differences Across Countries*

Economists point towards cross-country differences in TFP to explain wide differences in income per capita across countries. This paper derives theoretical restrictions for interpreting the data based on a neoclassical, dynamic general equilibrium model in which redistributive policies significantly alters overall productivity as measured by the conventional denition of TFP. The numerical simulations of the model’s outcome highlights that whether or not the crosscountry differences in output per capita can be signicantly explained by the TFP differences depends on the sources of TFP differences. If in the sample of countries the TFP differences arise mainly due to institutional and demographic factors then input differences would be more significant than TFP differences in explaining differences in output per capita. If, however, the TFP differences arise mainly
from differences in the degree of redistribution then the TFP differences would be more significant than input differences.

**Tang, Tommy and Tim Robinson:**

*Development of the "Economic Thinking Ability" Construct and its Applications in Economics Education*

In their studies, Eley and Meyer (2004) and Meyer and Cleary (1998) found that there are sources of variation in the affective and process dimensions of learning in mathematics and clinical diagnosis specific to the discipline. Meyer and Shanahan (2002) argue that: General purpose models of student learning that are transportable across different discipline contexts cannot, by definition, be sensitive to sources of variation that may be subject-specific (2002, p. 204). In other words, to explain the differences in learning approaches and outcomes in a particular discipline, there are discipline-specific factors, which cannot be uncovered in general educational research. Meyer and Shanahan (2002) argue for a need to “seek additional sources of variation that are perhaps conceptually unique … within the discourse of particular disciplines” (p. 204). Interestingly, despite their methodological difference, this position as embraced by Meyer and Shanahan is consistent with that of phenomenography. The research agenda of phenomenography is to investigate the qualitatively different ways people perceive and understand a phenomenon of interest (Marton & Pong, 2005). In arguing for empirical, discipline based research into effective teaching and learning, proponents of phenomenography point out that very few research outcomes based on general educational framework can prescribe specific remedies to problems across contexts since “the pedagogical problems of any one discipline are in certain respects unique” (Hounsell, 1997, p. 240).

In this paper, the development of an economics-specific construct (called economic thinking ability) is reported. The construct aims to measure discipline-sited ability of students that have important influence on learning in economics. Using this construct, students’ economic thinking abilities were measured twice: at the beginning and at the end of the semester. The developmental changes of students’ economic thinking ability over the semester were investigated.

**Tawadros, George B.:**

*Is the GCC also a common currency area?*

In this paper, the feasibility of the GCC countries forming a common currency area is assessed using two distinct, but complementary, approaches. The empirical results based on the size of demand and supply disturbances, their cross-country correlations, and the speed of domestic adjustment identifies a grouping of countries (Bahrain, Oman, Saudi Arabia, and the UAE) for potential monetary unification. In addition, the empirical results show that the six member countries share common long-run and short-run cyclical movements. Furthermore, an estimate of the output loss in relinquishing policy autonomy to join a regional currency arrangement is provided. These estimates appear to be relatively small, and are likely to be less than the efficiency gains from adopting a common currency.

**Taylor, Matt and Nick Carroll:**

*Explaining the decline in Unemployment Benefit numbers in Australia: The role of Registration, Exit and Re-entry*

Between 1999 and 2007 the number of people on Unemployment Benefit in Australia fell from around 775,000 to around 510,000 people. Both in terms of international experience and Australia's previous history this is a remarkable fall. While there have been a number of studies that have looked to explain this fall, to our knowledge no study has investigated whether the fall is due to an increase in the exit rate from payment, a decrease in the entry rate to payment or a decline in re-entry. In the spirit of Grogger et al (2003) we decompose the decline in benefit numbers into inflow, outflow and re-entry. We find that about half of the decline is due to a change in the inflow rate, over one quarter is due to a declining re-entry rate and 15 percent is due to an increasing exit rate.
Thomas, Mathew and Craig Lawrence:

*Real options: Applications in public economics*

This paper illustrates the use of real options principles to value prototypical resource and industry investment projects. It captures important competitive/strategic dimensions in a step-by-step analysis of investment decisions (options) under uncertainty. It compares and contrasts static discounted cash flow analysis (DCF) with real options analysis using three case studies. The initial example values a resource extraction process using static DCF and then compares the project valuation when future information is valued and acted upon. The second example considers a coal development and uses the binomial valuation approach to capture the option value associated with having the right but not the obligation to exit the development. It contrasts this valuation approach against static DCF and highlights that future royalty payments could be underestimated if based on the standard DCF valuation. The third example analyses the impact of providing a subsidy for hybrid vehicle production to accelerate potential uncertain environmental benefits. Lastly, the suitability of the standard financial and economic evaluation tools used by treasury agencies is considered when projects contain real options.

Torgler, Benno, Markus Schaffner, Bruno S. Frey, and Sascha L. Schmidt:

*Looking Awkward When Winning and Foolish When Losing: Inequity Aversion and Performance in the Field*

The experimental literature and studies using survey data have established that people care a great deal about their relative economic position and not solely, as standard economic theory assumes, about their absolute economic position. Individuals are concerned about social comparisons. However, behavioral evidence in the field is rare. This paper provides an empirical analysis, testing the model of inequity aversion using two unique panel data sets for basketball and soccer players. We find support that the concept of inequity aversion helps to understand how the relative income situation affects performance in a real competitive environment with real tasks and real incentives.

Tsafack, Esther:

*International trade and the French demand for labour*

I employ a production theory approach to investigate the effect of price changes in different types of imports as well as exports on the French demand. Unlike competing methodologies, the framework employed accounts for the economy-wide effects of imports that derive from both domestic output substitution as well as downstream production. The results suggest that aggregate imports hurt aggregate labour demand. However, imported services and imported goods stimulate both skilled and unskilled labour. While imported goods appear to have contributed to the widening gap demand between skilled and unskilled labour, the effect of imported services and exports is ambiguous.

Valadkhani, Abbas, Surachai Chancharat and Charles Harvie:

*Identifying the Pattern of International Stock Return Co-movements*

This paper investigates the relationships between stock market returns of 13 countries based upon monthly data spanning December 1987 to April 2007. Specifically, the principal component (PC) and maximum likelihood (ML) methods are used to examine any discernable patterns of stock market co-movements. Factor analysis provides evidence that stock returns in a number of Asian countries are highly correlated and, based on the resulting robust factor loadings, they form the first well-defined common factor. We also find consistent results (based on both the PC and ML methods) suggesting that the stock returns of all global developed economy stock markets are also highly correlated, and constitute our second factor. We conclude that, inter alia, geographical proximity and the level of economic development do matter when it comes to co-movements of stock returns and that this has important implications for financial portfolio diversification if the aim is to reduce systematic risks across countries.

Verma, R. and E. J. Wilson:

*A Multivariate Analysis of Savings, Investment, Foreign Capital - Inflows and Economic Growth in India*

This paper considers the interdependencies between per worker household, private corporate and public sector savings and investment, foreign capital inflows and GDP in a multivariate setting for India. This is in response to shortcomings relating to previous studies which predominantly analyse savings and investment aggregates only, over long time periods which contain structural changes, using bivariate estimation techniques, which are short run in nature. A sectoral model is developed to provide a theoretical basis for the empirical research and to demonstrate the possible complex interdependencies between these variables and sectors. The analysis is applied over the period 1951 to 2005 with two endogenously determined structural breaks occurring in 1966 and 1981. The long run cointegrating relationship is estimated in a multivariate setting using Johansen’s procedure to determine which variables are subject to permanent, semi-permanent and transitory shocks according to Pagan and Pesaran’s (2008) innovative classification. Consistent with the recent DSGE and structural VAR modelling, a VAR containing these specifications is estimated to determine the short run
interdependencies using statistical tests and the analysis of forecast error variance decompositions. The findings show that the causation runs from per worker household savings and investment positively to private corporate savings and then to private corporate investment, which in turn affects household savings and investment. Per worker public investment is found to negatively (with small elasticity) affect GDP, which negatively affects foreign capital inflows, which subsequently negatively affects private corporate savings. These results imply the need to encourage savings, which is being realised with higher growth rates during the recent period of financial deregulation in India. However the offsetting reduction in the rates of growth in investment during the 1990s, the lack of any identifiable links to output and the apparent negative influence of public investment, means that policy prescriptions to promote economic growth in India are not straightforward.

**Vecchio, Nerina, Paul A Scuffham and Michael Hilton:**

*The effect of mental health on hours worked: An investigation of Queensland nurses*

Similar to other countries, Australia is experiencing a shortage of nurses. Of all the Australian states, Queensland possesses the poorest nurse to population ratio. This study examines the impact of mental health on the working hours of Queensland nurses. The data is based on the Work Outcomes Research Cost-benefit (WORC) survey conducted in Australia during 2005 and 2006. The sample of 6220 represents 15% of nurses in Queensland that met the study’s criteria. Previous investigations relating to the labour supply of nurses are based on the unidirectional assumption that mental health/stress is a consequence of the work conditions, including hours worked. The analysis of the data reported in this study identified an endogenous relationship between mental health and hours of labour supplied. The findings from using the generalized method of moments estimation model revealed that among Queensland nurses, a deterioration of mental health was associated with a reduction in hours worked. The findings imply that an effective approach to meeting nursing shortages should include strategic attempts to improve the mental health capital of nursing staff. Previous studies have shown resilience training in the workplace as effective in increasing the supply of labour.

**Verma, Reetu and Nelson Perera:**

*An empirical analysis of sustainability of trade deficit: Evidence from south Asian countries*

In this paper, the long-run relationship between exports and imports of five south Asian countries is examined. We explore this issue using the bounds-testing approach to cointegration. The results failed to support the existence of a long-run equilibrium relationship between exports and imports in Bangladesh, India and Sri Lanka; while for Pakistan, the results are inconclusive. Only in Nepal’s case, cointegration between exports and imports is detected. These findings question the effectiveness of these countries current long-term macroeconomic policies and suggest these south Asian countries are in violation of its international budget constraint.

**Vurens van Es, Robert and Alfred Michael Dockery:**

*Indigenous Australians in the Labour Market: Exploring the Role of Social Capital*

This paper explores the role of social capital externalities in the labour market outcomes of Aboriginal and Torres Strait Islander Australians, a culturally distinct and highly disadvantaged group in Australian society. Data from the 2002 National Aboriginal and Torres Strait Islander Social Survey are used to construct measures of the quantity and diversity of social capital that an individual may utilise. While contextual in nature, we find that the externalities which stem from these forms of social capital have a strong association with labour market participation and the ability to secure meaningful employment, consistent with a “bonding, bridging and linking” conceptualisation previously proposed in the theoretical literature. From a practical standpoint, the results raise important considerations for individuals and organisations who aim to address Indigenous disadvantage through the labour market.

**Wei, Hui:**

*Measuring Economic Returns to Post-school Education in Australia: Evidence from the 1981-2006 Australian Censuses*

Using the 1981-2006 six waves of full Australian Census data, this paper estimates the rates of return to post-school education in Australia, with a focus on bachelor degrees. Both the financial method and Mincer’s human capital earnings function method are applied. The expected private rates of return from investment in bachelor degrees increased over time for males, from 13.1 percent in 1981 to 19.6 percent in 2001, and then dropped to 15.3 percent in 2006; the range was 18.0 percent to 17.3 percent for females over the same period. Drawing on the recent work of Heckman, Lochner and Todd (2005), this study also compares the two methods. The key difference is that the financial method can account for the effect on earnings of enriched working experience associated with higher educational attainment, while the Mincer’s method assumes parallel earnings experience profiles across educational levels. This paper argues that the growth of human capital through increased working experience are important economic benefits of investment in education, and therefore should be captured in calculating rates of return to education.
Wasantha Athukorala:

Nature-Based Tourism In Lesser Known Species And Their Implications For Conservation

Examines tourism expenditures arising from two lesser known and nocturnal forms of wildlife, namely, tree-kangaroos and glow-worms in Australia. Comparisons are made. For this purpose two field surveys were conducted to determine expenditures relating to viewing these two forms of wildlife and then estimate the local economic impact. Field survey data are also used to estimate the consumer surplus for visitors arising from these two forms of tourism. The study shows that these two forms of wildlife can generate economic activity, but not much of it flows to owners of land providing the resources. The relevant issues relating to economic use and non-use values are discussed and it is shown that market systems fail to adequately compensate owners of these resources for providing refuge despite the existence of economic use and non-use values. This calls for intervention of the government in the system to take into account of the un-marketed economic values in their conservation. The field survey data is also used to estimate the factors influencing visitors’ maximum willingness to spend for tree kangaroo and glow-worms viewing.

Wilson, Clevo and Wasantha Athukorala:

Groundwater Extraction Externalities: Accounting for Quantity Depletion and Quality Deterioration Simultaneously

Over extraction of groundwater in many parts of the world is common and such practices have led to negative externalities. Numerous studies have examined quantity depletion and quality deterioration issues and have prescribed optimal policy instruments such as imposing a tax which is equated as the shadow price of groundwater. However, the literature reveals that no study has dealt with both quantity depletion and quality deterioration externalities at the same time. As a result these studies have underestimated the shadow price of groundwater, and, therefore, the solutions suggested do not turn out to be optimal. The low estimated shadow price in turn has resulted in the overexploitation of groundwater resources. The main objective of this paper is to derive the costs of groundwater extraction externalities, both quantity depletion as well as quality deterioration simultaneously. The results show that when both externalities are taken into account, the shadow price is higher than that calculated by previous studies and hence lead to a reduction in groundwater extraction to an optimal level. The results suggest that by considering the impact of groundwater extraction quantity and quality deterioration issues simultaneously, the shadow price of groundwater, and, therefore, the solutions suggested do not turn out to be optimal. The theoretical arguments are tested empirically using data collected from onion production in Sri Lanka

Wilson, E. J:

A Critique of Modelling and Estimating the Effects of Consistent Conditional Variance Expectations on Exchange Rates

A number of authors have recently shown that exchange rate expectations are soundly based on the random walk hypothesis and it is well known the model predicts...
Robertson:

Xu, Jessica, Richard Harris and Peter

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a dynamic, multi-sector general equilibrium model

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that the growth in the supply of skilled labour has a

large effect on capital accumulation and wages as well as

generating increasing skill premiums in the short term.

The economy experiences strong growth in the outputs

and exports of the more skill intensive sectors such as

durables and traded services.

Yan, Yong Hong and Graeme Wells:

Modelling asset market dynamics under a fixed

exchange rate and an application to the Chinese

economy

This paper integrates the stock market into an open-

economy framework with perfect capital mobility,

perfect foresight and a fixed exchange rate. The model

extends work by Blanchard (1981) and Gavin (1989)

and is designed to analyse the effects of unanticipated

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Yokoo, Hide-Fumi:

Recycling versus Landfilling: A Cost Minimization

Approach to Municipal Waste Management

Consider a municipality that must design a waste

management program that integrates recycling

and landflling. This paper analyzes a simple utility

maximization problem of a representative household

incorporating waste disposal. Even if recycling entails some

initial costs and a marginal cost that rises in proportion

to recycling, recycling or a dual waste management

policy is, nevertheless, optimal for a local government. By

determining the relationships among the marginal cost of

landfilling, recycling, initial costs, and household income,

conditions are identified under which recycling will

reduce total waste management costs adequately, so that

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Yu, Peng:

Is There a Causal Relationship between Parental

Income Support Receipt and Child Mortality?

An Analysis of a Cohort of Australian Children

This research aims to improve our understanding of the

relationship between parental income support receipt

and child mortality using a unique administrative

dataset, the TDS2, which contains almost a whole

birth cohort of Australian children. Duration models

with time varying variables are applied for the analysis.

Generally, parents of children who died under age 15

are more economically disadvantaged and are more

likely to have a long duration on income support.

as good, if not better, than most economic models of

exchange rates. This paper suspects that the conditional

heteroskedasticity detected in prediction errors of many

of these models is primarily due to the reliance on

linear first moment, conditional mean representations.

In contrast, empirical procedures like GARCH have

increased in sophistication to test and correct for the

widespread observance of serially correlated second

moment, conditional variances in the predictions.

A simple expected utility model which specifies

conditional time varying variances is developed to

illustrative how empirically correcting for them is a sub

optimal research strategy. Simply put, if there remains

systematic errors in the model’s predictions (other than

from trading day, seasonality or similar causes) then it

is poor research methodology to empirically remove

them. The imbalance in terms of the relative lack of

modelling higher order moments and the relatively

heavy reliance on removing these effects empirically,

needs to be addressed.

Worthington, A.C.:

Modelling the usage and understanding of financial

products: An empirical analysis of Australian

owner-occupied and investor mortgages

Binary logit models are used to predict usage and

understanding of owner-occupied and investor

mortgages on the basis of demographic, socioeconomic

and financial characteristics. The data is drawn from

the 2003 ANZ Survey of Adult Financial Literacy in

Australia and relates to 3,548 respondents. Factors

examined include financial literacy, gender, age,

ethnicity, occupation, educational level and family

structure, along with household income, savings and
debt. Understanding is defined in terms of knowledge

of mortgage rates, fees and charges and familiarity

with key mortgage terms. The results indicate that

being middle-aged or a couple with children increases

the likelihood of an owner-occupied mortgage, while

being from a non-English speaking background, a small

business owner or a skilled tradesman increases the

likelihood of an investor mortgage. The evidence also

suggests that understanding of mortgages is unevenly

spread across mortgagees. Understanding is generally

poorer for females, rural and regional households and

the young, and better for professionals, the university

educated and small business owners and skilled

tradesmen. The area least understood is mortgage fees

and charges.

Xu, Jessica, Richard Harris and Peter

Robertson:

Education Reforms in China: The Implications of

Rapid Skill Accumulation

The proportion of skilled labour relative to the

population in China is only a fraction of that of the
developed countries despite the rapid expansion of

skilled workers in recent years. This paper considers

the economy wide implications of policy changes to

accelerate the supply of skilled labour in China through

education and labour market reforms. The analysis uses

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with time varying variables are applied for the analysis.

Generally, parents of children who died under age 15

are more economically disadvantaged and are more

likely to have a long duration on income support.
However, no evidence was found that parental income support receipt is a significant risk factor for child mortality. Child mortality at a given time is associated with lower incidence of parental income support receipt immediately after that time, but associated with higher incidence in the long run, indicating overall negative impacts of child mortality on family financial situation.

Zaidi, Mohd Azlan Shah:

*Monetary Policy and the Role of Credit in Malaysia: A SVAR Analysis*

Liberalization of Malaysian banking and financial system since the late 1970s has witnessed a strong credit growth which is believed to have played an important role in affecting domestic economy. Previous studies however, find that the relationship between credit and domestic output is rather unimportant. This paper uses a structural vector autoregression (SVAR) model to re-examine the effects of monetary policy and the role of credit on the economic performance of Malaysia. The results of the SVAR estimation, the impulse response functions and the variance decompositions generally support the underlying monetary theory. The selected model does not show empirical anomalies of both price and the exchange rate puzzles and is quite robust to changes in the number of lag, the sample length and the selected fundamental variables. The findings reveal that, credit play a significant role in affecting domestic output over a horizon of two years, while the interest rate and the exchange rate have significant influence on inflation only after a year until 4 years. Furthermore, commodity price persistently influences most of the domestic variables in the long term. The results provide some implications for the role of banking and financial system in shaping domestic economies as well as for the vulnerability of the economy to foreign shock in the long term.

Zhu, Xiaoneng:

*What Does the Global Yield Curve Tell about World Economic Activity?*

This paper bridges the connection between the global yield curve and international economic activity. I find global yield curve factors are relevant for predicting the real growths and inflations across countries, especially at long horizon. Further, global factors play a significant role in predicting the conditional covariances of real growths and inflations across countries. I also find global factors have predictive power on international business cycle synchronization. The results seem to indicate that inflations are more internationally synchronized than the business cycles. The findings have important policy implication.