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

nzae
New Zealand Association of Economists

Asymmetric information

ISSUE NO.39 November 2010

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

PAST ISSUES

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

New Zealand Association of Economists Inc.
Stuart Birks Editor *email:* k.s.birks@massey.ac.nz
http://www.nzae.org.nz

"It is remarkable how, when a man fervently believes something, and gets the idea firmly rooted in his imagination, everything he hears and sees, at every moment, seems to confirm that belief."

Bartolome de la Casas, *Historia General de las Indias,* 1527-1561, Vol.1, p.223 (quoted on p.146 of Richardson M, 2010, The west and the map of the world, Carlton, Miegunyah Press)

CONTENTS

EDITORIAL

Dead certain

Stuart Birks

I recently attended by a talk by a coroner about her role. Unlike the US medical model, in New Zealand requirements for the position are legal training and five years legal practice. Two points stood out. First, the system is inquisitorial, not adversarial, and second, they draw on the services of numerous specialists in other fields to come to their conclusions and make recommendations. Judges in inquisitorial systems have their own specialist training and career paths. The coroner did suggest that some training in the different legal approach would be helpful. She was more confident that her legal training enabled her to critically assess the wide range of evidence and specialist opinion. It may simply be that professions are naturally expansionary, or that authority brings with it ability, but there does appear to be a basic rule that may apply to economists also. Issues close to us may appear controversial, but the more removed they are from our areas of specialisation, the more confident we become.

And now for something completely different: My stint as editor of AI has been enjoyable, but I have been in the position for over 10 years. It is perhaps not good for AI or for NZAE that I monopolise the spot. Consequently, I have notified the council of my wish to step down. Brian Silverstone has kindly agreed to come on board as co-editor for the next issue and will possibly be taking over from then on.

First call for papers
NZAE Conference 2011
The Duxton Hotel
Wellington
29 June – 1 July

Abstracts due 30 March
Notification of acceptances 21 April
Early bird registrations close 12 May
Final papers due 16 June
Note also:
Graduate Student Award applications due 29 April.
Prizes listed on p.15
More conference details via:
http://nzae.org.nz/conferences

STANDARD ANALYSES AND THE YOUTH MINIMUM WAGE *by Stuart Birks*

Theoretically-based analyses set bounds on the issues considered. The constraints are inevitable, and are clearly signalled by the term, ceteris paribus. The approach is desirable in that it provides for a systematic assessment of an issue. It is important to be aware of the nature of constraint, however. It means that any analysis is partial, and that additional aspects can be brought in as the analysis is broadened. The relevance of the findings may depend on an appropriate incorporation of such aspects.

A similar point could be made about control variables. It is often assumed that these can be used in econometrics as a catch-all to allow for influences not otherwise included. However, to quote:

> "...it [makes] no sense at all to control for ethnicity, social class, or household composition in an attempt to isolate "pure" process. No processes occur outside of a context. And if we want to understand context, we need to take it into account, not pretend to control it away." (Steinberg, Darling, & Fletcher, 1995, p. 424)

For an economics example of bounded analysis, consider the Youth Minimum Wage. A standard textbook analysis might say that, if above the equilibrium wage, it increases pay for those who obtain employment, but also reduces the number of jobs filled and creates youth unemployment. A common expression in such cases of price control is that they "harm those they are intended to help".

The problem as specified is bounded, and it changes as assumptions are relaxed. Consider a broader view where further possible responses are included. Disequilibrium in economics can be interpreted as some people's plans not being realised. When this happens, those people have an incentive to change their behaviour. Introduction of a youth minimum wage results in fewer jobs for young people. This does not necessarily mean that youth unemployment will rise in the longer term. It depends on the reactions of young people. Options and expectations are affected by the minimum wage, so current and future cohorts may modify their behaviour in response.

A phenomenon commonly observed is that higher unemployment leads to greater participation in tertiary education. A youth minimum wage may result in more young people getting extra training or education, becoming more skilled. There could be benefits to them and others in the long run. Extending to a more disaggregated analysis, additional issues might arise. These could include effects such as: the differential impact according to ability and successful competition in the job market; costs and type of education; longer-term workforce participation and different development of human capital; and impact on apprenticeships.

There are two general points to note from this brief speculation. First we should remember that there is always a further step we could go in our analysis. Second, market equilibrium may not always be desirable. Considering dynamics, disequilibrium can be used as a means of achieving change.

Ref: Steinberg, L., Darling, N. E., & Fletcher, A. C. (1995). Authoritative Parenting and Adolescent Adjustment: An Ecological Journey. In P. Moen, G. H. Elder, K. Luscher & U. Bronfenbrenner (Eds.), *Examining lives in context: perspectives on the ecology of human development* (pp. 423-466). Washington, DC: American Psychological Association.

Members are invited to submit brief articles on any issue of interest to NZAE members, and/or comments and suggestions.
Enquiries and contributed articles should be sent to Stuart Birks (K.S.Birks@massey.ac.nz). *Views and opinions expressed in these articles are those of the authors, and do not represent the views of the New Zealand Association of Economists*

Motu Economic and Public Policy Research

NO COUNTRY FOR OLD MEN

The trans-Tasman income gap is an enduring policy issue. Much work has looked into its causes, but very little has been done focusing on the extent to which the income gap differs by gender. In a recent working paper, Motu senior fellow Andrew Coleman and Motu research analyst Hugh McDonald examine the evolution of relative earnings trends in Australia and New Zealand. They found distinct gender differences: over the past 25 years, New Zealand women appear to have done better than New Zealand men, relative to their Australian counterparts.

Over the past 25 years, New Zealand's income per capita has slowly decreased relative to Australia. In other words, New Zealand incomes have been growing more slowly than Australian incomes. Currently New Zealand sits at about 30 percent lower than Australian incomes. Using industry employment data, Coleman and McDonald measured male-female incomes to see whether there were any significant differences in the relative earning experiences of men and women. There were. Within the overall trend of lagging behind Australia, New Zealand women's earnings appear to be falling less quickly than New Zealand men's incomes relative to their Australian counterparts.

Employment data shows New Zealand men falling behind Australian men more rapidly than New Zealand women are falling behind Australian women. In 1989 New Zealand men earned 99 percent of what Australian men earned; by 2009 this figure had dropped to 78 percent—a 20.4 percentage point decrease. Compare this with the evolution of New Zealand women's earnings, who experienced a relatively low decrease, from 93 percent in 1989 to 78 percent in 2009—a 14.6 percentage point decrease. The story coming out of such figures is that New Zealand women have been falling behind Australian women, but not as quickly as New Zealand men are falling behind Australian men.

Looking at trends in wage ratios by gender for each country indicates that New Zealand women experienced wage increases after 2000 that were not experienced in Australia. New Zealand men did not experience these increases. This partly explains why New Zealand female:male wage ratios began to rise toward that of Australia, and further shows the trans-Tasman income gap widening more for New Zealand men than for women.

This begs the question: what has been causing New Zealand women's earnings to move toward Australian women's earnings, while New Zealand men lagged behind? To address this, Coleman and McDonald looked at wage growth by sector and separated out the wage differentials to examine and compare trends for different cohorts within each country. They could then look at who worked in which sectors, and which sectors paid more.

They found that average wage differentials for both men and women are dominated by differences in wages within each sector, rather than by how the workforce is composed by sector. Thus, most of the increase in the trans-Tasman wage gap can be attributed to sector-specific wage changes.

Employment data by sector shows that New Zealand women experienced higher wage growth than New Zealand men. New Zealand women working in the public health and education sectors experienced real wage growth during the period, at least as high as for women in Australia. New Zealand women in these sectors experienced 10 percent higher real wage increases than Australian women. In fact, they actually had higher real wages than Australian women during 1994 – 2009. This sort of trend begins to suggest a story as to why the trans-Tasman income gap appears to be decreasing for New Zealand women.

One possible explanation is government-implemented wage increases in certain public sectors where women make up a significant section of the sector. The public health and education sectors in New Zealand are predominantly made up of women workers; indeed 32 percent of New Zealand women work in them. Only 9 percent of men in New Zealand work in these sectors overall. Examples of these government implemented public sector wage changes include pay parity in New Zealand for primary teachers in 1996, secondary teachers in 2002, and nurses in 2005/06.

While it is perhaps a nice surprise that New Zealand women have been catching up with their Australian counterparts, the nature of these sector-specific pay increases render this trend quite possibly a temporary one. This is because wage increases in health and education are primarily set and paid for by the government, and are thus funded by taxation. In the long-run it is unsustainable for wage increases in these sectors to exceed wage increases in the rest of the economy, and as a result we are unlikely to see these sorts of wage increases sustained.

In comparison to this relatively benign experience of New Zealand women, males in New Zealand have seen their relative incomes continue to fall relative to Australian men. 50 % of men worked in sectors with at least 5 percent less real wage growth than in Australia, and only 14 percent of New Zealand men worked in sectors where real wage growth was higher in New Zealand.

New Zealand males' poor relative earning experience was also reflected in the cohort analysis. Cohort analysis can be used to trace the average lifetime earning paths of cohorts born in different years. If there is economic growth over time then each later born cohort should earn more at each age than previous generations. The cohort graphs of Australian males demonstrate this expected relationship, and Australian and New Zealand females also largely follow this trend. However, when New Zealand male data is assessed in this way a dramatically different pattern emerges. The data clearly shows that New Zealand males born between 1956 and 1970 did not earn more than earlier cohorts during their prime working ages, and, in fact, often earned less.

This work was partially funded by The New Zealand Treasury, and the Ministry of Women's Affairs.

You can read about this research in more detail in a recent Motu working paper, available at http://www.motu.org.nz/publications/working-papers: Coleman, Andrew and Hugh McDonald. 2010. "'No country for old men': a note on the trans-Tasman income divide". Motu Working Paper 10-08.

THE A R BERGSTROM PRIZE IN ECONOMETRICS: 2010

We are pleased to announce award of the A R Bergstrom Prize in Econometrics for 2010 to David Baqaae, PhD student, Harvard University, for his paper "Using Wavelets to Measure Core Inflation: the Case of New Zealand". David's paper was completed while employed as an Economic Analyst at the Reserve Bank of New Zealand.

The object of the Prize is to reward the achievement of excellence in econometrics, as evidenced by a research paper in any area of econometrics. The Prize is open to New Zealand citizens or permanent residents of New Zealand who, on the closing date for applications, have current or recent (i.e. within two years) student status for a higher degree. The Prize is awarded once every two years, with a value of NZ$2,000.

The citation that accompanies the award reads as follows:

David Baqaee's paper develops a wavelet measure of core inflation for New Zealand. Wavelet methods can isolate short-lived phenomena in a signal, and provide a natural approach to constructing core inflation from headline CPI inflation. David's suggested Wavelet Inflation Measure (WIM) uses the maximal overlap discrete wavelet transform with the Haar wavelet family and linear thresholding (discarding the noisiest daughter wavelets). The WIM is tested against alternative core inflation measures (e.g. weighted median and trimmed mean) to assess its denoising and forecasting performance. The WIM is shown to have good real time properties and is more coherent with headline inflation than the alternatives. Relative forecasting performance varies, depending on series "padding" at endpoints and whether autoregressive models are applied to the aggregate WIM or individually to the different resolution wavelets. Multi-resolution WIM forecasts of headline CPI inflation tend to outperform forecasts from alternative core inflation measures, but vice-versa for aggregate WIM forecasts. Diebold and Mariano tests indicate that the differences are often not statistically significant. Similarly, a Cogley test indicates that inflation forecasting performance is similar for all of the core inflation measures tested. In sum, the paper breaks new ground in the construction of core inflation measures for New Zealand.

The Adjudication Committee for the 2010 Award comprised Professor Viv B Hall of Victoria University of Wellington, Dr. Leo Krippner of the Reserve Bank of New Zealand, and Professor Peter C B Phillips of Yale University, the University of Auckland, the University of Southampton and Singapore Management University.

V.B. Hall & P.C.B. Phillips

August 2010

The Prize is supported by funds provided by the following sponsors:

Institutional Sponsors:
The New Zealand Association of Economists; The School of Business and Economics at the University of Auckland; The Department of Economics at the University of Canterbury; The Faculty of Commerce and Administration at Victoria University of Wellington; Lincoln University; The Economics Group, Commerce Division at Lincoln University

Personal Sponsors:
C.R. Wymer; A.D. Brownlie, H.A. Fletcher, J.A. & D.E.A. Giles, V.B. Hall, K.B. Nowman, P.C.B. Phillips; R.J. Bowden, R.H. Court, Anonymous, D.M. Emanuel.

In addition, royalties from the Festschrift Volume *Models, Methods and Applications of Econometrics: Essays in Honour of A.R. Bergstrom,* P.C.B. Phillips (ed.) Blackwell, Cambridge MA and Oxford UK, 1993, and from *A Continuous Time Econometric Model of the United Kingdom with Stochastic Trends,* by Albert Rex Bergstrom and Khalid Ben Nowman, Cambridge University Press, 2007, are applied to support the prize.

CALL FOR PAPERS

New Zealand Economic Papers

Special issue on quality of life

In recent years, there has been growing interest in research relating to the determinants of quality of life (whether at the household, regional or national level). This special issue aims to present a selection of works, taken from all areas of research on subjective and objective well-being: from conceptualization, prevalence, explanation and evaluation. Papers from a broad range of disciplines (health, philosophy, sociology and economics) are welcome. Areas of focus for this special issue include, but are not limited to:

- Related empirical work, including determinants of physical and mental health status.
- Papers evaluating levels of life satisfaction, and related measurement issues.
- Research making use of the NZGSS (New Zealand General Social Survey)

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

The special issue will be guest-edited by Gail Pacheco (email: gail.pacheco@aut.ac.nz), Stephanié Rossouw (email: stephanie.rossouw@aut.ac.nz) and Don Webber (email: don.webber@aut.ac.nz) from the Department of Economics, Auckland University of Technology.

New Zealand Economic Papers is a fully peer-reviewed scholarly journal published by leading international publishers Taylor & Frances (under the Routledge imprint) on behalf of the New Zealand Association of Economists. The journal is indexed in leading international databases including EconLit, ABI/Inform and EBSCO.

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

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

Deadline for submissions: 1 June 2011

FROM THE 2B RED FILE

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

For this issue we start with the newest and brightest: *Matt Ridley (2010) The Rational Optimist: How Prosperity Evolves* (New York: Harper Collins). Having read reviews I could not wait to get my hands on a copy - they were scarce in New Zealand (another manifestation of the economic geography argument that distance matters? or simply monopolistic pricing by publishers who divide the world into regions and exploit different demand elasticities?) Fortunately our very good National Library came to the rescue and an inter-library loan copy was rapidly delivered.

This is the perfect book for those who, perhaps justifiably, as we near the end of a cold, dreary winter, are feeling a tad Eeyore-ish. It simply bubbles with optimism. At every page, the world is a better place and the future bright. Despite a doubling of the world's population since 1955, life expectancy has increased, poverty rates have fallen, infant mortality has dropped, fewer die of disease, and incomes are much higher. Each page sparkles with little gems - the average Botswanan earns more than the average Finn did in 1955. Exceptions are few - real income per head is lower than in 1955 in only six countries (Afghanistan, Haiti, Congo, Sierra Leone, Liberia and Somalia) and life expectancy lower in only three (Russia, Zimbabwe and Swaziland).

This is the backdrop to a masterful tour of human history, in which the division of labour, trade and human ingenuity and enterprise have made a better world for almost all people and done so in a remarkably short time.

And no, he does not shy from the tough issues of African stagnation or the environment and climate change. If you need reassurance that humanity has and will continue to improve its lot, start here. Written with wit, it blends economics, history, philosophy and biology into a fascinating description of "how human civilisations move forward"

But now for something even newer (and home grown). History as it happens. Every economist in New Zealand (and hopefully a few of the great unwashed) will want to read "What the Governor saw" or *Alan Bollard with Sarah Gaitanos (2010) Crisis: One Central Bank Governor and the Global Financial Collapse* (Auckland: Auckland University Press). This is an extraordinary book, detailing extraordinary times by an extraordinary author. Can a reigning central bank governor be expected to write a book documenting recent events? Surely this is the stuff of memoirs to be written after a decent interval beyond leaving office? And could the governor say enough to make it interesting without either revealing that which he should not reveal, or perturbating the markets.

Dr Bollard has skilfully achieved both – scrupulously careful (in his own words) yet revealing enough to make this a fascinating tale seen from the inside. Can history be written as it happens? I am in no doubt that in the fullness of time when chroniclers review the GFC there will be some different perspectives – like wine, maturation inevitably alters its character. But the governor is at pains to stress this was motivated by wanting to contribute to Bank's oral history archives. And surely many of the details and nuances might well fade were reliance placed solely on distant memories and old documents. So we have it – warts and all – but presented in a highly readable and non-technical style. In fact those wanting a good blow-by-blow account of the evolution of the GFC would be well advised to start here.

The account is interspersed with asides as to the physical and emotional toll it placed on the governor – far from maudlin, it is done in way that engenders genuine empathy. At the time of his appointment an economist colleague noted (a trifle cynically) that "Don Brash was generally done with running the Reserve Bank by 10am most days – shouldn't take Alan long to get to that point". I am sure the governor wishes that that had been the case. If you are contemplating a job offer as governor, be sure a GFC isn't looming, would seem to be the moral of the story.

To end – a couple of minor quibbles. The governor states rather baldly that "households have not (been saving)" (p.17). Doubtless he had in mind the negative household savings estimates from the national accounts with which the former Minister of Finance so frequently beat us over the head for our profligacy. But given the vagaries of the savings data a slightly more nuanced statement might have been justified.

The governor ends the volume by drawing an interesting parallel with the Black plague (emanating in China, spreading to Europe, wrecking havoc... etc). However the analogy would seem to break down in least a couple of respects. First blaming the Chinese (for their high saving levels) rather than the US regulators (for watching on the sidelines as one dubious instrument was derived from yet another dubious instrument) seemed a bit unfair. And secondly, students of the plague will recall that the ensuing labour shortages lead to dramatic increases in real wages. If only the GFC had had the same effect (setting aside the inflated bonuses of the Wall Street financiers).

And finally for a different slant on the economy – this time by the professor who supervised Alan Bollard's PhD: *Roger Bowden (2008) The Economic State of the Nation* (Wellington: Kiwicap Research Ltd.). The first reaction to a book like this is to note with a sigh of relief, that at least there is still an odd(?) academic who can communicate with the punters in the pub in Riccarton. No fancy math – nay, nary a reference, dear reader. But written with a certain Bowdenesque irreverence - suggesting for example that in the case of a distinguished group from the IMF writing a commentary on New Zealand, "the glow worm caves might have been helpful in shedding a bit of light on what it was they were supposed to do, because the outcome wasn't too flash" (p.9). Whether lamenting that crime is a growth industry, or despairing of the quasi religious edifice of public sector managerial bureaucracy (with its own burobabble), the good professor leaves few stones unturned (and most of the turned ones are hurled with considerable accuracy). No shying away from education (graduates from the University of Zimbabwe write more coherent

[continued on page 6]

letters applying to graduate school than New Zealanders), the environment (not taxing agricultural emissions shifts the burden to low income households) or health (the history of health services in NZ resembles the fossil record of the crustaceans). Overall, a good grade for the professor for writing sensible economics in a non-dismal manner.

Something to contemplate?

Should the income tax system include a tax credit for short taxpayers and a tax surcharge for tall ones? I end this column with an intriguing proposition by serious economists. I must stress however that at 1.92m I am not personally overly enamoured with the idea. N. Gregory Mankiw and Matthew Weintzierl explain how the standard utilitarian framework for tax policy analysis says that individual attributes correlated with wages, such as height, should determine tax liabilities. Taller individuals should pay higher taxes. If this is objectionable, they argue, then something is wrong with the standard framework. For more see: http://www.voxeu.org/index.php?q=node/3651

A D BROWNLIE LIFE MEMBERSHIP

Bert Brownlie was an early supporter and inaugural member of the New Zealand Association of Economists from its foundation in 1959. He served on the editorial board of its journal, *New Zealand Economic Papers,* from its first issue in 1966 to1980 and was its editor for four years, succeeding Frank Holmes and Ian McDougall in late 1969.

Bert held the view that the journal warranted support from his fellow economists at Canterbury and led by example with two articles, one jointly with a Canterbury colleague, in the first two issues of *NZEP*. Even before he became editor, Canterbury economists conspicuously contributed at least one-third of the articles in the journal. This ratio rose to nearly one-half during his editorship. And the share of theoretical and applied econometric material published in *NZEP* also increased markedly from 34% to 75% during his editorial stint. His own published work was largely in applied econometrics on various aspects of the New Zealand economy.

A very significant contribution of Bert Brownlie to the development of the economics profession in New Zealand lay in his efforts to bring a more mathematical-cum-quantitative pedagogic emphasis to the training of economists in line with overseas trends. Soon after he assumed the second chair in economics at Canterbury in 1965 and succeeded Alan Danks as Head of Department, Bert introduced two very important changes in degree regulations at Canterbury to tap the pool of talented students likely to be attracted by the mathematical and statistical applications of economics.

The first change, commonly known at Canterbury as the " knight's move ", enabled non-Commerce graduates with a strong mathematical and statistical background to skip introductory and intermediate second-year economics courses and embark on a two-year Masters programme in economics.

The second change was to introduce economics as a "majoring subject" in the Faculty of Science. This opened the possibility for very bright school-leavers to gain " direct entry " to the Honours school and complete a B Sc Honours degree in economics in three instead of four years.

The knight's move programme began in 1967 with an initial intake of three students and was largely responsible for the large Masters economics classes in the period 1968 to the mid-1970s at Canterbury. Many of the students—from chemistry, engineering, mathematics, physics and statistics and from other New Zealand universities—were outstanding and went on after graduation to notable careers in academia and the New Zealand public and private sectors. One example is the late John McMillan, after whom the Association has named a memorial lecture. John Yeabsley was another well known Knight's mover.

There is no doubt that the Canterbury Economics Department headed by Bert Brownlie was the largest supplier of economists with quantitative skills in New Zealand in the late 1960s and 1970s.

Bert's other major contribution as an economist was to serve in a number of national and international committees, including the *ECAFE Group of Experts on Programming Techniques* (1968-69), *NZ Consumer Price Index Revision Committee* (1971), *Commonwealth Experts Group on a New International Order* (1975-77), *Wage Hearing Tribunal* (1976) *and the Commonwealth Experts Group on the World Economic Crises* (1980). *He was also the Chairman of the New Zealand Monetary and Economic Council* (1972-78) *as well as the Australia-New Zealand Foundation* (1978-83).

Finally, he was appointed Vice-Chancellor of the University of Canterbury in late 1978 to the great delight of many in the institution and his 20-year stewardship as its academic and administrative head was characterised by a lean, efficient and effective administration.

The Association is pleased to award a life membership to Bert for the important part he played in steering *NZEP* in its early life and his varied and invaluable contributions as mentor, educator, policy advisor and administrator.

March 2009

NUDGE, NUDGE... FROWN, FROWN:

by Grant M. Scobie (grant.scobie@treasury.govt.nz)[1]

"The curious task of economics is to demonstrate to men how little they really know about what they imagine they can design."

F A Hayek, The Fatal Conceit

Recently we have been subject to a barrage of behavioural economics. No, this is not the economics of behaviour (in a Beckerian sense). Rather it is a challenge to the neoclassical models built on stable preferences and rational, self-interested decision makers.

Plugging the words "behavioural economics" into Google gave 125,000 entries. Google scholar managed to identify over 4,000 books and papers. And when we add in a few Nobel laureates, behavioural economics must have something going for it. It has been applied to optimal taxation, happiness, crime and justice, competition, climate change, addiction, international development, labour markets, health, consumer protection, ecological economics, finance ... and just about anything else that moves.

Two broad questions can be asked:

A. Does behavioural economics represent a new body of theory?

B. Has anything emerged so far to help us with policy analysis and design?

The short answer is "no" to both – but I will at least endeavour to be a little more nuanced.

A. Does behavioural economics represent a new body of theory?

First, I have a minor quibble with the name. Economics has always been about behaviour. Adam Smith made it very clear that many human attributes and foibles beyond narrow self-interest influence the choices people make.

Behavioural economics is at present nothing but a collection of assorted, mainly laboratory based experiments – it seems every paper on the topic one picks up starts with the ultimatum game. All these experiments purport to show that there are circumstances in which the predictions of rational choice theory seem to be at odds with observed behaviour. At this point the researcher scans a wide menu of psychological theories looking for an explanation. From this array it is almost certain that some psychological explanation perhaps supported by MRI scans of brain activity, will be found *ex post facto.*

In other words, behavioural economics offers us a reason why apparently 20 Harvard undergraduates (with no control group) irrationally chose 5 beers now over 10 beers tomorrow – and then finds a clever bit of psychology to "explain" the behaviour be it herd behaviour, hyperbolic discounting, evolutionary biology or a host of other new and exciting bits of behavioural science.

Recognising that information is costly, people rationally economise – hence rules of thumb are not a departure from rational behaviour but a logical response to a relative price. In fact, it seems that in much of what behavioural economics purports to illuminate is nothing more than a response to changes in relative prices and incomes, operating under a stable set of preferences.

In fact however, people recognise they make mistakes and when there is great uncertainty they take steps to deal with that. Few buy put options on pork bellies, but will invest in managed funds; few go white water rafting alone but will go with a guide; those who have a poor sense of direction use a NavMan. We economise on information gathering by outsourcing the task and subscribing to *Consumer* magazine.

So while this has resulted in some new and interesting explanations of individual behaviour, it falls far short of being a body of theory useful for predictions about aggregate behaviour. This may at least in part explain why to date we have seen little contribution of behavioural economics to issues of public policy.

B. Has anything emerged so far to help us with policy analysis and design?

The essence of behavioural economics stems from a concern that rational behaviour driven by self-interest will not guide many of us to health, wealth and happiness. We simply just make the wrong choices: we choose sticky date pudding instead of raw pears and tofu at the restaurant, we spend today that which we should be saving for tomorrow: in short we constantly make bad decisions about how to run our lives and we will come to regret them and wish we'd made other choices.

This disturbing state of affairs arises because *homo economicus* tends to be in a constant state of computational overload, and suffering from partial ignorance about the options and consequences, makes mistakes. How can one possibly use rational choice theory when standing in front of 27 linear metres of bread in the supermarket, when one loaf is all that is required? Is it organic? What is the saturated fat content? Does it contain genetically modified material? Have any of the imported ingredients come from countries that are paying exploitive wages, using child labour or cutting down rainforests? Is it more environmentally caring to buy the loaf wrapped in a paper bag, rather than one enveloped in a petroleum extract?

Enter the State - nudging you in ways so subtle that you will scarcely notice. Knowing what is best for you and will guide you into individual choices that will make you happier. At this point one must question if the State really does know that we'd all be happier, then why it would stop short of requiring us to follow her dictates.

[continued on page 8]

Furthermore, why would we accept that well meaning bureaucrats and politicians suffer less from bounds on rationality, procrastination, myopia and a lack of self-control than the rest of us? Surely the act of being appointed or elected does not suddenly confer such insights? Why should we be confident that their ability to promote the interests of their individual subjects is any better than that of the individuals themselves?

If I can't decide whether the extra cost of having airbags is better for my family than spending the money on my daughter's piano lessons, can I really be confident that my colleague in the Ministry of Transport can do any better?

The disciples of the new school admit there is paternalism. But this is the soft, fluffy libertarian kind. So if you want to be pig-headed and ignore what the state tells you should be doing: go ahead and opt out- it's your choice. There is no suggestion that the state will say "I told you so and now you're on your own."

In fact if your foolishness leads to poverty or ill-health, the state will be there to pick up the pieces, using the taxes its collects from those sensible nudgees who followed its advice in the first place (which incidentally does rather amount to a somewhat perverse cross subsidy from the righteous to those that stray!).

Don't get me wrong – I am not opposed to certain nudges. But I have a deep and abiding suspicion we don't need new behavioural theories to explain what any reasonable 101 student with a grasp of neo-classical principles could have told you: people use all sorts of short cuts and rules of thumb because it economises on time and effort and recognises that sometimes the marginal costs exceed the benefits of acquiring full information. In short, nudging seems to overlook the rational reasons for what appear sub-optimal decisions.

Of course we are all nudged by the state constantly – I am nudged when the barrier arm comes down at the level railway crossing, a recommendation by the state that I stay put and waits for the train to pass. But in the spirit of libertarian paternalism, I am left with the choice of opting out and driving around the end of the barrier, as you will have noticed that some folks do.

Thaler and Sunstein2 would undoubtedly support this: "Choice architects can preserve freedom of choice while also nudging people in directions that will improve their lives." (p.252)

Ask around the policy circles of Wellington for an example of behavioural economics informing policy, and the standard response seems to be the example of the highly successful KiwiSaver programme. That success is attributed to the "opt-out" facility, an ingenious policy innovation attributed to the insights of behavioural economics.

But just a moment... surely all opt-out does is lower the transactions costs of enrolling? In other words, if you make something cheaper, people will acquire more of it - which does strike me as precisely what neo-classical price theory would have predicted. Did we really need a new theory of behaviour to figure this out? And with bribes from the taxpayer to join, then surely this is a case of the basic rule of policy analysis: "if you give free beer, people will show up"

Conclusions

- Behavioural economics offers some interesting insights and explanations for how some individuals make decisions.
- It does not represent a body of theory that could be used to form testable hypotheses about overall economic behaviour, replacing rational choice theory of neo-classical economics.
- Its paternalism misses the more fundamental question: what role does the state have in dealing with our irrational frailties?
- Many of the cases cited can be equally interpreted as examples of rational responses to changes in relative prices and incomes, with stable preferences.
- There are as yet few substantive examples of applications to policy problems.
- However.....

"It is always from minority acting in ways different from what the majority would prescribe that the majority in the end learns to do better." F A Hayek

---

1 The views expressed here are neither balanced (deliberately so in the interest of debate) nor those of the Treasury.

2 R.H.Thaler and C.Sunstein (2008) Nudge: Improving Decisions about Health, Wealth and Happiness (New Haven: Yale University Press).

ECONOMICS AND HISTORY (OR FRAMING AND CONVENTIONS)

by Stuart Birks

The historian Arnold Toynbee wrote:

> "Any account of anything is bound to be selective. The human intellect does not have the capacity for comprehending the sum of things in a single panoramic view. Selection is unavoidable, but it is also inevitably arbitrary; and, the greater the mass of information from which a selection has to be made, the more disputable will be the investigator's choice." (Toynbee, 1976, p. x)

A similar point is made by other historians (Carr, 2008; Durant & Durant, 2010). The point applies as strongly to economics as it does to history. At first glance, the approaches of economics and history are very different. Historians individually select from the vast amount of information. While they may follow convention in the questions they ask and the evidence they use, the conventions are not rigidly set, and there is a conscious selection process with much scope for individual choice.

In contrast, for economics much of the selection occurs unnoticed through acceptance of the conventions of our commonly used theories, data and techniques of analysis. Sumner Rosen wrote, "Long ago economists opted for a separation of their studies from fundamentals. In so doing they adopted a prevailing American view that the fundamentals are not in question" (Rosen, 1972, p. 417). We see this demonstrated in the speed with which a problem is converted into an analysis of a model or to econometric estimation. It is often viewed (by economists, but not necessarily by others) as analysis and debate occurring at higher levels. With the fundamentals being accepted essentially as a matter of faith, the relative merits of alternative pieces of research are then weighed according to the sophistication of the models and techniques.

Historians and economists may be attempting very different things. Some historians are just trying to understand the past with little relevance for the present, or are describing events rather than evaluating outcomes. Perhaps they are so focused on details that they fail to see simplified structures or principles as identified by economists. On the other hand, perhaps their intent is to more ambitious, but with limited success, or they may be more realistic than economists in seeing what can be achieved.

Durant and Durant (2010, p. 11), asking about the value of historians' studies, ask, "Have you found such regularities in the sequence of past events that you can predict the future of mankind or the fate of states?" The answer is intended to be, "No". Carr (2008, p. 171) talks of history being concerned with processes of change (i.e. changing structures) while economists "take cover" in econometrics. This could be rephrased as suggesting that econometrics is a form of historical analysis which is oversimplified and does not address the real issues. They have already been assumed away in the initial framework. The iconoclastic economist, Lawson, would probably agree. He writes, "The most telling point against [econometrics is that] significant invariant event regularities...have yet to be uncovered in economics" (Lawson, 1997, p. 70).

Wolfgang Kasper, as reported in AI No.38, made the point from the other side. Instead of looking at the results from econometrics, he considered the starting assumption of econometric estimation, namely that there is a structure to estimate. Whatever is estimated is then the object that was sought. Hence, "The model approach, which collapses history into a few parameters, easily lulls observers into uncritical confidence". If you assume away the problem areas, then you no longer see those problems.

Shafey (1970), an economist, reviewed Ilchman and Uphoff (1969), whose book attempted to combine analysis of economic, political and social factors into one model. His closing criticism is that they failed to include cardinal measures of social and political resources, with the lack of quantification limiting relevance for policy. There may be good reasons for this, and a reliance on quantification may result in the adoption of inadequate and misleading measures. A discipline such as economics relies heavily on quantitative research methods, whereas others may be more cautious.

Economists do not always hear the criticisms, although there have been many. For example, Mende (2005) suggests that researchers are too quick to move into estimation and application of quantitative techniques, thereby possibly missing numerous other possible perspectives. Similarly, Lindblom (1990) and Dunn see much standard social science policy research as being locked in to established frameworks and "little more than a ratification of conformity" (Dunn, 1997, p. 277).

This leads me to the central point of this short piece. Many economists have a bounded view of the nature of economics research. These bounds can limit the quality of our work. The constraints can be clearly seen when it is recognised that our quantification relies on data, and data relate to the past. This makes our analysis a form of historical investigation. Quantitative economists are doing historical analysis where the view of history is (for our primary techniques) limited to a search for stable structures with constant, estimable coefficients.

These approaches are constraining in their exclusion, from the start, of numerous other possibilities. They are also at odds with the approaches taken in other disciplines looking at the same or similar issues. This does not mean that we are wrong, but it does suggest that we can do better by broadening out and by incorporating additional information, concepts and perspectives from elsewhere.

Carr, E. H. (2008). *What is history?* Harmondsworth: Penguin.

Dunn, W. N. (1997). Probing the Boundaries of Ignorance in Policy Analysis. *American Behavioral Scientist,* 40(3), 277-298.

Durant, W., & Durant, A. (2010). *The lessons of history.* New York: Simon and Schuster.

Ilchman, W. F., & Uphoff, N. T. (1969). *The political economy of change.* Berkeley: University of California Press.

Lawson, T. (1997). *Economics and reality.* London: Routledge.

Lindblom, C. E. (1990). *Inquiry and change: the troubled attempt to understand and shape society.* New Haven, Conn.: Yale University Press.

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

Rosen, S. (1972). Keynes without gadflies. In E. K. Hunt & J. G. Schwartz (Eds.), *A critique of economic theory* (pp. 397-419). Harmondsworth: Penguin.

Shafey, E. A. (1970). Warren F. Ilchman and Norman Thomas Uphoff. The political economy of change. Pp. xvi, 316. Berkeley and Los Angeles: University of California Press, 1969. *The Annals of the American Academy of Political and Social Science, 388*(1), 181-182.

Toynbee, A. (1976). *Mankind and Mother Earth: a narrative history of the world.* New York: Oxford University Press.

BALANCE OF PAYMENTS INCOME REVISIONS AND THE INTERNATIONAL INVESTMENT POSITION

Statistics New Zealand has recently made improvements to the coverage of the income component in the Balance of Payments (BoP) statistics. These changes are documented in the paper Improvements to income in balance of payments statistics.

One aspect of the improvement was the use of incomes data, as reported to Inland Revenue for tax purposes, to estimate investment income flows that were not previously measured. The inclusion of this additional net income in the BoP has raised further questions and speculation about the size of the stock of overseas assets and liabilities that give rise to these investment income flows. One commentator suggested that the additional income may imply net overseas asset levels that would significantly lower the ratio of the Net International Investment Position (IIP) to Gross Domestic Product (GDP) from -86.5 percent of GDP (as at June 2010 quarter) to something closer to -60 percent of GDP1.

This article seeks to increase the understanding of this issue by clarifying which investment incomes and associated stocks of assets and liabilities are currently measured in New Zealand's BoP and IIP statistics and which are missing.

Current Coverage of BoP and IIP Statistics

The balance of payments are a set of flow statistics that measure transactions between New Zealand residents and the rest of the world. The BoP includes transactions in goods, services, income flows from assets held overseas and liabilities incurred by non-residents, transfers and financial transactions between residents and the rest of the world.

Prior to the latest revisions, the main measurement gap was the income flow (inflows and outflows) of individuals, smaller-sized companies and other business type entities (such as partnerships, trusts and estates). These small units were not captured in the existing survey and/or administrative data sources being used. However, this gap is, in principle, now covered by the use of Inland Revenue's income data – "in principle", as any overseas income flows not declared to the IRD by these small units will remain omitted.

It should also be noted that the retained earnings (debits or credits) of any direct investors2 included in this additional IRD population will also be excluded, contrary to BoP guidelines. The additional measured income will be confined to actual income flows declared for tax purposes. However, this omission is not thought to be very significant, given the types of economic units covered by the IRD sourced incomes data.

International investment position statistics are a set of stock statistics measuring New Zealand's liabilities and assets with the rest of the world. The latest net IIP as at 30 June 2010 was recorded at negative NZ$163.7 billion or -86.5 percent of GDP.

The IIP statistics are sourced from the same surveys that are used to measure the investment income flows in BoP statistics. However, there are some known gaps in the coverage of New Zealand's stock of international assets and liabilities. These include:

- New Zealand investment abroad: overseas assets directly held by unmeasured New Zealand resident units such as individuals, smaller-sized companies and other small business type entities (e.g. small managed funds, trusts, estates and partnerships).
- Foreign investment in New Zealand: liabilities held by unmeasured New Zealand resident units such as those described above.

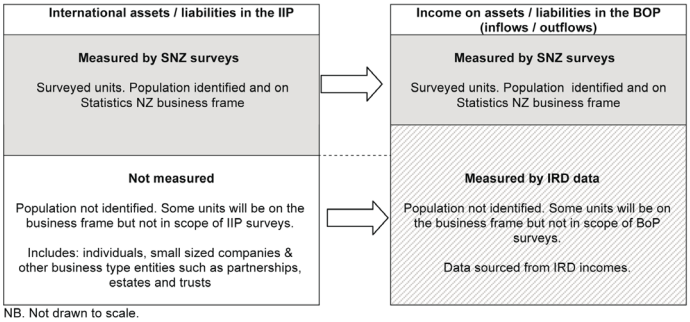
It is generally assumed that the unmeasured units are more likely to hold assets (e.g. shares, overseas property, or funds in overseas bank accounts) than liabilities. While Statistics New Zealand makes annual estimates of (a) the direct equity share holding in overseas companies by New Zealand individuals; and (b) the overseas assets held by small funds managers, these are not considered sufficiently accurate to include in the published IIP statistics3. For example, the estimation methodology for (a) relies on several key assumptions that cannot, at this stage, be fully tested by reference to available data. Changes to these assumptions can significantly alter the size of the estimate.

Aligning the two sets of statistics

Table 1 illustrates the lack of alignment in the coverage of the two sets of statistics. As can be seen, the BoP coverage is – in principle – now complete, whereas that for the IIP is not. Furthermore, the *survey coverage* of the IIP is greater than the *survey coverage* of the matching BoP flows – this is shown by the dotted line in the table. What this indicates is that some of the assets and liabilities that give rise to the additional IRD sourced income are already included in the IIP via SNZ surveys.

Table 1

Coverage of international liabilities and assets in the IIP and corresponding investment income in the BoP statistics



NB. Not drawn to scale.

The composition of the IRD income flows

The additional investment income credits have been derived from tax returns for both individuals and estates (IR3, 1R6 and IR7 returns) and companies (IR4 and IR4F returns). From a

statistical perspective, one of the limitations in using this data is that the "overseas income" is captured in a single field and it is not possible to distinguish between different income sources. The IR3 for example could be including income from labour, rentals, investments, royalties, service contracts and even a pension. In the absence of other information, it has been assumed that most income will relate to investments and all of the income has been classified in the BoP accordingly.

This income identification problem does not apply to the additional investment income debits. These are sourced from the IR67 and IR3NR returns which have separate fields for interest, dividends and other distributions either remitted overseas (IR67) or earned by a non-resident (IR3NR).

The investment income credits data also suffer from a number of unmeasured quality issues:

- True investment income is likely to be underestimated due to exemptions applied to overseas income from grey-list countries (removed in 2009) and the four-year exemption granted to recent migrants (from 2006).
- Changes in the foreign investment fund regime may lead to switches in declaring income from a "fair dividend" basis to one involving capital losses.
- The latest year's estimates are based on incomplete tax data and involve some extrapolation of previous year's returns. Given the significant fall in asset values in 2008/9, returns in these earlier years will be a poor guide to the latest year's income.

Estimating the unmeasured component of the IIP

From Table 1 it can be seen that it may be possible to estimate the unmeasured assets and liabilities in the IIP by working back from the investment income debits and credits they generate (now measured via the IRD income source) and assumed yields. Any values so derived are very sensitive to (a) the assumed rates of return and (b) the percentage of the additional BoP 'investment income' credits that are assumed to truly reflect investment income.

Allowance also needs to be made for the non-alignment of the BoP / IIP survey sources. In particular, the assets and liabilities of enterprises recorded in the IIP but not in the BoP need to be deducted before deriving additional IIP assets and liabilities using the above method, otherwise they will be double counted.

Using the above approach, Statistics New Zealand has made an estimate of the unmeasured component of the IIP based on the following simple assumptions:

i) Investment income inflows. The income flows are first split into business and household income based on the type of tax return. It is then assumed that 66 percent of the business overseas income and 50 percent of the households' overseas income is true investment income. These percentages are entirely hypothetical as, at this stage, no additional information is available to more accurately split the single "overseas income" by source.

ii) Investment income outflows. These are split into interest and dividends as given in the IRD data.

iii) Yields. Using unpublished data on BoP portfolio investments (debits and credits)4, average yields for the last five years (2006-10) were obtained. These were:
   - Assets: equity 2.09 percent and debt 7.77 percent (a simple average of 4.93 percent is used in the calculations as the IRD data does not provide an instrument split); and
   - Liabilities: equity 7.22 percent and debt 4.13 percent.

The result was a March 2010 NIIP estimate little different to that published. The additional international assets ($20.9 billion) were largely offset by additional liabilities ($17.9 billion). The NIIP:GDP ratio changed from -85.9 percent to -84.3 percent. Of course, different assumptions would produce different results.

It must be emphasised that this estimate has been produced solely for illustrative purposes. While the assumptions are considered "reasonable", the resulting estimates should not be seen as official statistics.

Conclusion

Statistics New Zealand has been very cautious in including the Inland Revenue derived income data into the BoP. While it has a number of weaknesses that are difficult to quantify, it is nevertheless considered a good proxy for income flows that were not previously captured. This BoP revision is consistent with the data collection strategy adopted by Statistic New Zealand which will lead increasingly to data being primarily sourced from administrative sources and away from direct collections.

However, the new data has not been used to model estimates that might be used to close a gap in the coverage of the IIP statistics. While simple estimates can be derived using the approach described above, it is considered that further work is needed on improving the breakdowns of the incomes data and on verifying the yield assumptions before such estimates might be included in the official statistics.

For more information or comment please contact Salendra Kumar at Statistic New Zealand (salendra.kumar@stats.govt.nz).

Peter Kennedy
In memoriam

Sadly Peter Kennedy, a keynote speaker at this year's conference, unexpectedly suffered a heart attack and passed away on Tuesday September 1st. You can read an obituary at: http://www.sfu.ca/sfunews/news/obituary-peter-kennedy-may-18-1943-aug-30-2010.shtml

1 http://www.westpac.co.nz/olcontent/olcontent.nsf/content/FM_Bulletin_20100922C/$FILE/Q2_Current_Account_Review.pdf

2 A direct investor is either an individual or an enterprise which owns 10 percent or more of the ordinary shares or voting power (for an incorporated enterprise), or the equivalent (for an unincorporated enterprise), in an enterprise located in an economy other than the one in which the direct investor resides.

3 The estimates are, however, published in the technical notes to the Balance of Payments releases.

4 The unmeasured units in the IIP are mainly individuals or small business units and it was considered that their investments would be predominantly portfolio in nature.

RE-VISIONING

by Stuart Birks

It is now recognised that private sector debt reduction is limiting the pace of recovery from the current recession. While this was perhaps unexpected, it is acknowledged that there are longer term benefits in the form of lowered indebtedness and hence a stronger underlying financial position. This could be mitigated by the public sector compensating with equivalent stimulus packages, but that is unlikely.

Analysis of possible scenarios is commonly undertaken by means of economic modelling. This approach tends to be narrow, with fixed underlying structures and questions of the form, "change the value of X and see what happens". There is potential for us to benefit more from the experience of the past couple of years than would be identified in this way.

Consider this speculation. In switching from a borrow-to-spend mentality to one of paying off debt, households have had to adjust their living standards to fit a much lower level of expenditure. Imagine if this became the new norm. In other words, what if households adopted the perspective that their sustainable living standard was that associated with a significant amount of, currently, debt reduction and, in future, savings accumulation? This would not involve reductions in consumption, these have already occurred. All that is needed is an avoidance of consumption spending increases.

The effects could be dramatic in several ways. It is not beyond the experience of some communities for those in full-time employment, or with substantial investments to save and invest 20-25 percent of their disposable household income. This has been achieved as an average over all households in some countries, as for Italy and (South?) Korea in the early 1990s according to OECD data reported at: http://econ365.files.wordpress.com/2008/10/gross-savings-rate.pdf.

Without attempting to give actual numbers here, consider the implications of a substantial, sustained increase in household savings. It should be noted that increased savings need not necessarily result in lower levels of demand and economic activity. If the resources are invested in the development of productive assets, aggregate demand need not fall. The government's focus on infrastructure as a component of its stimulus packages illustrates this. There would simply be a shift of spending from consumption to investment.

The change could open up the possibility of an initiative as described for Japan by Ojimi (Eatwell, 1987, p. 737). Briefly, a country's options in a world economy could be described as those according to comparative advantage as determined by its current resource and factor endowments, but the prospects from such a path may be undesirable. In Japan's case, a low-income, low-growth future was rejected in favour of an alternative. A more attractive outcome was possible if success could be achieved in more high-tech, high-growth industries. Quoting Ojimi:

> From a short-run, static viewpoint, encouragement of such industries would seem to be in conflict with economic rationalism. But from a long-range viewpoint, these are precisely...where income elasticity of demand is high, technological progress is rapid, and labour productivity rises fast...

Such an alternative was envisioned, and a strategy put in place with that as the goal. It is based on the fact that comparative advantage is not exogenous, it can be varied. New Zealand could now follow its natural course, simply improving the private debt position, household by household, and then reverting to increased consumption. It has another choice, however. It could attempt to picture a future scenario that could be attainable with continued lower consumption and associated higher investment.

For example, we could ask, "What sort of economy would give income parity with Australia, plus a good living environment?" This should open up a broad debate. With high levels of savings, a number of co-ordinated investments covering several broad initiatives could be undertaken. This should be contrasted with "think big", which required limited co-ordination and buy-in, or "picking winners", which is a consequence of limited investment funds.

So what issues might this raise? If we rely on the primary sector for growth, can we achieve high incomes for farm and forestry workers, or will there always be a need for low-paid fruit pickers, say? Would high incomes for workers in the rural sector involve increased mechanisation, other forms of higher skill, or integration with other activities such as tourism? Can we build up a high-paying manufacturing sector, or should we rely on services such as tourism and education (and film/computers)? Can we better use our large and diversified migrant communities to access overseas markets and develop manufacturing and trade links? This might involve greater interaction with these migrant communities because of their knowledge of other cultures and languages, and their links to other countries, giving additional benefits.

There is a greater incentive to be informed when the information is of direct value. Broadly-based savings could result in high levels of participation in debate on issues such as these. If so, it would tie in with another initiative currently under way. Sir Peter Gluckman's attempts to raise the status and profile of science in New Zealand could be boosted by a general interest in potential developments that would open up new investment opportunities for the available funds. (He discusses potential areas for development in Gluckman, 2010.) A culture of resource-backed innovation, experimentation and risk-taking might then arise, with less reliance on foreign initiatives and funding. At the same time, a more dynamic local economy might attract additional foreign investment and skill and knowledge transfer.

Other spin-offs may occur as a result of this exercise. With a growth in investment opportunities, the share market may be seen more as a place for capital raising by companies and less a source of short-term capital gain for shareholders. There could be increased awareness of the benefits of co-ordinated activity over industries. A more dynamic economy would be more attractive for young people. Of course, changes such as these do not occur over night. Attitude changes, plans and co-ordination take time, but so also does the accumulation of funds from savings.

A first step could be recognition of a path, or an awareness that a different direction is both possible and potentially rewarding. Perhaps the question is whether the population is able and willing to see and respond to the challenge. For economists, a challenge might also be whether our discipline is able to incorporate such considerations into our analyses.

RESEARCH IN PROGRESS...

Continuing our series on the research projects currently underway in Economics Departments and Economics Research Units throughout New Zealand, in this issue we profile the research currently being undertaken by economists at Lincoln University. The objective of this section is to share information about research interests and ideas before publication or dissemination - each person was invited to provide details only of research that is new or in progress.

...economic research at Lincoln University October 2010

Details have been provided by two units, the Agribusiness and Economics Research Unit (http://www.lincoln.ac.nz/aeru), and the Department of Accounting, Economics and Finance

Agribusiness and Economics Research Unit

Paul Dalziel, *Professor of Economics, Deputy Director, AERU, PhD (Otago), MCom*

Paul's main project continues to be the FRST-funded Education Employment Linkages research programme (www.eel.org.nz). Jane Higgins, Hazel Phillips and Moana Mitchell in the AERU are also involved, along with Karen Vaughan of the NZCER in Wellington. He has just completed the New Zealand country study for an OECD project on *Leveraging Training and Skills Development in SMEs,* and has been invited to be part of an OECD Review on Climate Change, Employment and Local Development in Sydney. Paul is a member of the Alternative Welfare Working Group, Welfare Justice, which is producing two reports by the end of 2010.

John Fairweather, *Professor of Rural Sociology, BA BAgrSc (Cant) MA PhD (Missouri)*

Farming, rural society, innovation, land use change, land and society interactions.

Glen Greer, *Senior Research Officer, BAgr.Sci.(Hons) Cant*

Glen has 30 years' research experience in the economics of, and issues affecting, the New Zealand primary and resource sectors. Work undertaken includes farm and industry level research for the merino, dairy, horticultural and broader sheep and beef sectors, and projects for regional councils covering a diverse range of resource management issues including irrigation, biosecurity and air quality. She has been involved in studies into the markets for New Zealand's primary products and in policy and institutional analysis, and has a particular interest in high country issues. Current work includes the FoRST-funded ARGOS programme on the sustainability of New Zealand farming systems, examination of progress towards clean air standards in the Canterbury region and information systems for the arable sector.

Meike Guenther, *Research Associate, Dpl.-Oek (Germany)*

Meike Guenther has been a Research Associate at the AERU since 2008. During this time, she has been involved in several research projects predominantly for external clients, including preparation of Economic Base Reports of the Canterbury region and its districts, an ongoing 'carbon emissions labelling' project, and the development of a multi-agent simulation model for the Rural Futures FRST programme. In addition, she was the key Research Associate for two research projects for the Bio-Protection Research Centre in 2009 and 2010. Meike holds a German postgraduate Degree in Economics and Social Science (Diplom – Ökonomin) and is a member of the New Zealand Agricultural and Resource Economics Society.

Lesley Hunt, *Research Officer, PhD, BSc(Hons), Dip Tchg, ATCL*

Work and identity, public perceptions of biotechnology, agricultural conversion processes.

Simon J. Lambert, *Research Officer, BA, MA (Hons) (Canterbury), PhD (Lincoln)*

Maori agribusiness, Maori and indigenous environmental management, economic geography, social capital, cultural resilience, technological innovation.

Caroline Saunders, *Professor of Trade & Environmental Economics, Director, AERU, BSc(Hons) UCNW, PhD (Newcastle, UK)*

Caroline has been working a variety of projects. This includes the ongoing ARGOS programme where she with Chris Ensor is looking at resilience of farming systems. She has also just published with the help of Meike and Tim the latest version of Consumer attitudes in overseas markets. Other projects ongoing is the MAF funded project with Land care on modelling climate change; a project for DEFRA on trade and the environment using the LTEM (Lincoln Trade and Environment Model) looking at the implication of the EU Mercosur agreement. Currently she has a project (again with Meike) looking at the economic impact of the earthquake. Projects completed this year are the economic model to aid selection of growing sectors and the impact of economic development, a model developed along side the Canterbury Economic Development Agency. A project on labelling issues especially around climate change (with Meike and Sini) and the surveys of UK and Japanese consumers.

Peter Tait, *Research Officer*

Peter has just joined the unit and has expertise in choice modelling. He has been working on projects for two major NZ companies doing choice modelling of domestic and overseas consumers. Peter has also been working on a project looking at resource efficiencies for the Ministry of the Environment.

Department of Accounting, Economics and Finance

Ross Cullen: Evaluation of ecosystem services for Canterbury water projects (with Ed Hearnshaw and Jean Tompkins). Perceptions of the state of the New Zealand environment (with Ken Hughey and Geoff Kerr). Economic analysis of biodiversity management projects. Uptake of alternative energy systems (with Ramesh Baskaran and Gregory Liyanarachchi). A choice experiment study of land use in the Mackenzie Basin (with Ramesh Baskaran

Ramesh Baskaran: My current research focuses on environmental impact of land use in the Mackenzie Basin particularly by agricultural sectors. I was also awarded a 2010 LURF grant for a study on household preferences towards micro-generation technologies (i.e. generating own electricity via renewable energy).

Katie Bicknell: My research focuses on economic analysis of animal health issues, and hedonic analysis of wine prices.

Hugh Bigsby: Research interests cover a wide range of forestry, resource and development economics. Current projects include biosecurity and risk assessment, economic and community development, community forestry, forest carbon markets, environmental and ecosystem services, and low impact logging systems.

Chris Gan: Research interests include microfinance, commercial markets, development economics, Asian economy and stock markets and Islamic finance.

Ed Hearnshaw: The cost-effectiveness and sustainability of water storage projects using an integrated water resource management approach. The topological structure of supply chain networks for improved supply chain management.

Baiding Hu: Investigate the role of productivity growth in reducing energy intensity at sector level in China over the last twenty years.

Michael Lyne: Governance, group and management factors influencing the performance of farmer-owned marketing companies in Sri Lanka. Small farmer investment in coffee grown in Papua New Guinea. Linking small farmers to markets in Nepal and Vietnam. Inefficiency of farmland rental markets in Vietnam. Implications of a tax on greenhouse gases for livestock farmers in New Zealand.

Ian MacDonald: Advertising, pricing in communication (email) networks, economic solutions to spam; economic impacts of social divergence and immigration policy; economic issues in the wine industry.

Sandra Martin: My research is focused on agribusiness and development in emerging and developing economies, in particular: Agribusiness value chains/supply chains; Indigenous entrepreneurship and poverty alleviation; Linking producers to markets through pro-poor initiatives.

Paul McKeown: Economic education. Student learning behaviour. Predicting student performance. Analysis of online learning behaviour. Computational limits of neural networks. General computational limits.

Gillis Maclean: My interests are the teaching of economics and student learning behaviour, social issues, economic methodology and history of economic thought. Current projects include poverty line measurement, household economies of scale, prediction of marks for exam aegrotats and student use of on-line quizzes

Nazmun Ratna: Nazmun's current research includes evaluation of economic impact of diversity and the process of economic assimilation of immigrant workers in the US and Canada. She is currently at ANU, working on a book project on social capital with her co-authors at Crawford School of Economics and Government. Their book focuses on economic significance of social networks and use of social capital as a public policy tool. She is also involved in a project evaluating the impact of organisational social capital on the productivity of the hotel industry in New Zealand.

Amal Sanyal: Economic development, macroeconomic policy, political economy; Asian economies.

Gerry Nartrea: Role of volatility, extreme returns, and momentum in asset pricing in Asian stock markets; microfinance and poverty alleviation; individual risk preferences, decision analysis and risk management.

Stanley Paulo: Impact of USA and UK legislation on business finance.

Zhaohua Li: Corporate governance, financial market, and banking with particular interest in emerging markets.

WHAT'S AHEAD?

By Anthony Byett

We come to the quiet time of the year for local seminars and workshops but there are still exciting events listed on www.nzae.org/conferences/general. This webpage is a collation of seminars, workshops, forums and conferences of relevance to New Zealand economist, updated 2-3 times per month by the NZAE. Please provide details of your event to anthony.byett@xtra.co.nz for inclusion.

A sample of the events coming up in the next few months include:

- 30-Nov. David Pannell from Western Australia joins local Graeme Doole in Hamilton to consider New Zealand's next top model i.e. their experience with bioeconomics.
- 6-Dec. Colin James will chair an IPANZ debate in Wellington on fast-tracking legislation, an issue raised by the recent Canterbury experience.
- 16-Dec. Ayhan Köse from the IMF and Tommaso Monacelli from Italy's Università Bocconi will provide keynote presentations at a Reserve Bank of New Zealand workshop on "The transmission of international shocks to open economies".

Early warning!
Conference 2011

COMPETITIONS AND PRIZES

Note the prizes on offer for the 2011 NZAE Conference, being held in Wellington, June 29-July 1.

The Conference abstract deadline is 30 March 2011.

Now is the time to start planning.

The Jan Whitwell prize

An award to honour the memory of Jan Whitwell (1944-1993), one or more prizes are given for the best presented paper by a current or recently graduated student. (Specific details can be found at: http://www.nzae.org.nz/awards/jan-whitwell.html)

nzier **Poster Competition**

This competition is in two categories: 'Post-graduate Student' and 'Open'. The student entries are for work in progress or completed no earlier than July 2010. More details are at: http://www.nzae.org.nz/awards/poster.html.

The New Zealand Capital Markets Prize

An award to the paper that best advances our understanding of New Zealand Capital Markets. Sponsored by the Reserve Bank of New Zealand, the Ministry of Economic Development and the Treasury, further details can be found at: http://www.nzae.org.nz/awards/Capital_Markets_Paper_Prize.html.

The Statistics New Zealand Best Use of Statistics Prize!

The prize will be awarded to the paper that is deemed to have the best use of official statistics.

Judges will be assessing:

- Clarity of analysis;
- Soundness of method;
- Any methodological innovation; and
- Assessment of data validity and adequacy.

For more details, see:
http://www.nzae.org.nz/awards/Statistics_NZ_Prize.html

NZAE SPECIAL INTEREST GROUPS

As part of the NZAE Council's efforts to add value to members, a number of special interest groups have been established and forums held. Groups include Auckland business economists, Christchurch economists, CGE modellers, and first year co-ordinators. Anyone interested in hosting a forum or establishing a group, please let me know.

Mary Hedges, President

ABOUT NZAE

The New Zealand Association of Economists aims to promote research, collaboration and discussion among professional economists in New Zealand. Membership is open to those with a background or interest in economics or commerce or business or management, and who share the objectives of the Association. Members automatically receive copies of New Zealand Economic Papers, Association newsletters, as well as benefiting from discounted fees for Association events such as conferences.

WEB-SITE

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

MEMBERSHIP FEES

Full Member: $120 | Graduate Student: $60 (first year only)
If you would like more information about the NZAE, or would like to apply for membership, please contact:
Bruce McKevitt - Secretary-Manager,
New Zealand Association of Economists
PO Box 568, 97 Cuba Mall. WELLINGTON 6011
Phone: 04 801 7139 | fax: 04 801 7106
Email: economists@nzae.org.nz

MEMBER PROFILES WANTED

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

NEW MEMBERS

Anton Nannestad (Telecom NZ Wellington); **Karen Komiti** (Regulatory & Consumer Affairs, Samoa); **Tere Kingi** (Whitireia Community Polytechnic Auckland); **John Kidd** (McDouall Stuart Securities Wellington); **David Law** (Treasury); **Wael Al-Nabhan** (Smart Smile Pty Ltd Australia); **Jaikishan Desai** (Victoria University); **Andy Carson** (Statistics NZ); **Wido van Lijf** (Statistics NZ); **Matthew Haigh** (Statistics NZ); **Michael Cameron** (University of Waikato); **Chris Schilling** (NZIER); **Yvonne Phillips** (Environment Waikato); **Dieter Katz** (Treasury); **Simon McNaughton** (Treasury); **Dan Marsh** (University of Waikato); **David Evison** (University of Canterbury); **James Zuccollo** (NZIER); **Mary Hoover** (Auckland Univ of Technology); **Angus White** (Treasury); **Ingrid Sage** (None); **Preston Davies** (LECG); **Sarah Crichton** (DOL); **Xintao Zhao** (DOL); **Anne Fale** (DOL); **Richard Manning** (DOL); **Vicky Wall** (DOL); **Daniel Farhat** (Otago University); **Anita King** (EECA); **Jenny Lye** (University of Melbourne Australia); **Joe Hirchberg** (University of Melbourne Australia); **James Horrocks** (None); **Asadul Islam** (Monash University Australia); **Keizo Mizuno** (Kwansei Gaikin University Japan); **Amanda Eliason** (MED); **Shirley Nesbit** (MED); **Elisabeth Numan** (MED); **Ying Zhou** (Auckland Univ of Technology); **Mark Johnston** (King's College Auckland); **Nicholas Myers** (Nicholas Myers & Associates); **Murray Shadbolt** (IRD).

Use MATLAB for Economic Modelling!

Request your FREE MATLAB Info Kit and be in to WIN a MATLAB PROMO PACK!

Why use MATLAB® for Economic Modelling?

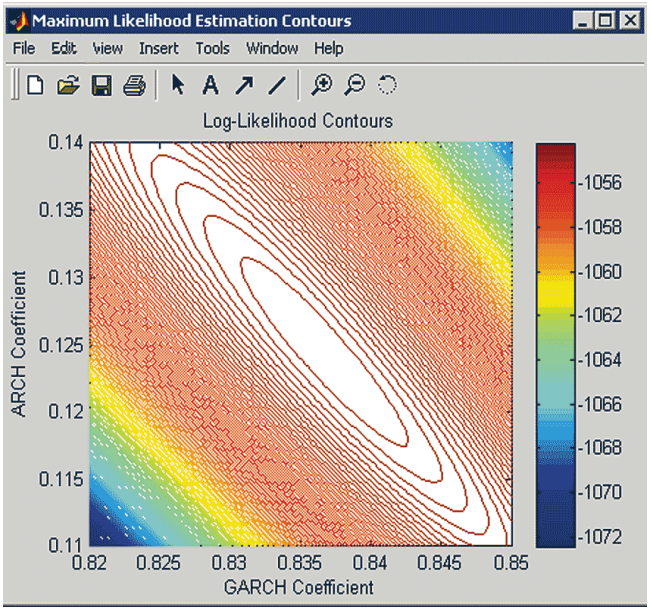
Financial Analysts and Engineers around the world use MathWorks financial modelling tools to easily access and manipulate large data sets, quickly develop new financial algorithms, and automatically create the necessary components to integrate new models into their existing systems. By using the MATLAB environment to quickly develop customised models that can be integrated easily within existing systems, investment professionals can take full advantage of market opportunities.

> *"Creating models in MATLAB takes 10% of the time we used to take programming in C."* - Yanis Kassimatis, Financial Analyst at DMG's Global Markets Arbitrage Group.

Contact HRS today to receive an interactive technical kit loaded with financial product demos and webinars, plus data sheets for the Financial Toolbox, Datafeed Toolbox, Statistics Toolbox, Optimization Toolbox, Financial Derivatives Toolbox, Financial Services Fact Sheet, as well as various user stories. You will also learn about the Econometrics Toolbox that will enable you to model and analyse financial and economic systems using statistical methods.

This Interactive kit includes the most popular financial modelling recorded presentations with Q & A sessions led by industry experts.

- Using MATLAB to Develop Financial Models
- Using MATLAB to Develop Portfolio Optimisation Models
- Using MATLAB to Develop Asset Pricing Models
- Dynamic Currency Hedging Using MATLAB
- Pricing Derivative Securities with MATLAB
- Deployment of MATLAB Applications to C/C++ Java, .NET and Excel
- Introduction to Optimisation with MATLAB Products
- Data Analysis with MATLAB Products



Contour plot of a log-likelihood function for a GARCH(1,1) model fitted to a typical equity return series.

The Econometrics Toolbox lets you perform Monte Carlo simulation and forecasting with linear and nonlinear stochastic differential equations (SDEs) and build univariate ARMAX/GARCH composite models with several GARCH variants and multivariate VARMAX models.

Request your Free MATLAB Info Kit Now!

1. Call 0800 477 776 and quote lead 2683
2. E-mail 2683@hrs.co.nz
3. Visit www.hrs.co.nz/2683.aspx
4. Fax a copy of this form to 07 839 9103
5. Mail a copy of the form to:
   HRS, PO Box 4153, Hamilton East.

Complete your contact details below:

Name:_____
Position:_____
Department:_____
Organisation:_____
Address 1:_____
Address 2:_____
City:_____Postcode:_____
Phone:(___)_____Fax:(___)_____
E-mail:_____

HRS Hoare Research Software Ltd

MATLAB® & SIMULINK®