

# ASymmetric information

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

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**New Zealand Association of Economists Inc.**

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

“Legitimacy may sometimes be achieved (and even attention secured) by the usual credentials of science...[b]ut many an impeccable report is ignored, and many a report without proper credentials gains a high place on the agenda.”

P.50 of Simon, H. A. (1971). Designing organisations for an information-rich world. In M. Greenberger (Ed.), *Computers, communications, and the public interest* (pp. 38-52). Baltimore: The Johns Hopkins Press.

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# EDITORIAL

## Continuity and change

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

This is my 30<sup>th</sup> issue of *Asymmetric Information*, and I have been editor for ten years now, firstly with Gary Buurman, and subsequently on my own. I would like to thank all those at the conference who made a point of telling me that they enjoyed reading the publication. Feedback is generally limited, and it is not always clear whether the content is stimulating, annoying, or just pointless, so your comments were encouraging, thank you.

Grant Scobie's term as Immediate Past President is now over. His lengthy, solid period with his shoulder to the wheel on the NZAE Council has now come to an end. Thanks, Grant, for the major contribution you have made. Frank Scrimgeour, after two years as President with his calm and reliable hand on the tiller, moves over to take the title of Immediate Past President. In his place, Mary Hedges takes up the reins as incoming President, with Stephen Knowles as Vice-President. The strange vehicle that is the NZAE chugs on with several new faces on the Council. The elected members for the next two years are Stuart Birks, Anthony Byett, Norman Gemmell, Seamus Hogan, Ozer Karagedikli, Biil Kaye-Blake and Dallas Welch. Ananesh Chaudhuri is on the Council as Editor, NZEP, and Bruce McKeivitt serves as Secretary/Manager, with John Gallagher as Treasurer.

The conference marked the passing of fifty years in the life of the Association. It served as a time for some stock taking, especially in the current global economic climate. Many questions are currently being raised about the quality and relevance of economic understanding. Your editor wonders how much of this is due to institutional incentives and the prevailing rhetoric of economics. There are serious weaknesses in our analytical techniques. It seems, according to referees, that these are well known and not worth highlighting. However, we still continue to publish work that relies on these dubious methods as if the problems do not exist.

Frequently researchers jump in to estimation without much regard for theory. Significant aspects of research before and after the calculation/estimation stage are often glossed over, and issues of functional form are often treated very casually. There is a lot of work to be done simply understanding and fine-tuning our concepts, and considering their relevance in their various applications. As an analogy, we could consider concepts as tools, not facts. You don't throw tools at your target, you select the appropriate tools and use them carefully. However, relatively little research is undertaken on conceptual issues. The rhetoric of economics supports and disguises flawed messages. We may be able to fool ourselves, but we risk rapidly losing credibility, and, regardless, we bear some responsibility for the consequences of our actions. If economics is to be seen as relevant in future, we may find ourselves compelled to face up to these issues. []

### A LOCAL ANGLE ON THE PASSING OF NOBEL LAUREATE SIR CLIVE GRANGER – *Reproduced courtesy of the University of Canterbury Chronicle magazine*

## TRIBUTES FLOW FOR SIR CLIVE GRANGER

Canterbury Distinguished Professor and Nobel Laureate Sir Clive Granger has died at the age of 74 in La Jolla, California.

Sir Clive, an emeritus professor at the University of California, San Diego (UCSD), was visiting the University of Canterbury in 2003 when he was announced joint recipient of the Nobel Prize for Economic Sciences "for methods of analysing economic time series with common trends (cointegration)". It was also while visiting the University of Canterbury a year later he received the call from Buckingham Palace offering him a Knighthood. A regular visitor to the University since 2000, Sir Clive was named the inaugural Canterbury Distinguished Professor in 2004. The title is bestowed by the University Council "to recognise the exceptionally prestigious position of occasional academic visitors to the University".

Regarded as one of the world's leading economists, Sir Clive's work is credited with revolutionising the analysis of economic time series data and economic forecasting.

Born in Wales, Sir Clive gained a PhD in statistics from Nottingham University before moving in 1974 to UCSD where he remained until his death. Sir Clive shared the Nobel Prize with friend and long-time colleague Professor Robert Engle. The two were honoured for their work in the 1980s in developing statistical tools that have improved the forecasting of rates of economic growth, interest rates and stock prices. Sir Clive's work focused on non-stationary time series, which help analysts adjust their data for the long-term effects of short-term phenomenon.

News of Sir Clive's death from a brain tumour has saddened his friends in UC's College of Business and Economics. Professor Les Oxley (Economics and Finance) said Sir Clive's premature death would be an enormous loss to the discipline.

"Rarely do you find such an intellectual giant who is also humble, approachable and willing to discuss research issues openly with anyone — student or faculty. His visits to Canterbury will be greatly missed, both in terms of the weight of intellect he brought with him and the genuinely enthusiastic atmosphere he exuded.

"We'll miss the note on the door when he took his nap and the discussions about rugby, especially when the All Blacks played Wales."

Senior lecturer Robin Harrison (Economics and Finance) said that despite all the accolades Sir Clive was always very approachable.

"He was renowned for his generosity with his time and advice for anyone with a statistics problem, be they colleague or student. His regular two month visits to the department each year were always most enjoyable with Sir Clive taking an active part in seminars and the daily tea room discussions. His quietly spoken voice and words of wisdom will be much missed."

Erskine Programme Manager Michelle Blackmore said the programme was pleased to have hosted Sir Clive as a Visiting Erskine Fellow in the Department of Economics in late 2000.

"We were also very fortunate to be able to acknowledge personally his joint Nobel Prize in Economics in 2003. He is remembered as a delightful and modest man who always took the time out to say hello on his many return visits to Canterbury."

Professor Granger is survived by his wife, Patricia, and children Mark and Claire. []

## EXPLORING TAX OPTIONS FOR NEW ZEALAND

Given that New Zealand is currently facing central government deficits, it is sensible to revisit revenue raising options. One option is taxing land and/or property. Motu senior fellows Dr Andrew Coleman and Dr Arthur Grimes are examining potential fiscal, distributional and efficiency effects of a fiscally neutral shift in taxation away from existing tax bases towards land and/or property taxes. (Separately, Dr Coleman is examining impacts of a capital gains tax on residential housing.)

Land and property owners in New Zealand are accustomed to paying rates based on land values or capital values to local authorities. Central government does not currently employ such taxes but it feasibly could. Administratively, the existing local authority rating structures would make implementation cost efficient and the taxes would be difficult to avoid or evade.

Some economies (notably Hong Kong) raise a material proportion of tax revenues by way of land and/or property taxes. The current analysis suggests even a 1% tax on New Zealand land (excluding public, conservation and Maori Trust land) could raise over \$4 billion annually in revenue, enabling material reductions in other tax rates.

Comprehensive land taxes are known to be amongst the most efficient of all tax options since they are effectively a lump sum tax; the allocation of land is virtually unchanged as a result of the imposition of such a tax. The modelling also suggests that a shift toward land and/or property taxes would widen the tax base. One way in which it would do so is by taxing foreign-domiciled owners of New Zealand property. Thus some of the existing tax burden could be shifted away from New Zealanders to foreigners.

Land and/or property taxes would, *ceteris paribus*, introduce a further progressive element to the tax system with wealthier and higher income taxpayers paying a more than proportionate share of the tax. However, analysis of distributional (equity) concerns is complex given inevitable tradeoffs involved. This research clarifies some of the distributional tradeoffs.

Specific effects depend on the design of the overall tax package as well as on the exact design of a land/property tax. For instance, a flat rate tax on all land (and/or on improvements) could be adopted; a gradual introduction could be considered (to ease initial cash-flow concerns for those bearing the greatest burden); or, as suggested by John Stuart Mill, a non-taxable baseline could be adopted to shield owners from paying tax on existing land values. These variants are all analysed in this work.

The analysis shows that different population segments would be affected differently. Existing homeownership patterns give clues about who would be most affected. Groups with higher rates of land and property ownership such as retirees, and Pakeha and Asian ethnicities would be more likely to incur wealth losses, owing to their higher levels of homeownership.

Younger cohorts would not initially bear much of the burden given their lower rates of ownership; nor would Maori and Pacific cohorts for the same reason. Younger cohorts are likely to benefit from reduced income taxes over their lifetimes, which could more than make up for their higher lifetime land/property tax payments. A land tax would materially affect those with land-intensive property holdings, including farmers. If this were a key concern, policy-makers could offer a reduced rate for land used for farming. However, exceptions such as this would erode the fiscal benefits of a land tax and might result in avoidance behaviour.

The modeling shows that impacts on property values and rents depend on housing supply elasticities, and other parameters. Consider the effects of a flat land/property tax funded by a proportionate reduction in income taxes. With inelastic supply, land/property prices would fall, with rents remaining broadly unchanged. With elastic supply, rents rise since the change in supply means that prices do not fall by the full present discounted value of the tax while the tax is still shifted to renters.

One of the more unexpected results of this work is that introducing a land/property tax would result in a material decline in the country's aggregate indebtedness. This is essentially because New Zealanders would borrow less to finance domestic property holdings. At the margin, the loans used to purchase property are sourced from foreign savers; by reducing property prices, a land/property tax reduces the amount of foreign capital borrowed to fund domestic property.

This research makes no claims about the overall merits of introducing a land and/or property tax, or about which equity concerns should prevail. Rather, it provides a theoretical and empirical basis for considering the impacts of tax options. Land and/or property taxes would inevitably help some groups and hurt others. As with all tax options, therefore, no Pareto improvement is possible and trade-offs would have to be made. []

*This article is based on an upcoming Motu Working Paper by Andrew Coleman and Arthur Grimes, "Fiscal, Distributional and Efficiency Impacts of Land and Property Taxes." All Motu publications are available on our website, [www.motu.org.nz](http://www.motu.org.nz).*

## LEANZ INAUGURAL FELLOWS

The Law and Economics Association of New Zealand admitted the following five people as Inaugural Fellows at the joint NZAE/LEANZ keynote session at the conference on 2 July:

**Professor Lewis Evans**, Victoria University of Wellington

**Browyn Howell**, Victoria University of Wellington

**Professor John Prebble**, Victoria University of Wellington

**Kerrin Vautier**, of Auckland

**Associate Professor Alan Woodfield**, University of Canterbury

They join **Bryce Wilkinson**, of Wellington, who was admitted in April of this year. They are entitled to use the initials LEANZF after their names.

# FROM THE 2B RED FILE

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

Readers of this column will recognise that a disproportionate number of my selections are on sex, drugs and rock'n'roll. It's not that I am obsessed with any of these pastimes; it's just the economics of them, you understand. In other words, the economics of everything. I make no apologies. In the first place the column strives to be readable and light hearted – plenty of (boring?) serious book reviews in the academic journals. Second, I have always found that the real fun in economics is thinking about how we can apply economic principles to everyday things in our lives – stuff that traditionally might have been seen to lie outside the gamut of “standard” economics. If we had to name one proponent in modern times it would surely have to be Gary Becker, although Harry Johnson would be a close runner-up. (No, I am not overlooking Adam Smith, David Ricardo or David Hume – one could compile many examples from their work.)

And in case you thought economics was a dismal science, be assured that economists can just occasionally stand back and engage in some self-deprecating humour. See: **Alan S. Blinder** “The economics of brushing teeth” *Journal of Political Economy*, July-August 1974, 82(4):887-91, a paper which, I understand, has its roots in the oral tradition at Princeton, and filled an important gap in the literature.<sup>1</sup>

So with that here is my next selection: **Simon Bowmaker** has edited a volume titled: **Economics Uncut: A Complete Guide to Life, Death and Misadventure** (Cheltenham, UK; Edward Elgar, 2007). Unlike some of the more wackonomics volumes of this genre (for example the classic by **Angus Black<sup>2</sup>, A Radical's Guide to Economic Reality** (Holt, Rinehart and Winston, Inc., 1970), this one is a compilation of solid material. The economics of drug addiction, drug controls, prostitution, pornography, religion, sport, abortion, suicide, assisted reproduction... it's all here folks. I can do no better than to quote the late Nobel Laureate Sir Clive Granger: “This book provides deep and stimulating discussions of a dozen or more important and interesting areas in accounts prepared by economic experts. It illustrates how what has been called the ‘dismal science’ can be applied widely and usefully”. Anyone with an interest in policy surrounding any of these topics would do worse than start here.

However, we must not maintain our imperialist neo-classical view that economics can explain everything. **Richard H. Thaler and Cass R. Sunstein** are worried 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, we put too much on the credit card, we choose the wrong finance company in which to invest – 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.

Wait – despair not, dear reader – help is at hand. Just let Nanny State into your lives and she will **Nudge** you in ways so subtle that you will scarcely notice: **Nudge: Improving Decisions**

**about Health, Wealth and Happiness** (New Haven: Yale University Press, 2008). The state knows what is best for you but strangely (even knowing this) stops short of requiring you to follow her dictates. Paternalism? You bet! But this is the soft, fluffy libertarian kind – so if you want to be pig-headed and ignore what the state says 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 the sensible nudges who followed its advice in the first place).

Don't get me wrong – I am not opposed to nudges (or winks). 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 – not because they need help in decision making but because it economises on time and effort and recognises that sometimes the marginal costs exceed the benefits of acquiring full information. 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 wait 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 Sunstein would undoubtedly support this: “Choice architects can preserve freedom of choice while also nudging people in directions that will improve their lives.” (p.252) So while it's a bit hard to find anything new in all this, it's still a good read. And I am sure you will find it reassuring that, as you struggle along the highway of life, there are well-meaning government bureaucrats who are blessed with insights so powerful that they know the directions we should be taking to “improve our lives.”

In a rush of blood to the feet I threw rationality out the window, and, sadly lacking a nudge from the state, flew to Auckland to hear **P.J. O'Rourke**. He was at his witty, entertaining and no punches pulled best. For those poor deprived souls amongst you who haven't read any of his books, now is the time to start. **On the Wealth of Nations** (Grove Press 2007) is his latest, and could be described as a readers' guide to Adam Smith, with Smith's insights and pithy quotes set in a modern context. The author uses his wit to illustrate the relevance today of much of this classic work.

We are constantly telling ourselves that the huge populations of India and China will spend some of their growing wealth on Mainland cheese and Marlborough sauvignon blancs – and thereby catapult us up the OECD ladder (well from 3<sup>rd</sup> to bottom to 4<sup>th</sup> perhaps). **L. Alan Waters and Shaid Yusuf** have edited a set of studies titled **Dancing with the Giants: China, India and the Global Economy** (Washington, DC: The World Bank, 2007). Well worth a read – I was struck by the fact that modelling of improved growth in skilled labour, capital and productivity in India and China does not lead to massive growth in exports from Australia and New Zealand – a note of caution perhaps?

Finally while the government has scrapped the “Buy Kiwi Made” campaign, I am not adverse to an odd plug for the home grown.

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

This month my home grown choice is **Patrick Love and Ralph Lattimore**, and a bouquet for their **International Trade: Free, Fair and Open?** (Paris: OECD, 2009). This is trade light – short, punchy chapters that hit the main points with a nice topping of data and further readings, all mercifully free of the standard heavy baggage of the trade theorists. Those of you who have kept a copy of Dalziel and Lattimore at hand for quick macroeconomic reference will enjoy the not dissimilar style. []

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*I extracted this information by drilling down in Google.*

*2 Your columnist offers a reward for the first reader to reveal the name of the person who wrote under the pseudonym of Angus Black. PS: The reward is your opportunity to be a guest columnist.*

## TRUST US, WE KNOW WHAT WE'RE DOING...

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

"I don't think we'll ever be back to where we came from. It should be recognised that the last 25 years were an aberration and we cannot go back there. We have to reconstruct the financial system from its foundations up."  
*George Soros, Radio New Zealand News, 29 March 2009*

Soros suggests that we have spent 25 years with a false perception of the economic and financial environment. Perhaps we were fooled for all that time, but now it seems, with hindsight we still have the answers. Two books were published in February this year that apparently explain how we should analyse these events. They are:

Foster J B and Magdoff F, *The Great Financial Crisis: Causes and Consequences*, New York UP

"In the fall of 2008, the United States was plunged into a financial crisis more severe than any since the Great Depression. As banks collapsed and the state scrambled to organise one of the largest transfers of wealth in history, many - including economists and financial experts - were shocked by the speed at which events unfolded. In this new book, John Bellamy Foster and Fred Magdoff offer a bold analysis of the financial meltdown, how it developed, and the implications for the future."

Akerlof G A and Schiller R J, *Animal Spirits: How Human Psychology Drives the Economy*, Princeton UP

"In this book, acclaimed economists George Akerlof and Robert Shiller challenge the economic wisdom that got us into this mess, and put forward a bold new vision that will transform economics and restore prosperity. **Animal Spirits** offers a road map for reversing the financial misfortunes besetting us today. Read it and learn how leaders can channel animal spirits - the powerful forces of human psychology that are afoot in the world economy today."

Had all this been worked out before, but ignored? Has it just been developed since the crisis began? Or is this just marketing spin? []

## LESSONS FROM APC

*By Stuart Birks*

If you are not familiar with the term, try a Google search for "APC analysis". You will get about 1700 hits. APC stands for **Age-(time)Period-Cohort** effects. Consider data on people's behaviour. Fix one variable and consider the other two. Behaviour of individuals in a cohort may vary over time because they are getting older (age effects), or because the situation changes over time (time period effects). At any one time, behaviour of people in different age cohorts may differ because the cohorts are different, or because their ages are different. The behaviour of people at a particular age (today's teenagers compared to those 20 years ago) may vary because they are at that age at different times, or because they are a different cohort. Similar issues may arise for households, firms, or products.

A commonly stated result is that, with these three dimensions, it is only possible to identify the effects in two, having made assumptions about the third. There is an **identification problem**. This means that all results are conditional on the starting assumption. In some areas of the social sciences this appears to be a major constraint to sophisticated analysis. In comparison, economists and econometricians have given it limited attention (try adding "+econometrics" to your Google search, and your results will drop to about 55). Why is this?

Instead of starting from first principles, we begin by assuming away the whole problem. We consider all observations as if they were of the same underlying structure that we are trying to estimate. This highly constrained model may then be developed gradually to consider variations in a limited way and with a small number of dummy variables, or an age or time variable. This allows for a very limited range of functional relationships to incorporate these effects. Nevertheless, we are likely to claim that we have "controlled for" those effects. We are unlikely to state explicitly which dimensions have been assumed away. We should not be surprised at this, as we always assume that all observations in an econometric analysis are of the same underlying structure. It is the (often unstated) starting point and an essential requirement, along with the requirement of structural stability that gives us something to estimate.

So should we assume that people from different generations still have the same outlook? Does age not affect our views? Do our experiences (the great depression, a share market crash, student loans and easy credit) not shape our perceptions? If they do, can their effects be modelled simply by the inclusion of an additional variable?

It is strange that something that so constrains analysts elsewhere can be treated so lightly in economics. However, economics is not without its own internal inconsistencies. We rely on Pareto Optimality because we do not allow interpersonal comparison, but then we add the compensation criterion which is based on the assumption that "a dollar is a dollar" and so the distribution of costs and benefits does not matter. We consider advertising as a factor in media markets, but we assume exogenous preferences. We use surveys, relying on people's indications of their preferences, to determine quality adjusted life years for others, and then we say that "a QALY is a QALY" because we cannot make comparisons over individuals.

So to what extent does our scientific methodology conceal questionable assumptions in dubious reasoning under the mantle of the conventional wisdom and common, "best" practice? []

# ASIAN ECONOMIC PANEL “THE WORLD IN CRISIS: NATIONAL STRATEGIES IN AN INTERDEPENDENT WORLD”

By Iris Claus [iris.claus@ird.govt.nz](mailto:iris.claus@ird.govt.nz)

*The Asian Economic Panel (AEP) meets twice a year to discuss economic issues that pertain to sub-regions of Asia or to particular Asian countries. Membership is by invitation. A subset of the papers presented at each meeting is published in [Asian Economic Papers](#), which also selects articles from open submissions and articles from experts in the fields that are of high contemporary interest.*

The theme of the last AEP meeting, which was held over two days in March 2009 in Jakarta, was the current world economic downturn. Country presentations were given by panel members from the United States, Japan, China, Europe, Korea, Indonesia, Thailand and the Philippines. The afternoon session of the second day was a public seminar in preparation for the annual meeting of the Asian Development Bank.

The current economic downturn that followed the U.S. financial crisis is extraordinary both in terms of its breadth and severity. Forecasters continue to revise down their predictions and the International Monetary Fund is now expecting the first decline in world gross domestic product (GDP) since World War II.

The main cause of the financial crisis in the United States was microeconomic distortions in the U.S. financial system, which led to flawed incentives and inadequate regulatory structure. Also contributing to help create conditions for a house price bubble and speculative excesses were low levels of U.S. and global real interest rates.

The Swedish model for crisis resolution has received attention during the U.S. financial crisis. The lesson to be learned from the Swedish experience in the late 1980s / early 1990s is that swift resolution procedures that allocate losses efficiently and on a permanent basis are crucial. Once wealth is redistributed, economic recovery can begin. Moreover, a depreciating currency can help accelerate the upturn.

Neither the United States nor Europe have been dealing with their financial sector problems in a timely manner. This is exaggerating the adverse economic effects and delaying recovery. A slow policy response to deal with financial sector problems can be costly as illustrated by Japan's experience of a decade of slow economic growth following its financial crisis in the late 1980s / early 1990s.

The financial systems in Asia Pacific countries appear to be sound so far. Generally the Asian economies seem to be in a better position presently than ten years ago to cope with the impact of the global economic downturn. This is largely because of financial sector reform that was implemented following the

1997/98 Asian financial crisis. Asia Pacific countries mainly have been affected through reduced export demand for their goods and services and lower commodity prices.

Europe and the United States are unlikely to pull the world out of economic recession. Even if the United States economy recovered quickly, U.S. demand for world goods and services will be lower than previously as pre-financial-crisis consumption levels proved unsustainable.

The prediction is that world economic recovery will come from Asia Pacific countries. A recovery would be sped up by greater policy coordination that makes better use of the region's financial resources (some Asian countries have massive foreign reserves!) and large domestic markets (in terms of population).

The current economic conditions provide an opportunity for Asian countries to move away from an export led development strategy. Several countries have already started to put in place domestic oriented growth strategies. The recently announced Chinese fiscal stimulus package is the largest at around 16 percent of GDP. It mainly focuses on the modernisation of infrastructure. But for China to take over world economic leadership, it also needs to modernise its social services (education, health care, old age, unemployment). []

(Received 28 April 2009)

## THE TRAGEDY OF THE COMMONS REVISITED

It has become almost a reflex action to associate the commons with “tragedy”, meaning overuse and degradation. The New Zealand experience with Maori land has been quite different, with common ownership being seen as resulting in lack of development. Clearly the institutional dimension is not straight forward.

Elinor Ostrom's book, *Governing the Commons: The evolution of institutions for collective action*, (CUP, 1990) presents examples of, and criteria for, successful management of natural resources by cooperative institutions. There is a brief review of her book at: <http://www.scottlondon.com/reviews/ostrom.html>

It ends by quoting Ostrom, “if this study does nothing more than shatter the convictions of many policy analysts that the only way to solve common pool resource problems is for external authorities to impose full private property rights or centralized regulation, it will have accomplished one major purpose.”

# CONFERENCE 2009

by Stuart Birks

Many of the conference papers are available via:

<http://www.nzae.org.nz/conferences/2009/programme.html>

This year's conference marked the 50<sup>th</sup> anniversary of the Association. From an initial membership of 37, we have grown tenfold over that time. You can read about the establishment and early years of the Association at:

[http://www.nzae.org.nz/about/NZ\\_Association\\_of\\_economists\\_Early\\_Years.pdf](http://www.nzae.org.nz/about/NZ_Association_of_economists_Early_Years.pdf)

Not surprisingly, the conference theme was "50 years: Looking back – moving forward". The three keynote addresses were by New Zealanders. The first described two pioneer New Zealand econometricians. The others, the inaugural John McMillan Memorial Lecture and the AWH Phillips lecture, were in recognition of notable New Zealand economists. There was also a fourth keynote address in conjunction with the Law and Economics Association of New Zealand, presented by Rodney Hide.

**Peter Phillips**, the first keynote, was fascinating with his description of the life of **Alexander Craig Aitken** (1895-1967, born in Otago). The name was known to those of us who had been taught "Aitken Generalised Least Squares", but the term is not common now. (Google gave 18 hits, with an additional 233 using 'generalized', compared to 11,600 and 108,000 for just "generalized least squares" with an s and z respectively). Aitken's academic contribution has been significant, however. It might have been greater, but for the relatively low profile of the *Proceedings of the Royal Society of Edinburgh*.



Alex Aitken: As a young man



Alex Aitken: 1935



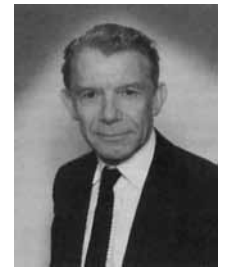
Alex Aitken: 1955

Among the more remarkable aspects of Aitken's life are that he:

- memorised the 12 books (9,900 lines) of Virgil's Aeneid while at high school;
- memorised  $\pi$  to 1000 digits;
- could multiply 9 figure numbers in 30 seconds;
- served in WWI, and was at Gallipoli, in Italy, and at the Somme, where he was severely wounded;
- had a close to photographic memory, to his cost as he was haunted by wartime memories;
- authored the book, *Gallipoli to the Somme*, published in 1963. This was the only book he wrote, but it resulted in him being elected a Fellow of the Royal Society of Literature in 1964 and is well worth a read.

See also: <http://www.nzedge.com/heroes/aitken.html>

The other New Zealand econometrician discussed in the address was **Rex Bergstrom** (1925-2005, born in Christchurch). Peter Phillips wrote an obituary for *Asymmetric Information* on Rex Bergstrom's death. You can see it at pp.3-4 of Issue No.23:



Rex Bergstrom

**Robert MacCulloch**, presenting the **Inaugural John McMillan Memorial Lecture**, was the second keynote speaker. He talked about his work with Rafael Di Tella, addressing the question "Why doesn't capitalism flow to poor countries?" He presented, and attempted to support, two main points: i) capitalism is more popular in rich than poor countries; and an explanation, ii) antipathy towards markets originates in corruption because it creates the perception that capitalists are undeserving and that more regulations are required.

Presenting a history seminar recently, James Watson described history as using information from the past to tell a story. As with any theorising and analysis, a limited amount of information is compiled in a structured way that is, on the whole, consistent with the conclusions drawn. We do the same with econometrics, but, as much of the reasoning falls within our conventional wisdom, we frequently fail to see the limitations of the method and the alternative explanations of the data. Such constraints do not arise when economists observe reasoning drawing on broad historical evidence. We saw this with Robert MacCulloch's presentation, for which there was much lively discussion.

Incidentally, all five proposed explanations arguably saw markets and government as alternatives, as commonly described in economics textbooks. A more realistic approach has been indicated by Dixit and would have changed the nature of the discussion (or "framed" the discussion differently).

...the political process should be viewed as indeed a process - taking place in real time, governed and constrained by history ...In this view, the traditional dichotomy of markets versus governments, and the question of which system performs better, largely lose their relevance. Markets and governments are both facts of economic life, and they interact in complex ways. We cannot find feasible improvements by wishing away one of the components. (Dixit, 1996, p.xv)

MacCulloch supported his preferred explanation by citing the example of Park in South Korea. In 1961 he paraded capitalists with signs saying, "I am a corrupt swine". The contention is that this successfully shifted the popular belief away from seeing capitalism as favouring a corrupt few to seeing it as being something for the majority. Deregulation then became more politically acceptable.

A more institutional approach is presented by John Lee (2009) in an article which also questions common perceptions of modern China. He refers to South Korea here:

The problem for backward economies trying to grow and develop quickly is that social and economic institutions are similarly undeveloped, individual expertise is poor, and the possibility of chaos resulting from rapid liberalisation is high. To avoid a descent into disorder, Samuel Huntington laid the intellectual groundwork 50 years ago for the development strategy of 'authoritarian transition' whereby existing authoritarian systems could initially provide political order, rule of law, and the stability needed for

successful development. Only after the development of institutions necessary for sustainable development could governments in developing countries take a lesser role... Although economists will undoubtedly point out the differences between the approaches adopted by Taiwan and South Korea, they had one critical thing in common: the government took early responsibility for the promotion of economic growth, macroeconomic stability, and institution building.

The issues are important, and many potentially important factors were suggested in the presentation and discussion. It may be wrong to seek a simple, definitive explanation. However, this is what we often do with economic theories and analyses, and we frequently ignore the factors that were central to the debate on this presentation. Perhaps there are lessons for all of us from this.

As an additional consideration, historical explanations tend to identify sequences of events, with the past having consequences in the present. This focuses attention on processes and path dependence, aspects which are ignored in the static analyses that are so widespread in economic theory. More cautious and (given the limitations of our theories) arguably less theory-reliant approaches can be found in some conference papers, such as that by **Ian Duncan** on transport interventions which questions the use of off-the-shelf techniques. He emphasised lags, irreversibility and wider long-run implications that can be difficult to measure.

**Dean Hyslop**, the third keynote speaker, presented the **AWH Phillips Lecture**. His topic was "programme evaluation." He focused on the difficulties encountered in evaluations of policies such as Working for Families or Jobs Jolt. While, theoretically, random allocation of subjects is desirable to determine the effects of policies, there are many reasons why this may not occur. Non-random allocations could bias trials in several ways. For example: (i) to make result look good, assign treatment to those doing best anyway; (ii) a "do-gooder" might give treatment to those who are worst off; or (iii) someone seeking to allocate efficiently might give treatment to those who would benefit most. All of these could affect the results. Also, it might be politically difficult to impose random allocation.

The phenomenon under test is frequently one of many influences, and its impact may be relatively small. This would make evaluation particularly difficult (we see something similar with the climate change debate). To illustrate, the questioning of the Hawthorne experiment results by Steve Leggett and John List was mentioned (Questioning the Hawthorne effect: Light work, 2009). This is not the only case where widely accepted claims about people's behaviour have been challenged by further investigation of the evidence. We could also mention Garber (1989) challenging the tulipmania story, and Namnyak et al (2008) on the Stockholm syndrome. Collectively, they highlight two problems with any tests of hypotheses, one on the nature of the test, and the other on the meaning of the results:

- 1) Hypothesis tests are not simply tests of a hypothesis. Results depend on whether or not, a) the hypothesis is true, and b) the test is accurate. A test may not do what is claimed (note, for example, the "fallacy of the transposed conditional"), and even with a valid test, we can get false positives and false negatives.
- 2) Evidence can only show presence or absence of consistency with the hypothesis (as formulated in the test). There may be many hypotheses (or alternative explanations) that are consistent with the evidence.

These problems also apply to studies that refute existing findings. They commonly rely on alternative formulations that give contradictory results, and these may be similarly flawed.

Note that results and associated debate frequently hinge on "controlling for" other factors. It is often taken as sufficient merely to incorporate a variable with a particular label, or even to use something as a "proxy" for some other supposedly relevant variable, without any regard to functional form. This can be meaningless in terms of interpretation and almost randomly distorting. However, the impact on results is commonly taken very seriously, as if the approach is legitimate and economically meaningful. It would seem to be part of our conventional wisdom or best practice. As Socrates famously suggested, we run the risk of claiming more understanding than is warranted.

The potential for data to be distorted, as described above for supposedly random allocations, raises a wider issue that came up in conversation with a conference delegate. That is the potential for bias in official statistics. We know that there are serious problems with the definition of family, and measures of income can be very unreliable (and not just for reasons of definition). Sometimes relevant provisos are attached to the data, but not always. The political nature, or at least perception, of data has received publicity recently and merits some thought. Carl Bialik discussed the matter in the *Wall Street Journal* of 3 June 2009, with more details in his blog of 2 June (Bialik, 2009a, 2009b). He presents numerous examples from the UK and elsewhere. A UK survey had found that only 33 percent trusted official statistics, with several other European countries hardly doing any better. Richard Aldritt, head of the UK Statistics Authority gets a mention in the blog:

The irony of the poor survey results is that, at least according to Mr. Aldritt and independent statisticians, U.K. stats are generally reliable. He says the main problem comes in the beginning and end of the process — "deciding which statistics should be published, and explaining how they should be used."

**Rodney Hide** described what he sees as an inherent bias in the current political structure favouring more government. This is due to the nature of pressures placed on politicians. His description of the dog microchipping issue bears repeating. Loosely paraphrased, he said:

A girl is bitten by a dog. The relevant minister is put on TV. He has to sympathise. He is asked what he is going to do. He cannot say, "Nothing, shit happens." As a minimum response, he calls an enquiry. The enquiry cannot say, "Do nothing, shit happens." They have to come out with a policy response, such as microchipping dogs. What will the policy do? As discovered in select committee, you have to get within 6" of a dog with a chip reader to read a chip. Would you do that with a vicious dog that had just savaged a girl? Not likely. In any event, had there been any problems of dogs biting girls where they cannot find the dog's name? No, because the name is on the collar. However, ACT's objections to the policy were taken to mean that ACT doesn't care about these girls. Now there are 6 people working to maintain the dog microchip database.

The address as a whole emphasised the need for policies that embed themselves into the institutional structure of government if a persistent effect is to be achieved. It was suggested that the most effective among these are policies which change the incentives faced by politicians. The Reserve Bank Act and Fiscal Responsibility Act were given as examples. Further developments along these lines could include the Taxpayer Bill of Rights (scheduled for next year) and the Regulatory Responsibility Bill (<http://www.treasury.govt.nz/economy/regulation/rrb>).



**Rt Hon Bill English** was the pre-dinner speaker. Speaking off the cuff, the main message he conveyed was that the current government wants to stimulate free and open debate, with numerous alternative policy approaches being floated. He used the example of **David Preston's** paper (suggesting mandatory deposits at RBNZ in relation to overseas capital inflows) which had also received extensive press coverage. A contrast was drawn with what he saw as the constrained, politically correct thinking of recent years. It remains to be seen how receptive the government will be to alternative ideas, but note also Peter Gluckman's address (see "Science in New Zealand" in this issue of *AI*).

### More general comments

With about 90 papers in seven streams, it is only possible to present a few comments and general impressions. There are two broad areas I would like to emphasise, (i) policy, and (ii) theory.

#### *First, to look at policy*

Economists have some elaborate, but impractical, criteria for making policy. For example, they may require the identification of large numbers of available options, along with their costs and benefits, after which a decision rule can be applied. We cannot expect this to happen in reality, as Rodney Hide's description of microchipping may illustrate. As a simpler approach, there are three very basic questions that could be raised to assess policy analysis and debate. Are you:

### **Policy**

1. *Future?*
2. *Groups?*
3. *Behaviour?*

1. Looking to improve things in the future, or just reacting to something from the past? (Policies affect the future, so the future dimension must be included when making policy decisions, but often we are simply reacting to something that has been observed.)
2. Considering implications for each of the affected groups? (This may serve as a check on extremes of agenda setting and framing, as policies are often designed with one case or group in mind.)
3. Incorporating an assessment of behavioural responses? (These affect the outcomes. Such responses are central to economics, but the aspects considered may be bounded by our theories.)

These points came to mind at the presentation by **Geoff Leggett**. He was describing one of the studies being undertaken in relation to child support, an area that Peter Dunne is intending to reform. The study attempted to measure the cost of children in single income households, and aimed to provide background information only. The subsequent discussion had little to do with the study. Instead, the focus went straight to policy issues, with the issues being framed, by women in the audience, solely in terms of rights of and costs to women. This fails on all three points, and highlights the nature of much policy debate.

While on the subject of child support, in this as in many other areas we can be surprised by evidence in the historical record. The current approach is heavily influenced by a presumption that women will have custody (now "day-to-day care") of the children, and men will pay. Very similar assumptions can be found in the chapter on illegitimate children in the English *Poor Law Commissioners' Report of 1834*. Put briefly, at that time

the woman was expected to name a man (any man) who was then given three options: pay to support the child; marry the woman; or go to gaol. This does not seem to support the claim that men had gained and women suffered from centuries of patriarchal oppression. At any time, prevailing attitudes influence the outcomes in individual cases. This is therefore an important sphere of political action, as emphasised in literature on agenda setting and agenda denial which also point out the value of having the only generally accepted viewpoint.

Cost of illness and related studies are also often politically inspired and of questionable value. They can be used for advocacy purposes by groups wanting to present a large number so as to gain traction for their priority issues. This point was raised more than once at the conference, including the presentation by **Adrian Slack** on the cost of drugs. The session was well attended, perhaps in part due to a critique that had already been published (Crampton & Burgess, 2009). Another study that is still being used is one from 1994 on the economic costs of family violence. This has also been critiqued (Birks, 2000). For an article critically assessing the merits of cost of illness studies, coming out on balance cautiously in their favour, see Moore and Caulkins (2006).

#### *Now to consider theory*

There is a lot more to research than the application of a technique. With the application of theory, it can be helpful to note the following 3 points

### **Theory**

1. *Just an analogy*
2. *Only consistency*
3. *Conventional wisdom*

(a more detailed exposition can be found at <http://www.zcpr.com/guest160.htm>):

1. A theory is an analogy (To use an expression by C George Boeree, 1998, beware of "mistaking the map for the territory" <http://webspaceship.edu/cgboer/qualmethtwo.html>).
2. Evidence only shows consistency (there may be other consistent explanations).
3. We often restrict ourselves to seeing things through the "conventional wisdom", either social, or within a discipline or profession.

These are powerful criticisms, especially given the scrutiny under which economics has come following certain international financial events. Any study is vulnerable that consists only of model estimation or mechanical application of theory. It was encouraging, therefore, to see presentations that were far more wide-ranging than that. I have already mentioned several. It is still tempting to focus on modelling, however, especially given the available databases, techniques and accumulated expertise. A standard (and easy) criticism of a modelling approach is to identify some potentially important factor that has not been incorporated into the model, so the analogy for the real world may be unrealistic. I have no paper to go on, so the following comments on one of the conference presentations are necessarily speculative. However, they illustrate the general point about theory.

**Arthur Grimes** gave an intriguing presentation (one of three in a session dedicated to tax reform) on the possibility of reliance on a land or property tax in place of income tax. Without

*Continued on page 12*



Ian Duncan, Frank Scrimgeour and Brian Easton



Scott Brooker, a Jan Whittwell Prize winner, and Bill Kaye-Blake



Life Members and Distinguished Fellows



Life Member Sir Frank Holmes



Peter Conway & Bill Rosenburg



Leo Kri Capital Market



Life Member Grant Scobie



Jean-Pierre De Raad, the Poster Pr



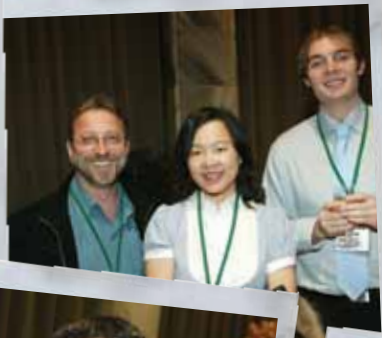
Life Member Bob Buckle



Nathaniel Robson, Graduate Study Award winner, and Frank Scrimgeour



The Cake



Michael Kirker, a Jan Whitwell Prize winner, and Bill Kaye-Blake



Ananish Chaudhuri



ppner,  
s Prize winner



and Katrina Lindsay  
ize winner



Mary Hedges



knowledge of the underlying model, it is difficult to assess the results, but there are problems with this approach that may not have been incorporated into the model. If, as standard theory would suggest, a tax on the unimproved value of land will not alter supply, but will only be capitalised in falling land values, how will the effects differ over various land uses? In particular, agricultural land had been noted for its high price in relation to financial return, so the same level of tax would have a disproportionate effect and could result in altered land uses. Perhaps more generally problematic would be an issue recognised in relation to the Haig-Simons definition of income, namely the inverse relationship between asset values and returns. If an asset gives a fixed dollar income, but prevailing interest rates change, then the capitalised value of the income stream will also change. For example, a Reserve Bank-induced fall in interest rates could result in rising land values with no change in the income from land. Would such changes still result in changes in tax payable?

One suggestion in the presentation was that falling land values would result in lower overseas debt as less would be needed to buy the now lower-priced land. This would be beneficial, but did their model also take into account the less desirable reduction in tax revenue or higher tax rates required as a result of falling land prices?

Turning to the second point, the issue of evidence, there are standard quantitative techniques that figure highly in our toolkit. There are some serious concerns about results based on these techniques. Several have been listed in earlier issues of *Asymmetric Information*. The highly dubious claim that we can "control for" factors simply by adding the relevant variable has been mentioned above, and the issue of indices was covered in *AI No.26*. The point on indices merits repeating because they are increasingly being used as variables in econometric analyses.

There are four aspects to be addressed in the construction and use of an index. Owing to problems with several of these, indices are frequently incorrectly used, and results are unjustifiably claimed. The first three aspects relate to index construction, and the fourth to application. They are:

1. Choice of the items to be included (what is the rationale for selection, and is the choice meaningful, or a collection of available variables which may each be somehow relevant?)
2. Choice of the weights to be assigned to the items (more on this below)
3. Determination of the values for each of the items (are they cardinal or ordinal measures? If they are ordinal, how can any weighting and aggregation have any meaning?)
4. Relevance for the particular analysis being undertaken (an index is a form of aggregation, and aggregates rely on homogeneity of their components with respect to the relationships to which they are applied. In other words, validity is context specific).

On the choice of weights, some indices are constructed by summing the components. In other words, all items are weighted equally. We would not do this with a price index.

Alternatively, a statistical approach such as factor analysis could be used to determine weights. Consider how people might react to the use of factor analysis to determine the weights in a price index. Clearly indices constructed in this way are fundamentally different from traditional price indices. At the very least, this should raise questions of interpretation, and yet such questions are not asked. We should not automatically accept their use merely because they have a similar appearance and name. That is simply falling for the rhetoric of analogy where the analogy may not fit. While we could be using these tools by convention, they may prove difficult to justify if subjected to scrutiny on these four aspects. Any results based on their use would then be put into question. This is not just a matter of having dubious results. We are likely to take the results as legitimate when they could have no foundation (as with analyses that "control for" other factors). Apparently these problems are well known, but they are repeatedly ignored.

Finally, prompted by presentations at the conference, here are a few thoughts on alternative approaches to research. **Michael Bordo**, an economic historian currently visiting the Reserve Bank, was the lead speaker in the panel on the global financial crisis. He took a historical approach, considering aspects of financial crises (length, depth, recovery time) in numerous countries over more than 100 years. His earlier study can be found on the web (Eichengreen & Bordo, 2002). It has been extended back to 1300 and forward to 2008 (Reinhart & Rogoff, 2008).

The presentation was interesting in itself, but also brought to mind a recurring issue for economists and econometricians. There are certain techniques that are well accepted within our community, while there are other less common approaches to research which are in widespread use elsewhere. A major reason for this could be that we are reliant on peer approval for publication, and that is more likely to be forthcoming if they adhere to established conventions. In this regard, it is worrying that several academics are turning away from economics as they find this overly restrictive (and possibly inimical to much worthwhile research).

It appears to be important to be able to give a name to an approach used in research. There are many that are not hard to find. Here are some: document studies; focus groups; key informants; case studies; observational techniques; content analysis; grounded theory; narrative summary analyses; triangulation; semiotics; critical discourse analysis; deconstruction; institutionalism; applied epistemology; structural analysis; heuristics; data reduction; meta analysis; retrospective study; prospective study; laboratory experiment; and field experiment. They may not have, for us, the status and aura of our established techniques, but their different mix of strengths and weaknesses may serve to provide alternative insights into our areas of concern.

For one brief comment, I am sure that there were many interesting presentations that I missed, but one I attended demonstrated some of the interesting and pragmatic work being done at the Commerce Commission when they have the data. **Qing Yang** and **David Law** investigated whether margarine and butter are close substitutes, this being important for determining the extent of competition faced by butter producers. Apparently consumer perceptions have changed

## Indices

1. *Items*
2. *Weights*
3. *Values*
4. *Context*

since the 1960s, and they may no longer be close substitutes. Economics principles teachers please note.

I have observed another attitude change recently. Traditionally, it was understood that falling birth rates would result in increased female labour force participation rates. When asked recently, a group of young New Zealanders told me the opposite. They thought both parents were more likely to work if they had more children. Perhaps there is less of a belief that, in general, you should work, but more of a belief that, if money is required, both parents should work. I wonder if such attitude changes had been anticipated, and in what other ways perceptions and expectations may be changing.

And finally, there was a sense conveyed in Rodney Hide's presentation, and in some others, that being sensible, rational, well informed and reasonable equated with an acceptance of mainstream economic thinking. It may be worth considering whether economics is seen as a discipline or a faith (as discussed in *AI* No.25, pp.8-9).

Thanks are due to the conference organising committee for all their efforts. It was a big job, and once again, from the outside everything appeared to run smoothly. Well done. []

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"We are passing through a time of commercial depression. Its causes are apparent to those who examine and consider the facts of recent and past years; but in times of trouble ignorant men seize upon unlikely and impossible propositions and schemes for relief. There is no special remedy for this malady. Time, patience, the working of natural laws, the avoidance and cessation of the half-madness of the past, and a general economy will bring about a cure, not without some or much suffering, but without failure."

*John Bright, in a letter in early June 1879, Vol.2 p.289 of G Barnett Smith (1882) The life and speeches of the Right Honourable John Bright, MP, London: Hodder and Stoughton*

## PRIZE, AWARD AND GRANT



Jan Whitwell Prizes were awarded to **Michael Kirker** and **Scott Brooker**

The Capital Markets Prize went to **Leo Krippner**

The Poster Prize was given to the joint effort of **Katrina Lindsay** and **Chris Pike**

Graduate Study Awards went to **Francis Odhuno**, **Geoffrey Brooke** and **Nathaniel Robson**

Student Grants went to **Yasmin Valji**, **Liang Guo** and **Thai Yoong Mok**

# NEW ZEALAND ASSOCIATION OF ECONOMISTS AWARDS

## THREE NEW LIFE MEMBERSHIPS

### Sir Frank Holmes

It is with great pleasure the Association honours Sir Frank Holmes with the award of life membership of the NZ Association of Economists. There were economists in New Zealand before Frank, but not many, and he provides a more or less direct link to the origins of the economics profession in New Zealand. There can be few economists in New Zealand now who have not benefited from his work, and that will be true of future economists too.

Frank was one of the founders of the Association, and he was the first editor of *New Zealand Economic Papers*. Throughout the first 50 years of the Association, while Frank was Macarthy Professor of Economics at Victoria University of Wellington, Economics Manager at Tasman Pulp & Paper Ltd., Professor of Money & Finance at VUW, Chair of the New Zealand Planning Council, a business director, and supposedly retired, he has maintained continuous interest in the Association's activities and been a more than occasional participant in them.

It is the range of Frank's interests which is most impressive. His first contribution to *New Zealand Economic Papers* was "The Education of an Economist"<sup>1</sup> Characteristically, Frank arranged for a response to his paper,<sup>2</sup> and it is no accident that the exchange serves as a starting point for a session at this year's conference. Frank's educational interests were wider than the education of economists, especially in his advocacy of the concept of human capital and of returns to investment in education to the Currie Commission in the early 1960s, in his work on educational priorities in the Education Development Council of the 1970s, and his long association with the NZ Council for Educational Research. However, of particular interest to the Association is that while during its 50 years the range and depth of economic knowledge has increased enormously, what has been constant is Frank's advocacy of opportunities for young members to learn and to apply whatever part of it interests them.

The second characteristic of Frank's engagement with economics and the Association has been his interest in applying economic knowledge. He kept alive as long as possible the earlier ideal of the Economic Society of Australia and New Zealand that it should connect academic economics with business and public life. Similarly, he supported the Australia and New Zealand Association of Science as a vehicle for economists to talk to other disciplines. And within the Association, he sought an outward-looking stance. Specialization is valuable, and economists need to debate among themselves and to hone their tools, but whether dealing with New Zealand's economic diplomacy, the general stance of policy towards bureaucracy and use of the market, the appropriate framework for monetary policy, or any of the other issues with which Frank has been concerned and with which he has engaged the Association, relating academic ideas to practical issues has been high on his agenda. And we have all benefited from his efforts.

1. F.W. Holmes (1966) "The Education of an Economist" *New Zealand Economic Papers*, 1, pp. 3-17.
2. Frank Tay "Comment" *Ibid* pp. 18-23.

### Robert A Buckle

It is with great pleasure the Association honours Bob Buckle with the award of life membership of the NZ Association of Economists. Starting with a masters degree from Auckland University Bob has worked as an economist all his career. He has been an active member of the Association in various roles. His work as an economist has moved from private researcher through academic life to public policy (with an international dimension) and now again as an academic leader currently he is Pro Vice-Chancellor and Dean of Commerce and Administration at Victoria University of Wellington.

He has made valuable research contributions over this sustained career, notably blending micro and macro approaches to the business cycle — an area that has for obvious reasons become fashionable again recently. His publications include modelling business cycles as well as commentary on international structural reform among APEC countries. Bob's interest in careful, high quality empirical research is widely appreciated. In making this award we wish to honour Bob for his service to the profession, the New Zealand public service and the Association, in particular. Bob's contribution to all of these groups has been of the highest quality.

Bob has:

1. Provided numerous acts of high quality service to the Association. He has frequently refereed journal articles of *New Zealand Economic Papers*, and he has undertaken many functions on behalf of the Association.
2. Organised and facilitated conferences of the Association. In particular he was the convener of the large and successful Sesqui-centennial Conference of the Association in Auckland in 1990. And more recently, Bob was a collected and consistently positive Programme Committee co-chair for the 2008 NZAE/ESAM Conference in honour of AW Phillips in Wellington, which produced a glittering array of speakers.
3. Provided service and leadership to the Association by serving as Council Member (1985 to 1993) and President, (89 - 91).

Bob's characteristic cool style, allied with quiet effectiveness, have marked all the tasks he has undertaken. He is an ambassador for the New Zealand economics profession and has mentored a generation of students through his teaching and academic leadership. More recently he brought a laid-back but logical approach to international economic relations and again proved highly effective. His own professional achievements have been marked by the New Zealand Institute of Economic Research Economics Award in 2003. He joins a small but select group who have received this prestigious award.

The Association honours Bob for his broad economic citizenship and has pleasure in awarding him life membership of the Association.

## Grant Scobie

It is with great pleasure the Association honours Grant Scobie with the award of life membership of the NZ Association of Economists. Grant, a multi-university attender, graduated in three countries (New Zealand, Australia and the USA) culminating with a PhD from the North Carolina State University. He has been, and still is, an active member of the Association. His professional life has been varied; with longish spells of academic research and teaching broken up by time as a dedicated researcher and manager. He is currently a Principle Advisor with the Treasury a role that combines his interests in both research and policy. He has made valuable research contributions over a sustained career, including publications on exchange rates, protection policy, agricultural productivity, and research and development. Recently he has been among the small group of analysts bring reason and empirical findings to bear on that most contentious of New Zealand public debates - retirement policy. In making this award we wish to honour Grant for his service to the profession, the wider New Zealand public, and the Association in particular. To all of these groups Grant has made numerous high quality contributions over a long period.

Grant has:

1. Provided numerous acts of high quality service to the Association. He has refereed journal articles of New Zealand Economic Papers, and he has served on judging panels for a range of prizes including the *NZIER Economist of the Year Award*.
2. Organised and facilitated conferences of the Association. Notably he was the instigator, co-chair and (informally) lead sponsorship "drummer" for the highly successful 2008 NZAE/ESAM Conference in honour of AW Phillips in Wellington, the largest gathering of economists in New Zealand.
3. Provided service and leadership to the Association by serving as Council Member (2001 to the present), Vice President (2003) and President. (2004 to 2007).

Grant's infectious enthusiasm and dry wit have provided the platform for him to promote the image and interests of economics widely. Within the profession he is a natural team player whose work is characterised by many instances of joint authorship, and the active encouragement and promotion of more junior colleagues. His own achievements have been marked by the New Zealand Institute of Economic Research Economics Award for 2004. He joins a small but select group who have received this prestigious award. This width of professional engagement means he is a natural model and mentor to many New Zealand economists.

The Association honours Grant for his broad economic citizenship and has pleasure in awarding him life membership of the Association. []

## UNIVERSAL NEWSREELS

There may still be some among us who doubt the feminist claim that society was dominated for centuries by a testosterone driven patriarchy. Be in doubt no more....

Universal Newsreels are now available on the web. These are the clips shown in cinemas before we had the TV news. As an economist, I was struck by the second item at:

[http://www.archive.org/details/1942-10-19\\_Big\\_Convoy\\_To\\_Russia](http://www.archive.org/details/1942-10-19_Big_Convoy_To_Russia)

It is described as:

Greatest Tax Bill In History For Americans - "Washington, DC: With the greatest tax bill in the history of the United States about to be passed, Senator George and Congressman Doughton speak for the men who have labored to keep the nation's economy strong." (some sound from 2 men speaking)

So long as the people were ruled by a small class, they distrusted their rulers, and would have regarded administrative interference in many of the matters enumerated as a reduction of their liberty. But this jealousy of the State vanished when the masses obtained full control of the government. The administration is now their own: their impatience desires quick returns. "Why," they say, "should we fear government? Why not use it for our benefit? Why await the slow action of ameliorative forces when we can set the great machine to work at full speed?"

These tendencies have during the last half-century gained the upper hand, and have discredited, without refuting, the laissez-faire doctrine which had held the field of economic thought since the days of Adam Smith. They seem likely to keep the ground they have won.

*P.64 of Bryce, J. (1929). Modern democracies (Vol. 1). London: Macmillan.*

## FANTASY ECONOMICS

Larry Elliott, economics editor of the UK Guardian, questioned the relevance of current economics in a piece published on 1 June 2009. In it he wrote:

As a profession, economics not only has nothing to say about what caused the world to come to the brink of financial collapse last autumn, but also a supreme lack of interest in it. If, for example, you scroll down the list of papers scheduled for publication by the Review of Economic Studies, one of the prestigious UK journals, there is not the slightest sense that the world of general equilibrium and real business cycle models has been turned upside down in the past two years. There is, on the other hand a paper on "Generalised non-parametric deconvolution with an application to earnings dynamics", which includes the insight that "Monte Carlo simulations show good finite-sample performance, less so if distributions are skewed or leptokurtic". Got that? And that's just the abstract. The full article is even more fun – if you get your kicks from fantasy economics divorced from reality. You can see the whole article at:

<http://www.guardian.co.uk/business/2009/jun/01/larry-elliott-fantasy-economics>

# SCIENCE IN NEW ZEALAND

by Stuart Birks

On 17 July at Massey University in Palmerston North, Peter Gluckman gave his first public address as Chief Scientific Adviser to the Prime Minister. His topic was, "Science – what will be its role in the aspirational development of New Zealand".

It should surprise no one that he sees science as crucial to New Zealand's advancement. He wants to raise the quality of dialogue, with greater recognition of the importance of science and the contribution it can make. In comparison to New Zealand, he gave the example of Israel, where a taxi driver pointed out to him and took pride in the scientific centres on their route. Of course, many of our taxi drivers (at least the foreign, well-educated ones) might do the same thing. He is hoping for a change in culture so as to give science a higher status. An idealistic vision may be excusable in these early days of his appointment. However, if the issues are to be addressed, some realism will be required soon. There are four points that he could note.

First, he suggested that news media reporting of science could be improved through education of journalists. As discussed at journalism and communication conferences, and also covered on Mediawatch on Radio New Zealand National, there are serious problems in this sector in New Zealand. Pay is low, the traditional media are suffering from competition with new media, advertising revenue is down, and staff numbers are being cut. There is limited time to cover any particular story, and investigative journalism suffers. Also, many journalists are tempted away into higher-paying PR jobs once they have a few years' experience. Consequently, we have a predominance of young, inexperienced journalists in most areas. (Business journalism is one of the few areas of longer-term specialisation.) These problems will not be solved by giving trainee journalists a course in scientific journalism.

Second, it is not just a matter of scientists and the news media getting the scientific message across. New Zealand and Israel are very different countries with markedly different cultures and attitudes. New Zealand does not see itself as facing an "existential threat." Nor does it have a continual striving for improvement built on a strong intellectual tradition. If anything, the tradition is anti-intellectual. The stereotype is of the "good, keen bloke" with a "she'll be right," no.8 wire mentality, whereby the makeshift is fine and there is no need to try to understand. There is nothing to learn from others as all are equally competent, and off-the-cuff answers are as good as anything else. Sport is more interesting than politics, and many of today's adults are the children of "Rob's mob", those who liked his bombastic style and thought politics should be left to the politicians. This is not the whole society, but it does indicate a significant influence on the society. Is there really a market in New Zealand for the sort of journalism Gluckman would like to see?

Third, the science is just one stage in the process. The knowledge has then to be applied to create products or processes that are beneficial for the country (the innovation stage). These products and processes then have to be adopted for the gains to be obtained (the diffusion stage). It may well be that efforts to improve performance in these latter two stages will, by themselves, improve incentives for the first stage.

Fourth, he said that he did not see his role as political. It is good that he does not want to be set up as a guru on all things scientific, although he will be under pressure to do so. The media

like to do this in numerous areas, and some people have built successful careers by fostering such an image. On the other hand, he intends simply to give the scientific information so that the political debate can then proceed in a more informed way. This is either politically naïve, or shrewd political rhetoric. Any of the few who have spent the past few years pointing out errors of fact in politically correct debate will have seen how ineffective this can be. We are living in a world of rhetoric, agenda setting and framing. People, not least economists with their preferred bodies of knowledge and analytical techniques, are actively engaged in promoting their own perspectives and vested interests. He gave the example of folic acid in bread to illustrate the way debate can be reduced to emotional reactions to misinformation. This is our reality. Reporters are fooled by it, and likewise the public are fooled by it.

Bill English, in his conference dinner speech, called for more ideas and debate. Peter Gluckman calls for more engagement by scientists. These are positive signs, and they deserve support. However, the New Zealand news media are unlikely in the foreseeable future to contain the sort of coverage and assessment of issues that can be seen in Israeli newspapers (see <http://www.haaretz.com/> or <http://www.jpost.com/>). Nor is this perspective likely in a political environment where solutions are expected to come from ad hoc gatherings such as the Knowledge Wave Conferences of 2001 and 2003 or this year's Jobs Summit. The challenge put down, while directed at academics and analysts, is really a challenge to all New Zealanders to engage in an informed and sustained way in the issues that will shape our collective future. This is a cultural change that would require us to rethink and redefine our whole self-image. []

## YOU READ IT HERE FIRST...

by Stuart Birks

On p.4 of *Asymmetric Information* No.27 (November 2006) there is a short piece, "Setting our sights on gender equity". Using the example of optometrists, it showed that major imbalances are revealed when we make a breakdown by gender and age. Women dominate among the younger cohorts, and there is a majority of males among the older cohorts which are coming up to retirement. There are significant implications in terms of gender imbalance in the future workforce, and continuing gender imbalances in specific cohorts. There are potential changes in the nature of the workforce in terms of work patterns and participation, including cohort effects on male workforce behaviour.

Similar points could be made for numerous professions. This July the EEO Trust has published a report demonstrating this point. The report, by Mervyl McPherson, is *Workplace age and gender: Trends and implications*, and is available at: [http://www.eeotrust.org.nz/content/docs/reports/2644%20EEO%20Age%20Gender%20Report\\_WEB\\_V2.pdf](http://www.eeotrust.org.nz/content/docs/reports/2644%20EEO%20Age%20Gender%20Report_WEB_V2.pdf)

So when you hear that a profession is moving towards gender equality (as was said of journalism in Mediawatch on RNZ National on 19 July 2009), remember that rapid moves to equality overall most probably mean major inequalities in particular cohorts. It is not hard to roll this forward 20 years and consider whether this might then involve not only inequalities within an age cohort, but also inequalities overall. It is not seen as an issue now, either overall or for specific age cohorts. It will depend on the dominant interest groups in the future whether it will be seen as a problem then. []



# 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 Motu Economic and Public Policy Research. The objective of this section is to share information about research interests and ideas **before** publication or dissemination - each person was invited to provide details only of research that is **new** or **in progress**.

## ... economics research at Motu as at July 2009

### Environmental Economics

Suzi Kerr is leading two research projects related to environmental markets, both funded through major ForST grants. 'The integrated economics of climate change' project, carried out by the EcoClimate collaboration ([www.ecoclimate.org.nz](http://www.ecoclimate.org.nz)), combines practical policy design with longer term integrated model development. This year the project has an emphasis on design and simulation of emissions trading for forestry and agriculture, and on the allocation of New Zealand Units in the emissions trading system.

The simulation model used to assess policies uses a partial equilibrium model of rural land use. Motu's Land Use in Rural New Zealand (LURNZ) modeling effort now involves researchers from seven institutions and MAF are setting it up as one of their in-house models.

LURNZ also contributes to 'Markets and water quality', a joint project with NIWA, GNS and others in which researchers design and simulate a nutrient trading market for the Lake Rotorua catchment and work with a group of local stakeholders to develop practical policy. The project combines economics, law, hydrology and other disciplines in an attempt to explore these challenging regulatory design problems from all disciplinary angles. Suzi is also currently developing an earlier research interest on avoiding deforestation in developing countries.

Motu recently received new funding from ForST to further investigate potential climate change mitigation and adaptation in agriculture. The programme will focus on policy that induces cooperation and coordination in the agricultural sector. Andrew Coleman is leading this research.

Motu is also developing a new area of research on water management which will combine environmental, infrastructure, energy and urban issues. This research will be led by Suzi Kerr and involve Andrew Coleman and Arthur Grimes.

### Infrastructure

Arthur Grimes is leading a ForST-funded programme on Infrastructure. To date, the programme has analysed impacts of planning rules (Auckland's Metropolitan Urban Limit); Auckland's Northern Motorway extension; irrigation in the Mackenzie District of South Canterbury; broadband on firm productivity; rural processing plant closures; and local authority "social capital" and other expenditures on local community outcomes. Forthcoming work will examine impacts of ports/airports on exporting firms, and effects of passenger rail upgrades in Auckland.

Dave Maré will also work on an infrastructure project, examining the impacts of selected infrastructure investments on firm productivity and on commuting patterns.

Steve Stillman will work on a project looking at relationships between the location of state owned housing, the quality of local amenities and local house prices.

### Homeownership and wellbeing, wealth, and inequality

In a Marsden-funded programme on homeownership headed by Arthur Grimes and Steve Stillman, Motu is examining whether homeownership leads to better individual and community outcomes. By examining the direct and indirect effects of home ownership, Motu researchers aim to provide firmer empirical foundations for debates on the importance of home ownership. This programme is currently in a major data gathering phase. Arthur's related work with Otago University finance staff examines effects of differing house selling mechanisms on a range of outcomes.

Steve, Dave Maré, Trinh Le (NZIER), Dean Hyslop (Victoria University of Wellington, Motu Senior Research Associate), John Gibson (University of Waikato, Motu Senior Research Associate), and Grant Scobie (Treasury) are collaborating on a project funded by the Statistics New Zealand Official Statistics Research Programme, investigating the relationship between household income and expenditure using data from the Household Economic Survey (HES). By using expenditure data to supplement income information, this analysis will provide new information on the level of, and changes over time in, poverty and inequality in New Zealand.

In a Marsden-funded programme on the impact of economic shocks headed by Steve Stillman, Dave Maré, and John Gibson, Motu is using data from Statistics New Zealand's longitudinal Survey of Family, Income and Employment (SoFIE) to examine how events, such as job loss and the onset of health problems, impact on individual and household wellbeing. In current work, Steve Stillman, John Gibson, and collaborator Trinh Le are examining how individual and household wealth has changed over the first three years of the survey and how this relates to household characteristics.

### Housing

Andrew Coleman is developing a range of models to analyse long run influences on the housing market. As part of a CRESA organised project for CHРАНZ, the model has been used to examine the likely effects on the housing market of increasing longevity and a thus a rising number of retired people. The current work looks at the effects on home-ownership rates among younger households of an increased number of older households and higher government expenditure on pensions and healthcare, as it becomes more difficult to purchase a home rather than to rent.

## Macroeconomics

In conjunction with Özer Karagedikli from the Reserve Bank of New Zealand, Andrew Coleman is using an event study to investigate the extent to which the New Zealand exchange rate is driven by the performance of the Australian economy, examining how the NZ-US exchange rate responds to Australian macroeconomic surprises.

Andrew is also beginning a project to measure how the extent that New Zealand firms offer discounts varies over the economic cycle, using a specially created Statistics New Zealand dataset. The data should enable policy makers to better determine the extent to which changes in the consumer price index reflect short term or long term factors.

## Fiscal issues and taxation

Andrew Coleman and Arthur Grimes have been examining potential fiscal, distributional and efficiency effects of shifts in taxation towards land/property taxes away from existing tax bases. Read more about this research on page [add p. NUMBER FOR Motu column].

As part of a Treasury funded project, Andrew Coleman adapted his housing model to examine the possible long run effects of different types of capital gains taxes. The model explores how capital gains taxes might affect revenue, house prices, rents, homeownership rates, and long term welfare in a low inflation environment.

## Immigration and development

Dave Maré and Steve Stillman have been working on a series of immigration-related projects funded variously by the Marsden Fund and the Department of Labour's Economic Impacts of Immigration research programme. These have included studies of the impact of immigration on the housing market, and on the mobility and labour market outcomes of non-immigrants, as well as a study of immigrant assimilation and post-arrival mobility. They are currently looking at the impact that immigration has on firm innovation.

Steve Stillman is also working on a project with John Gibson and David McKenzie (World Bank) based on the Pacific Island-New Zealand Migrant Survey (PINZMS) and the Samoa Labour Mobility Survey (SLMS). These are comprehensive cross-country household surveys designed to measure multiple aspects of the migration process and both allow comparisons between successful and unsuccessful ballot participants. They are currently working on a paper examining migrant selectivity and the impact of emigration on incomes and poverty in sending areas.

Steve Stillman is involved with another migration project along with Malathi Velamuri (Victoria University of Wellington, Motu Affiliate) and Deborah Cobb-Clark (Australia National University, Motu Affiliate), focused on self-selection among international and trans-Tasman migrants. This work examines new migrants' decisions to settle in New Zealand versus Australia, and the location decisions of both New Zealanders and Australians. Their current research is examining the extent to which returns to human capital differ in New Zealand and Australia for otherwise similar workers.

## Productivity and skills

Dave and Dean Hyslop are examining the link between firm productivity and the skill composition of firms' workforces. This work uses Statistics New Zealand's Linked Employer-Employee Database, and is part of the Department of Labour-led LEED Research Programme.

## Cities and Agglomeration

Dave Maré and Andrew Coleman, together with Philip McCann (University of Waikato), are studying the determinants of firm and population location in Auckland. This work is being undertaken for the Ministry of Economic Development's Government and Urban Economic Development Office (GUEDO). The study will provide hedonic estimates of the value that firms and people placed on different local 'amenities', and will also estimate the impacts of local amenities and industry structure on firm productivity using Statistics New Zealand's prototype Longitudinal Business Database, Census tables, and various GIS data sources. This study builds on work that Dave Maré has been doing over recent years on agglomeration and productivity.

## Health and Crime

Steve Stillman is working on a project with Jackie Cumming (Victoria University of Wellington) evaluating the impacts of the Primary Health Care Strategy (PHCS) on the fees patients pay when they visit the GP, access to and utilisation of primary health care services, use of secondary care services, and health status. Current research examines the extent to which the PHCS altered the fees that different individuals pay for health services in New Zealand.

Steve Stillman is also currently working with Malathi Velamuri on a project examining the impact of crime victimisation and incarceration on labour-market outcomes and other measures of wellbeing, using longitudinal data from the Household, Income and Labour Dynamics of Australia (HILDA) survey.

## Capacity Building & Dissemination

Motu continues to build research capacity through training junior research analysts, employing interns, and awarding scholarships for young economists. We run conferences and seminars, and collaborate with public and private sector researchers and policy makers. We also work to make data more accessible to researchers.

Motu's senior fellows build research capacity through their work with universities. This includes research collaboration, teaching, and supervising thesis students. Dave Maré and Steve Stillman have been appointed adjunct professors of Economics at the University of Waikato, joining Arthur Grimes, who has been an adjunct professor at the university since 2002. They have joined as part of the University's initiative to establish the National Institute of Demographic and Economic Analysis (NIDEA). They will also be involved in supervising graduate students.

For the next year Suzi Kerr is Visiting Professor at Stanford University. As well as researching how we can avoid deforestation in developing countries, during this time she will teach both graduate and undergraduate environmental economics.

During the previous year, Steve Stillman has been a Visiting Professor at the Chair for Statistics and Empirical Economic Research, University of Zurich where he taught seminars on applied econometrics and empirical methods for labour economics.

Andrew Coleman is teaching an honours course in international economics at Victoria University of Wellington. He is also lecturing half of an undergraduate course in macroeconomics, focussing on monetary policy and stabilisation issues.

In March 2009 Motu launched the Auckland Public Policy Seminar Series in cooperation with the New Zealand Business Council for Sustainable Development (NZBCSD) and the University of Auckland Masters of Public Policy programme. Based on the success of Motu's Public Policy Seminar Series in Wellington, the Auckland series addresses public policy issues of key importance to the Auckland region and its residents.

Motu's website homepage includes a signup form so you can opt to receive notifications about Motu publications, seminars, and research developments. [ ]

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Find out more on Motu's website [www.motu.org.nz](http://www.motu.org.nz). Alternatively, please feel free to contact Motu senior fellows about their work: email contacts are [firstname.lastname@motu.org.nz](mailto:firstname.lastname@motu.org.nz). Alternatively you can call +64-4-939 4250 or email [info@motu.org.nz](mailto:info@motu.org.nz).

## UPCOMING PRESENTATIONS NOTIFIED TO THE NZAE ARE SHOWN AT:

<http://www.nzae.org.nz/conferences/general/index.html>

These include internal seminars and workshops at universities, plus various other talks. The list is maintained by Council member (and media celebrity) Anthony Byett. Organisers are welcome to email details of any forthcoming talks of relevance to economists to [anthony.byett@xtra.co.nz](mailto:anthony.byett@xtra.co.nz). The page is generally updated each weekend.

## NEW ZEALAND ECONOMIC PAPERS

As most of our readers are probably aware, since the start of 2009 *New Zealand Economic Papers* has been published by the leading international publisher Taylor and Francis. The journal now has a new website:

<http://www.tandf.co.uk/journals/rnzp>. Please see this new website for information about the journal. In the near future all submissions to the journal will be handled through this website. Meanwhile submissions can be sent to [nzep@auckland.ac.nz](mailto:nzep@auckland.ac.nz)

## EMAIL DATA BASE

We are currently setting up an email database of members to keep up to date with technology, and we are working towards eventually e-mailing as many of our notices/publications as possible. If you have not yet supplied the Secretary-Manager with your email address please email: [economists@nzae.org.nz](mailto:economists@nzae.org.nz)

## ABOUT NZAE

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

## WEB-SITE

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

## MEMBERSHIP FEES

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

Bruce McKeivitt - Secretary-Manager,  
New Zealand Association of Economists  
PO Box 568, 97 Cuba Mall. WELLINGTON 6011  
Phone: 04 801 7139 | fax: 04 801 7106  
Email: [economists@nzae.org.nz](mailto:economists@nzae.org.nz)

## MEMBER PROFILES WANTED

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

## NEW MEMBERS

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

**Stephen Agnew** (Canterbury University); **Matt Benge** (Inland Revenue); **Bronwyn Croxson** (Ministry of Health); **Norman Gemmell** (The Treasury); **Chris Gillion** (Inland Revenue); **Ana Ili** (Auckland Regional Council); **Geoff Leggett** (Inland Revenue); **Amy Marshall** (Canterbury Development Corporation); **Anne McAllister** (Statistics New Zealand); **Cavan O'Connor-Close** (Ministry of Economic Development); **Miles Parker** (Reserve Bank of New Zealand); **William Rosenberg** (New Zealand Council of Trade Unions); **Duncan Small** (KPMG); **Philip Stevens** (Ministry of Economic Development); **Keith Taylor** (Inland Revenue); **Michael Wilkinson** (The Commerce Commission); **Antony Wolken** (Reserve Bank of New Zealand)

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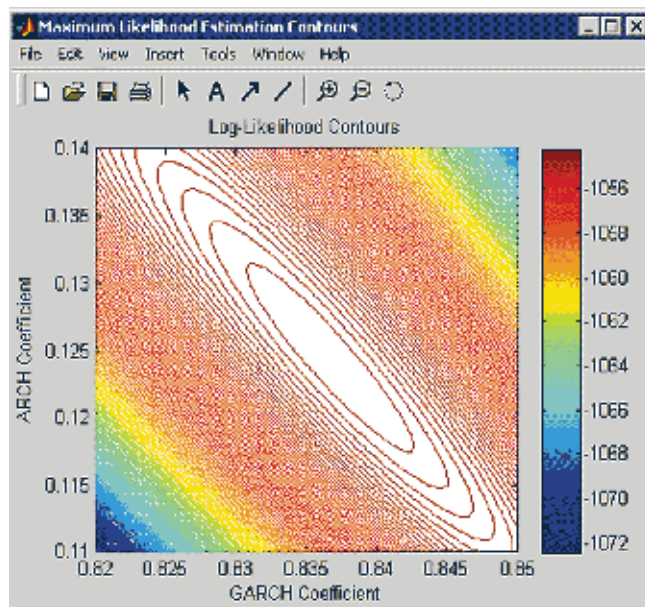
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