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# 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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nzae New Zealand Association of Economists

Conference 2018
27-29 June
in Auckland

# EDITORIAL

*Viv Hall (viv.hall@vuw.ac.nz)*

This issue's interview is with Prasanna Gai, Professor of Macroeconomics in the Department of Economics at the University of Auckland. He is interviewed by Dr. Steffen Lippert, Deputy Head of that Department.

The 'Five Minute Interview' is with Dr. Martin Fukač, Director of the start-up company Inclusive Analytics, and previously with the New Zealand Treasury, the IMF, the Federal Reserve Bank of Kansas City and the Reserve Bank of New Zealand.

Associate Professor Jeremy Clark from the Department of Economics and Finance at Canterbury University writes on Experimental Economics. This is the second invited contribution to the series aimed at featuring an area of economics that many readers may not be particularly familiar with. Jeremy outlines how experimental economics works, conceptually and empirically, and refers to the wide range of fields in economics to which it has been applied. In summary, he argues that it has been the cumulative findings from experiments that have most led the economics profession (sometimes grudgingly) to acknowledge the predictive limitations of the strong rationality and egoist assumptions of *homo economicus.*

Bryce Hartell from the business department at The Ara Institute of Canterbury provides a thought-provoking contribution on the value of economics education in New Zealand. The incoming editor of *Asymmetric Information (AI)* would welcome further short evidence-based contributions in this area from NZAE members.

As is customary for our August issue, you will find material from NZAE's recent Annual Conference, including: abstracts of the presentations by our four Keynote Speakers, William Strange, Lisa Cameron, Andrew Atkeson and John Gibson; reference to after-dinner-speaker Bernard Hickey's striking messages on how economic policy is made and broken in a post-Trump and post-Brexit era, and how elections can be won and lost on Facebook; and the Awards presented at the Conference dinner, including the award of Distinguished Fellow of the New Zealand Association of Economists to John Gibson. Also provided are citations for the award of Life Membership of the Association to Mary Hedges and to Anthony Byett, the citation for the 2017 Bergstrom Prize award, the abstract for the initial award of the David Teece Prize in Industrial Organisation, and the list of presentations at the inaugural NZAE PhD student Workshop.

From Motu, Dean Hyslop and Wilbur Townsend provide summary results and key conclusions from the study *"The longer term impacts of job displacement on labour market outcomes"*, funded by the Ministry of Business, Innovation and Employment.

Paul Walker contributes his regular 'Blogwatch' column, and this issue's Research in Progress comes from economists at Massey University.

GEN provides the date and keynote speakers for its 2017 Annual Conference, details of their remaining Training Courses for 2017, and updates from the Productivity and Transport Knowledge Hubs.

Reminder information appears for WEAI's Conference from 11-14 January, 2018, in Newcastle, Australia, along with dates for their other conferences in 2018 and 2019.

New members who joined NZAE from March 16 through to July 18, 2017 are also recorded.

Advertised on the second to back page is Alex Millmow's recently published book, *A History of Australasian Economic Thought.* Note that the 20% discount offer expires 31/12/2017, and that online code FLR40 should be used.

Our ongoing advertisement on the back page, from Survey Design and Analysis Services, features Stata release 15. Natalie and David from the Survey Design and Analysis Services booth at our 2017 Annual Conference also wish to record how much they enjoyed the interaction, interest and discussion there, and the chance to meet so many of you. They also pass on a reminder that if you would like a conference discount on any Stata Press books or new Stata software, please feel free to contact them at sales@surveydesign.co.nz.

Finally, and prior to welcoming John Yeabsley as the incoming editor of *AI*, I'd like to thank all our contributors for their timely and generously provided contributions to issues of *AI* over the past two years.

# INTERVIEW WITH PRASANNA GAI

*by Steffen Lippert*

**Q: Can I start by asking how you came into Economics?**

A: Quite by accident. My father, uncles, and aunts were either scientists or engineers, and throughout my school years I was very interested in pursuing physics and astronomy. But back in the mid-1980s, the Hawke-Keating economic reforms were in full swing, Australia was dubbed a "banana republic" and economics was front and centre in the media. So I decided to trial Economics 101 when I started at ANU, not really expecting to stick with it. I was incredibly fortunate to have Ian Harper as my first lecturer, who I still rate to be the best lecturer I have encountered, and I was hooked. Luckily, I did ok in the exams – ANU economics boasted of their 75% failure rates back then!

Once in, I quickly came to realise that ANU economics was really quite a powerhouse. I was very much influenced by the outstanding microeconomists on the Faculty there – Richard Cornes, Frank Milne, Geoff Brennan, NV Long, and Neil Vousden. John Pitchford and Max Corden were also advocating an intertemporal approach to the current account, which was the topic of discussion back then. Without realizing it, I was imbibing a micro-founded approach to macroeconomics, as I attended their courses.

**Q: What prompted you to undertake post-graduate work?**

A: The floating of the Australian dollar and the current account deficit had piqued my interest in international monetary problems. I was also very interested in European monetary union at the time and Mrs Thatcher's disdain for the idea. In my Honours year, I was fortunate in that both the IMF and World Bank sent recruiters to ANU, encouraging applications for economist positions and fellowships. Attending those talks made me realise that, to be taken seriously, a PhD in economics was necessary, if you wanted a job in those sorts of places.

Then, as now, the ANU encouraged its students to go to the US for post-graduate work. I had spent some of my early years in England, and, since my father and an aunt had both been to Oxbridge, I thought I would apply there instead. Richard Cornes and Frank Milne were especially encouraging. Richard warned me not to expect too much from a British supervisor. He reckoned that I'd be lucky to see them a few times over the three years!

**Q: What was economics at Oxford like?**

A: Things were a lot less formulaic back then, and the US-style course structure had not quite set in. But Oxford had an effective programme nevertheless. Jim Mirlees was the Graduate Director when I arrived, and Chris Bliss was my "Moral Tutor" (the person to whom you turned if things were not going well). He very quickly dissuaded me from wasting my time on monetary union with the words to the effect that every scoundrel in the discipline was working on the topic.

My D.Phil supervisor was Peter Oppenheimer, who was one of the few people in Oxford working on international monetary issues. He knew Corden well, and had a reputation for being very smart. He was "old school" and not very mathematical, but could see through models with great speed. He also had a real-world edge since he was Chief Economist at Shell and spent much of the time advising the Russian government on economic reforms. Peter taught me a great deal – both about economics and life more generally. The international economics course – run by Oppenheimer and Bliss – was a great deal of fun. My macroeconomics teachers, Peter Sinclair and David Hendry, were also terrific. Unfortunately, Amartya Sen had left for Harvard the year I arrived.

My thesis took a game-theoretic approach to sovereign debt relief (I guess I still had half an eye to a job at the IMF). I was Hyun Shin's first teaching assistant, and he very kindly offered to read over my first, somewhat amateurish, attempts at modeling. He was a lecturer back then, but has since risen to great heights – including a Chair at Princeton and now Chief Economist at the Bank for International Settlements. Through him and my interest in game theory, I consolidated my microeconomics, attending several courses by John Vickers, Paul Klemperer and, of course, Jim Mirlees.

**Q: The Bank of England must have also been quite interesting – how did your experiences there influence your work on financial crises?**

A: My entry into the Bank of England was also accidental. I saw an advertisement in the Economist magazine for International Economists, and wrote to them in the hope of getting an internship. I was quite surprised when they offered me a proper position (conditional on completing the D.Phil).

It turned out to be quite an experience. My time there was dominated by financial crises – it began with the ERM crisis, then the collapse of Barings, then Mexico, the Asian financial crisis, LTCM, Argentina and Turkey, the Dotcom bubble and, finally, Northern Rock and Lehmans. It was incredible to get a front seat view of these episodes, and to be involved in some of them. Along the way, I was also the Bank's desk economist for Russia and the US, and author of the flagship Inflation Report in the early years of Bank independence and the monetary policy committee (MPC).

Interestingly, almost all my time was spent on policy work. Mervyn King, who was Chief Economist in those days, insisted that his economists work at the coalface. But he expected that policy should be based on sound theoretical reasoning. While he was encouraging of research, writing papers for journals was an activity that was definitely to be undertaken during the "cushion of the weekend".

The Bank of England has a strong tradition of welcoming microeconomic theory. John Flemming, Mervyn King, and John Vickers were all Chief Economists at the Bank and, to my surprise, my colleagues were all very encouraging of my attempts to develop frameworks for the analysis of crises using game-theoretic tools. I was also fortunate to have as my co-author, Andy Haldane, who is the current Chief Economist of the Bank. Andy and I joined forces just before the Asian financial crisis and have collaborated ever since. During that crisis, and at the behest of the then Governor (the late Eddie George), we built on the currency crisis work of Maurice Obstfeld and Hyun Shin/Stephen Morris, showing how insights from coordination games could be used to make a case for Chapter 11 style arrangements for countries. We also showed why private sector involvement in crises was necessary. The UK used its position at the IMF to push hard for this and it culminated in Anne Krueger at the IMF proposing the Sovereign Debt Restructuring Mechanism (SDRM). And the "bail-in debates" for the private sector that we have recently seen in the context of Greece and Cyprus build on these early arguments.

When Mervyn King became Governor, Andy and I were charged with developing an analytical framework for financial stability. While coordination game models and their multiple equilibria offered some traction on the non-linearities during crises, we quickly realized that other disciplines (notably statistical mechanics) also had neat ways of characterizing non-linear dynamics. This attracted us to network theory and, back in 2005, we began to think how we could articulate the probability and impact of a "Lehmans"-type event. Our attempts to model and operationalize this led us directly to macroprudential policy and stress-testing. Unfortunately, our work was on the drawing board when the GFC struck. But, happily, it seems to have been quite well received and other scholars have continued to push the agenda.

**Q: Do you think the global financial crisis has changed the way that central banks think?**

A: Very definitely. Central bankers were quicker than academics to realise the limitations of the DSGE macroeconomic models that they had invested in, and they had long been cognizant of the limited analytical toolkit for financial stability. They have been much more open to new ideas and inter-disciplinary thinking (e.g. complexity theory and evolutionary biology). For example, Mervyn King invited Lord Robert May – the leading thinker in evolutionary biology and Chief Scientific Adviser to the UK – to work with us on systemic risk issues. The New York Fed was at the forefront of much of this kind of work. The Bank of Canada also invited me over as a Special Adviser soon after the crisis broke to help them develop the work agenda for their financial stability department. The ECB is another central bank that has invested substantially in thinking about the boundary of monetary and financial stability.

**Q: What about the influence of the crisis on macroeconomics?**

A: Academic macroeconomics has been quite slow to explore the fertile ground that now exists between macroeconomics and finance. It has taken a long time for macroeconomists to get to the point of thinking about how financial frictions and banking issues interact with conventional models of the macroeconomy. When we started thinking about these issues at the Bank of England in the mid-2000s, the only model around in this class was the classic paper by Kiyotaki and Moore. Fortunately, there is much more work on this kind of stuff these days.

But it is also striking how tribal the mindsets have become. Mainstream researchers are largely focused on so-called "firesale" externalities, in main part, because they see it as a problem of how to achieve a sustainable intertemporal equilibrium. By contrast, policymakers and more "quantitative" finance types emphasise network and inter-linkage issues because they view the problem in terms of underpinning financial system resilience. Indeed, there is now an intellectual struggle going on for ownership rights to the idea of macroprudential policy. Many academic macroeconomists seem to prefer the financial stability debate to be couched in terms of intertemporal macro-stabilization policy. That, of course, suits the predilections and skill-sets of the DSGE tribe (both inside and outside) central banks.

The lessons of the crisis are still some way from being properly passed on to students as a result. The latest edition of Romer's Advanced Macroeconomics Textbook or the new book on Open Economy Macroeconomics by Uribe and Schmitt-Grohe has very little of substance on any of these issues. Macroeconomists need to become much more familiar with the microeconomics of the kind taught in Toulouse (of the Tirole-Rochet variety), and the issues highlighted by Holmstrom and Gorton in their recent work on informationally insensitive (safe) assets, as well as Franklin Allen and Douglas Gale's seminal work on financial crises.

**Q: There has been a lot of attention on stress-testing the banks lately. Do you agree with this approach to financial stability?**

A: Yes, I do. And not just because I was heavily involved in the early development of stress-testing models at the Bank of England and at the Bank of Canada. The point is that – like a macro-model – a stress-testing framework allows for a debate and discussion. It also permits some evaluation of how well banks and the regulators are doing. Of course, the models are very fledgling and one can criticize them on any number of grounds. So we should not take the results too literally. As Eddie George would say, it is the process that is important – it ultimately contributes to legitimacy and accountability for the central bank.

**Q: New Zealand has been an early adopter of macroprudential policy. Has this been a success?**

A: A very interesting question. The Reserve Bank was forced into macroprudential policy due to the heavy reliance of the banks on short-term wholesale funding. So they, quite rightly, adopted liquidity rules to contain the problem. Since then, they have invoked macroprudential policy in the form of loan-to-value ratios to deal with risks from rapidly rising house prices. Theory tells us that loan-to-value ratios on speculators in particular should have some effects, and this seems to have been borne out in practice. But the overall effect is somewhat limited, and I am not convinced that higher LVRs really amount to much in the medium term – especially in terms of increasing the resilience of the banking system to shocks. They are bound to be circumvented. Also, macroprudential policy has much more upfront distributional consequences compared with monetary policy. So even if we had the right instruments to tackle the right frictions (a very big if), there is a huge challenge to ensure that there is a good architecture in place to maintain the legitimacy and independence that macroprudential policy needs to operate effectively in the medium-term. At present, the level of public understanding of, and therefore willingness, to support financial stability seems limited.

New Zealand is also very unusual in that the Governor is the sole decision-maker on macroprudential policy as well as monetary policy. Such concentration of power in a single individual really means that winning the battle of hearts and minds – trust – becomes a critical issue for macro-prudential as well as monetary policymaking. I am not sure that the current framework has properly dealt with this issue yet. As you know, other countries get around this with collegial committee structures of some sort.

**Q: There have been quite a few academics running central banks, with considerable success. Do you think we should have an academic as Governor of the RBNZ?**

A: Unlike the US, most European countries, or even India, there does not seem to be a great deal of appetite to have academics running central banks in either Australia or New Zealand. Of course, not every academic is of the caliber of Mervyn King, Ben Bernanke, or Raghuram Rajan – although with appropriate structures in place they need not be. But academics seem to be regarded with a degree of skepticism, even though they are probably as able as some of the public servants and bankers who ultimately fill these roles. Australia has produced many top-rate academic economists in the last 30 years who have also distinguished themselves in policy circles, but were never appointed to the top job. Even Norway and Ireland have managed to find academics (including from overseas) for some of the top central bank jobs.

**Q: The Governor of the Bank of England, Mark Carney, has recently suggested that central bankers are in the last seconds of their fifteen minutes of fame. What do you make of that?**

A: I think the comment was meant to raise awareness that, in the post-crisis era, central banks are now increasingly reliant on other policies (especially fiscal) to share the burden and responsibility for spurring economic activity. But it is also a recognition that central banks, having now strayed so far from their core purposes, have lost a great deal of trust with the public at large. Rajan talking about India's social problems is a good example. Andy Haldane has recently written a very nice speech articulating the failure of central banks to reach out to their stakeholders. The goodwill for operational independence of the central bank – which was a product of academic and policy work following Kydland-Prescott and Barro-Gordon's work on time inconsistency – is also beginning to erode. The brief age of the rock star central banker seems to be at an end. As Mervyn King often used to say, central banking should be boring.

**Q: How have you found the transition from central banking to academic life in New Zealand?**

A: A bit of a shock at first. Warwick McKibbin enticed me to ANU from the Bank of England, but my wife (who is a Kiwi) encouraged me to make the move to Auckland.

I still manage to keep my central bank connections going through ongoing collaborations with Andy Haldane and my co-author Kartik Anand at the Deutsche Bundesbank. I have also been fortunate enough to be elected for a four-year term to the Advisory Scientific Committee of the European Systemic Board, an advisory group to the European central bank governors chaired currently by Richard Portes, but also involving academics like Marco Pagano, Elena Carletti, Javier Suarez, Alberto Giovannini, and Ernst Ludwig Von Thadden. But I am really enjoying the freedom to work on non-central bank topics, and have recently returned to my long-standing interest in sovereign debt issues.

# THE FIVE-MINUTE INTERVIEW WITH … MARTIN FUKAČ

1 **When did you decide that you wanted a career in economics?**
It was my father who planted the idea I should study economics. But what he really meant was I should study finance. I was graduating high school when the Czech Republic, my home country, was going through turbulent times. The communist regime fell and the economy was being transformed from centrally planned to market driven. National wealth was privatized in an unprecedented way. My father felt I should understand what was going on, and in particular appreciate how to be well off one day. But at university I quickly realized that "bean counting" was not for me. I was infatuated by the depth and complexities of economics.

2 **Did any particular event or experience influence your decision to study economics?**
I remember the moment very clearly. It was March 1996 and I was taking a prep course for university entry exams. They taught us basic micro and macro. It was love at the first sight. I was blown away by the concepts of incentives, demand and supply, and how that all made sense of the world I lived in. I still remember that feeling of discovery and fascination by the discipline that included elements of history, politics, philosophy, psychology, sociology, ethics and mathematics. I was unsure where the path would take me but I knew I wanted to explore. I've been on the path ever since.

3 **Are there particular books which stimulated your early interest in economics?**
Yes, there are about four books that I can read from cover to cover any time. Paul Samuelson's *Economics* textbook, Milton Friedman's *Capitalism and Freedom*, and *Freedom to Choose*, and Friedrich von Hayek's *Road to Serfdom.* They were really formative for me.

4 **Did any teachers, lecturers or supervisors play a significant role in your early education?**
Sure. One would get absolutely nowhere without good mentors. I'm grateful to a handful of teachers and friends who influenced me, and they still do. Osvald Vasicek was the most important very early on. He is a holocaust survivor, rebel, Bohemian and Renaissance man. He introduced me to quant stuff in economics, but also felt that I needed to understand literature, poetry, music, art and red wine. He still lectures me whenever we Skype.

5 **Do you have any favourite economists whose works you always read?**
I don't follow them regularly but I enjoy reading what Larry Summers or Warwick McKibbin have to say about economic policy. I like their provocative, out-of-the-box way of thinking. They may not be always right but what they say is always refreshing and inspiring. There are lots of economists I like but I think the profession is still waiting for a 21st century Smith, Marx, Keynes or Friedman.

6 **Do you have a favourite among your own papers or books?**
Uhhh, this is a tough one. If you mean which paper I most often return to, then it's a paper on "Structural Macro-econometric Modelling in a Policy Environment", which I co-authored with my good friend and inspirational economics colleague Adrian Pagan. It's on the history of models used for economic policy-advising.

7 **What do you regard as the most significant economic event in your lifetime?**
A decision to have four children… Now less seriously, for sure it's the collapse of the U.S. subprime mortgage market and what followed. But there were also other events that I feel strongly about, like the collapse of communist regime in my home country, the Asian and Russian financial crises, and the formation of Euro area… But who knows what's yet in the pipeline?

8 **What do you like to do when you are not doing economics?**
Or working as a taxi-driver for my children? I like digging in the garden.

**Reference**


Fukač, Martin and Adrian Pagan (2010), "Structural Macroeconometric Modelling in a Policy Environment", chapter 9 in *Handbook of Empirical Economics and Finance* (eds. Aman Ullah & David E.A. Giles), Chapman & Hall/CRC Press, 215-245.

Fukač, Martin and Adrian Pagan (2009), "Structural Macro-Econometric Modelling in a Policy Environment", *Reserve Bank of New Zealand Discussion Paper DP 2009/16*, December.

# WHAT IS EXPERIMENTAL ECONOMICS?

*By Jeremy Clark*

What is experimental economics, and should you take it seriously? Many economists have at least a passing acquaintance with this field, at least since Vernon Smith shared the Nobel Prize for his contributions to it in 2002. That year's Nobel committee recognized Smith "for having established laboratory experiments as a tool in empirical economic analysis", and for Smith's contributions in particular "in the study of alternative market mechanisms."[1]

So taking our cue from this citation, we can already see that experimental economics is a method, which distinguishes it from a close cousin, behavioural economics. Behavioural economics seeks to improve the descriptive accuracy of standard economic theory, which assumes that economic agents are rational and self-interested. It does this by proposing parsimonious add-ons, often borrowed from psychology, to standard constrained-optimisation problems faced by firms, individuals, or policy makers. So as a method, experimental economics can certainly be used to test the predictive accuracy of behavioural economics add-ons, but it can just as easily be used to test the predictive success of bog-standard neo-classical models, or to see what will happen in complex settings where theory cannot generate predictions. Will markets reach the same equilibrium price and trading quantity with a tax or theoretically equivalent subsidy? Will bidders truly reveal their maximum willingness to pay for a good in a second price sealed bid auction? Will some kinds of decentralised electricity markets (with multiple generators and retailers but a single distributor) lead to less price volatility than others?

If experimental economics is a method, how does the method work? Following in the pioneering steps of Edward Chamberlin at Harvard in 1948, experimentalists randomly assign human "subjects" to two or more differing "treatments". These treatments are abstracted analogs of theories or real world problems requiring subjects to make decisions that involve financial incentives. Experimentalists then test whether the decisions made by subjects differ significantly between the treatments. In theory, with large enough samples, random assignment of subjects to treatments from an underlying pool should result in a cancelling out of the differences in characteristics of the decision makers between treatments that could be affecting the outcomes observed. As a result, differences in subject decisions between treatments can be attributed solely to the treatment effect. Random assignment thus solves the identification problem that confronts all empirical economists, furnishing what experimentalists hope is the Holy Grail of Angrist and Pischke's "ideal experiment".[2] Or, to use an analogy from space travel, random assignment experiments attempt to break the correlation barrier, and ascend to the heights of demonstrating that changes in X are actually *causing* changes in Y.

Experiments in economics vary greatly in the subjects they use. In *laboratory* experiments, volunteers are recruited from 'pools of convenience,' most commonly university undergraduates. The experimenter maintains maximum control over the information and communication between subjects in lab experiments, but concerns over the external validity of the decisions made by such subjects are also higher. In *field* experiments, volunteers are taken from 'pools of relevance', such as potential contributors to charity, sports card traders, internet purchasers, farmers in extension programmes, or potential borrowers. They often make their decisions in a more natural setting than a university computer lab. Experimenters in field experiments often struggle to maintain the same degree of control over the flow of information, communication, and attrition of participants. But concerns over the external validity of field experiment participants are lessened also. Seen as a left – right continuum, some experiments lie between lab and field models, where subjects from pools of relevance are brought into computer labs to face abstract decisions. Further to the right of field experiments are natural field experiments where the subjects do not even know they are in an experiment that has been created by the researcher. Natural field experiments have the big advantage of reducing self-selection of subjects; people still self-select to be in the pool of relevance, but not to take part in the experiment. Beyond natural field experiments lies the terrain of natural experiments, where experimentalists give way to empirical researchers lucky enough to exploit clean cases of exogenous variation created by God.

From an initial trickle of experiments used for teaching, beginning with Edward Chamberlin at Harvard in 1948 and Vernon Smith at Purdue in 1956, there has grown a flood of experiments used for research purposes. Expansion was greatly assisted by Smith's publication of "Experimental Economics: Induced Value Theory" in the *American Economic Review* in 1976. This paper laid out the principles for studying decision making by using incentives to induce subjects to behave as if they have the preference orderings specified by economic theory. Papers using experimental approaches began appearing in economics' top journals from the late 1970's onward, and in 1986 the Economic Science Association (ESA) was formed to encourage the work of experimental economists. In 1998 the ESA launched its own field journal, *Experimental Economics*, which by 2013 was ranked as an A* journal in the Australian Business Dean's Council rankings exercise. This has since been joined by the *Journal of the Economic Science Association*, and the renamed *Journal of Behavioral and Experimental Economics.*

Experiments have been run in virtually every field within economics, including market and auction design, public good provision, taxation, asset pricing bubbles, non-market valuation for health and environmental economics, simulated labour markets, bargaining, individual decisions under risk, discounting, learning, development policy, inequality aversion, altruism, reciprocity, neuro-economics, and ever more.

So should you take experimental economics seriously? As someone who has done work in theory, lab and field experiments, and applied empirical work, I offer my view. As economists, we all need a proper humility about any method's ability to prove that a change in X is causing a change in Y, whether directly under the streetlight where the researcher stands, or extrapolated to settings further afield. Quoting the Apostle Paul, "for now we see in a mirror dimly", even with our best efforts. John List and Stephen Levitt[3] have identified some of the particular foibles to which experiments are prone: subjects usually know they are being watched, recruiting them from convenience samples creates double degrees of self-selection, and experiments cannot help but emphasize to subjects the importance of the "rules" by which outcomes are reached. To List and Levitt's concerns I could add the limitation that random assignment is generally a short term affair, able to identify only short term treatment effects.

At the same time, it has arguably been the cumulative findings from experiments that have most led our profession to (sometimes grudgingly) acknowledge the predictive limitations of the strong rationality and egoist assumptions of *homo economicus.* That's a serious achievement.

1 See http://www.nobelprize.org/nobel_prizes/economic-sciences/laureates/2002/smith-facts.html

2 Angrist, J. and J.S. Pischke (2009) *Mostly Harmless Econometrics.* Princeton University Press

3 Levitt, S.and J. List (2007) "What do laboratory experiments measuring social preferences reveal about the real world?" *The Journal of Economic Perspectives* 21, 2, pp. 153-174

# ECONOMICS EDUCATION IN NEW ZEALAND: ALLOCATIVELY INEFFICIENT?

*By Bryce Hartell*

Like any profession, economics educators owe it to themselves and their students to evaluate the appropriateness of what they teach. The data contained in table one reveal that enrolments in tertiary economics courses have dropped considerably since 2007.

**TABLE 1 - NUMBER OF ENROLMENTS IN TERTIARY COURSES IN NEW ZEALAND**

| Year | 2007 | 2008 | 2009 | 2010 | 2011 | 2012 | 2013 | 2014 |
|---|---|---|---|---|---|---|---|---|
| Economics | 20,830 | 19,890 | 19,135 | 18,765 | 17,070 | 16,935 | 16,375 | 15,640 |
| Overall | 481,965 | 458,625 | 466,580 | 463,970 | 429,685 | 420,485 | 417,215 | 417,535 |

*Source: Ministry of Education*

From 2007-2014* tertiary enrolments in economics courses decreased by 24.9%, almost double the overall decline across all subjects of 13.4%. Furthermore, of the 70 fields of study included in the data, only 12 experienced a greater loss of enrolments than economics. Could this represent growing disinterest in economics, a perceived lack of future job opportunities, or perhaps merely a correction of what was already an overtaught subject? Regardless of the reason, the data should be concerning enough to warrant discussion on the value of economics education in this country.

Table two reports a year of job search results obtained from Seek, New Zealand's largest job advertisement website. Economics is compared to accounting not because the two subjects necessarily have any content in common, but rather because they are both commerce subjects available at similar levels. Economics and accounting can both be studied in secondary schools at NCEA level 1-3, scholarship, and at universities from undergraduate to post-graduate level.

**TABLE 2 - LIST OF JOB SEARCH RESULTS BY SEARCH TERM**

| Date | "Economist" | "Economics" | "Accountant" | "Accounting" |
|---|---|---|---|---|
| 20/12/2015 | 2 | 45 | 1,385 | 1,343 |
| 20/02/2016 | 5 | 62 | 1,812 | 1,753 |
| 20/04/2016 | 8 | 75 | 1,791 | 1,732 |
| 20/06/2016 | 5 | 67 | 1,779 | 1,737 |
| 20/08/2016 | 6 | 68 | 1,763 | 1,710 |
| 20/10/2016 | 21 | 92 | 1,769 | 1,708 |
| 20/12/2016 | 3 | 153 | 1,484 | 2,537 |

*Source: Seek.co.nz*

The results in table two imply greater demand for accounting graduates than economics graduates. Of course, not all jobs are advertised via third-party websites. Fortunately, Careers New Zealand compiles data on the number of people employed in a range of industries, and they reveal that in the year 2014 there were 31,225 accountants compared to only 533 economists. Obviously, while most accounting graduates will pursue jobs as accountants, it seems reasonable to presume that, due to the broader potential applications of economics, significantly less economics graduates will find themselves employed specifically as economists. However, as table three illustrates, even if we assume that every single statistician, analyst, and financial dealer is an economics graduate, which is equally arbitrary and undoubtedly false, the number of accountants still vastly outweighs the number of "economists" in New Zealand.

**TABLE 3 - NEW ZEALAND EMPLOYMENT BY JOB TITLE AS AT 2014***

| Job title | Number of people employed |
|---|---|
| Economist | 533 |
| Policy analyst | 2,514 |
| Market research analyst | 317 |
| Business analyst | 12,911 |
| Statistician | 541 |
| Financial dealer | 388 |
| | 17,204 |
| Accountant | 31,225 |

*Source: Careers NZ*

Although clearly unfavourable, the comparison depicted in table three is quite meaningless without considering how many students we teach in each respective subject. In fact, in 2015 there were 24,210 students studying economics in secondary schools as opposed to just 15,055 studying accounting. On the other hand, at a tertiary level the disparity is reversed, with 15,640 economics students in 2014 compared to 28,645 accounting students.

One conceivable response to the data presented thus far would be to posit that education should not be chosen merely for its employment potential, and that economics is a useful subject for general society; of which there is little to debate. Knowledge of economics offers an array of benefits in regular life, such as understanding of market forces, interest/exchange rates, proposed government policies, to list but a few. All of which ought, at least theoretically, to result in citizens who are superior consumers of news and more- informed voters. Professor Stephen King of Monash University agrees that economics offers valuable generic skills, primarily formal analytical reasoning, that students will seldom find in other commerce subjects. So why then are economics enrolments falling, and, more importantly, is it a problem?

If we accept that there are very few specialised economics jobs, then we must resign ourselves to the realisation that most students with only undergraduate qualifications will never become “economists” per se. And if so, the profession has a decision to make. Either we must discourage students from majoring in the subject (or at the very least encourage them to study economics merely as a secondary major) or we ought to seriously reconsider the content included within undergraduate economics courses. The latter approach has gained marginal traction post-GFC via organisations such as Rethinking Economics and the International Student Initiative for Pluralist Economics. But what exactly would a revised economics curriculum consist of?

Economists like to proclaim that their subject teaches people “how to think”, yet there is little evidence to support this. Most undergraduate courses in economics consist of numerous axiomatically-taught decades-old theories, alongside calculus which students, especially domestically educated ones, are woefully unprepared for and will likely never use again. Very little time in an undergraduate economics degree is spent debating the relative merits and limitations of concepts, let alone discussing the history of economic thought itself. It seems unjustified then to assert that the subject has a monopoly on analytical thinking skills.

Gabriel Makhlouf, Secretary and Chief Executive of the Treasury, and Professor John Lodewijks of S P Jain School of Global Management both suggest greater inclusion of economic history and heterodox schools of thought in undergraduate economics education. None of which is to say that economics education in its current form is inherently flawed, but perhaps the narrower technical skills should be reserved for graduate students. Like members of any profession, economists are resistant to change, but there must come a point where the whims of undergrads can be ignored no longer. With a few tweaks to the curriculum here and there, maybe we would not only justify the current number of economics students in this country, but encourage more to take it up in the future.

**Unfortunately the most recent publicly available data.*

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# BLOGWATCH

*By Paul Walker (psw1937@gmail.com)*

The sad trend of losing the greats of the subject continues apace with the recent deaths of Irma Adelman, William Baumol and Allan H. Meltzer. David Zilberman gives a personal perspective on Adelman's life and work at the 'Berkeley Blog' <http://blogs.berkeley.edu/2017/03/28/irma-adelman-1930-2017-a-leading-economist-and-outstanding-berkeley-faculty-member/>. William Baumol, well known in New Zealand circles for the Baumol-Willig Rule, is remembered by Alejandro Chafuen as "A Stellar Academic Who Also Excelled As Intellectual Entrepreneur" <https://www. forbes.com/sites/alejandrochafuen/2017/05/10/allan-h-meltzer-a-stellar-academic-who-also-excelled-as-intellectual-entrepreneur/>. Kevin Bryan remembers "William Baumol: Truly Productive Entrepreneurship" <https://afinetheorem.wordpress.com/2017/05/05/william-baumol-truly-productive-entrepreneurship/>. Timothy B. Lee highlights "Baumol's cost disease" <https://www. vox.com/new-money/2017/5/4/15547364/baumol-cost-disease-explained>. Emily Langer notes "William Baumol, economist who found logic in rising health-care prices, dies at 95" <https://www. washingtonpost.com/national/william-baumol-economist-who-found-logic-in-rising-health-care-prices-dies-at-95/2017/05/05/25439850-3108-11e7-9534-00e4656c22aa_story.html>. Diane Coyle reminisces about "Will Baumol" <http://www.enlightenmenteconomics.com/blog/index.php/ 2017/ 05/will-baumol/>. Coyle also comments on "The prescience of Will Baumol" <http://www. enlightenmenteconomics.com/blog/index.php/2017/05/the-prescience-of-will-baumol/>. The Economist magazine remembers "A prolific writer and originator of the idea of "cost disease" " <http://www.economist.com/news/finance-and-economics/21721906-prolific-writer-and-originator-idea-cost-disease-he-was-95-william>. Carnegie Mellon University News announce "Allan H. Meltzer, Monetary Policy Expert and Historian of Political Economy, Dies at 89" <http://www.cmu. edu/news/stories/archives/2017/may/meltzer-policy-expert.html>. Craig Torres and Rich Miller write that "Meltzer, Fed Historian Who Criticized Bailouts, Dies at 89" <https://www.bloomberg .com/news/articles/2017-05-09/allan-meltzer-who-wrote-history-of-federal-reserve-dies-at-89>. Gerald P O'Driscoll writes on "Allan Meltzer Remembered" <https://www.alt-m.org/2017/ 05/10/ allan-meltzer-remembered/>. James Dorn notes, "Allan H. Meltzer: A Life Well Lived (1928-2017)" <https://www. alt-m.org/2017/05/12/allan-h-meltzer-life-well-lived-1928-2017/>. Joseph T. Salerno offers "Allan H. Meltzer, RIP" <https://mises.org/blog/allan-h-meltzer-rip>.

At the 'Global News' website <globalnews.ca> journalist Rob Breakenridge ponders the economics of a possible bid for the 2026 Winter Olympics by the city of Calgary. And if history is anything to go by the economics are not good. "Canada's last Olympic Games can serve as a warning on this point. In 2006, B.C.'s auditor general pegged the cost of hosting the Olympics at $2.5 billion, yet the actual price tag of Vancouver 2010 ended up being somewhere between $7 billion and $9 billion. Moreover, the B.C. government has predicted a $10-billion GDP boost, which turned out to only be about $2.3 billion". And "It was a similar story in the U.K., where the original bid for the London 2012 Olympics forecast a budget of £2.4 billion, but later more than tripled to £9.3 billion" <http:// globalnews.ca/news/3548325/ commentary-calgarys-olympic-dreams-could-cause-sleepless-nights-for-taxpayers/>.

At 'Bloomberg View' <https://www.bloomberg.com/view/> Noah Smith contends that 'Immigrants Don't Steal From Americans' Paychecks' <https://www.bloomberg.com/view/articles/2017-06-16/immigrants-don-t-steal-from-americans-paychecks>. Smith looks at the example of the 1980 Mariel boatlift, in which Fidel Castro suddenly decided to let about 125,000 Cubans emigrate to the U.S. Most of them ended up in Miami. In a 1990 paper David Card asked, How did this immigration affect native-born workers? Surprisingly he found that the surge of immigrants had no effect on the wages or employment levels for low-skilled Miamians. In 2015 George Borjas wrote a paper claiming that if you look carefully enough, you can see a big harmful impact of the Mariel immigration wave on the wages of a certain group of native-born Miamian high-school dropouts. While Borjas may be right, Smith argues that when you consider all the evidence available the weight of this evidence is solidly against Borjas on the immigration question. The emerging consensus, in Smith's view, is that immigration just doesn't hurt native-born workers very much.

A 'VoxEU.org' <http://voxeu.org/> Neil Monnery takes a look at "Hong Kong: A two-stage economic experiment". Monnery argues that post-war Hong Kong delivered one of the most dramatic improvements in living standards in history, a transformation regarded by Milton Friedman as an experiment in the potential impact of economic freedom on economic growth. Monnery's article assesses the contribution of one key official – finance minister Sir John Cowperthwaite – whose laissez-faire approach of 'positive non-interventionism', much admired by Friedman, underpinned that success. Non-interventionism was not an absolute however, Cowperthwaite argued for government regulation or involvement in the provision of public goods, such as water supply and infrastructure. But he tried hard to find the right mix of public-private involvement. He also actively regulated monopolies. He believed that companies would follow their own self-interest, and it was through competitive markets that this motive could be channelled for the common good. Absent a fully competitive market, he looked to regulation to control corporate behaviour. But perhaps the biggest divergence from laissez-faire was in the housing market. Today, around a third of the population of Hong Kong rent a government-constructed apartment, and in total over half the apartments in Hong Kong have some element of government ownership. The column also explores, 20 years on from the handover to China, whether a second stage of the Hong Kong economic experiment might be in progress, perhaps leading to faltering freedom and faltering growth <http://voxeu.org/article/hong-kong-two-stage-economic-experiment>.

Chris Auld offers "A non-technical guide to the dueling Seattle minimum wage studies" at 'ChrisAuld.com' <http://chrisauld.com/>. Over the past few weeks two studies on the effects of Seattle's recent minimum wage hikes have been released. One comes from researchers at the University of Washington, the other from researchers at Berkeley. The results have widely been interpreted as being inconsistent. Auld presents a non-technical guide to the problems associated with attempting to estimate the effects of the minimum wage, the statistical methods used in both papers, and how to interpret the results (Spoiler: the results are actually not in conflict) <http:// chrisauld.com/2017/07/03/a-non-technical-guide-to-the-dueling-seattle-minimum-wage-studies/>.

Jacob Vigdor, one of the authors of the University of Washington study, talks "About that raise: Take it from Seattle, a $13 minimum wage won't necessarily boost pay" at the 'New York Daily News' <http://www.nydailynews.com/>. "The number of jobs paying low wages - under $19 per hour - dropped noticeably. Having counted 93,382 jobs paying under $19 in the peak of Seattle's summer tourist season in 2015, we could find only 86,842 the following summer [...] We can count not only jobs but the number of hours worked at wages under $19. By our best guess, hours dropped about 9% in 2016 compared to earlier years, while wages went up only 3%. Put these numbers together and you get a conclusion that surprised us and many others: the minimum wage increase actually reduced the amount of money paid to low-wage workers in Seattle, an average of $125 per month for each" <http://www.nydailynews.com/opinion/raise-higher-minimum-wage-not-boost-pay-article-1.3291398>.

Ravi Kanbur, Yue Wang and Xiaobo Zhang discuss "The great Chinese inequality turnaround" at 'VoxEU.org' <http://voxeu.org/>. Increasing inequality has been a part of the standard story of development in China since reforms began in 1978. In more recent years however a number of studies have begun arguing that inequality has been plateauing, or even declining. This column uses several datasets, including household surveys and regional-level government statistics, to show evidence of a mitigation of inequality in the early 21st century, and indeed, declining rates over recent years. Possible drivers of this turnaround are urbanisation, transfer and regulation regimes, and tightening rural labour markets <http://voxeu.org/article/ great-chinese-inequality-turnaround>.

"Which is more valuable—Apple or Wales?" asks Dan Davies at the 'Bull Market' blog <https:// medium.com/bull-market/>. "The big lesson here is that states are much more important than corporations. You occasionally see people making the opposite claim, but it's almost always based on a comparison of market capitalisation to GDP, which is always going to be out by a number of orders of magnitude roughly equal to the market price/earnings ratio" <https://medium.com/ bull-market/which-is-more-valuable-apple-or-wales-8fd2315d9120>.

# KEYNOTE SPEAKER ABSTRACTS:

**WILLIAM STRANGE,**
**University of Toronto**

**The John McMillan Memorial Lecture**

**"Tales from the Vertical City: Agglomeration, Productivity, and Real Estate"**

Chair: Tim Ng

Economic activity is distributed unevenly across space. A range of forces are involved in the process by which agglomeration affects productivity. This presentation discusses modern approaches to Marshallian agglomeration economies in labor, input, and knowledge markets. It considers new evidence on agglomeration in a downtown setting (i.e., one dominated by service activities and located in office buildings). In addition to shedding light on the nature of agglomeration economies, this research has implications for commercial real estate markets in general and the ongoing construction of tall buildings in particular.

**LISA CAMERON,**
**University of Melbourne**

**"Experiments in Development Economics: Lab experiments, natural experiments and randomised controlled trials"**

Chair: Tim Maloney

Experiments are being more and more widely used in the field of economics. Nowhere is this truer than in the field of development economics. Lab-in-the-field experiments are used as a way of measuring behavioural preferences like risk aversion and time preferences. They enable us to then examine how preferences affect decision-making and economic outcomes, and also how external events affect behavioural preferences (the latter being more controversial as economists standardly assume preferences to be fixed). Experiments of a different kind – both natural experiments and randomised experiments – are also widely used as an identification strategy. They enable us to identify causal relationships, as opposed to statistical associations. They are thus very useful for the purpose of evaluating public policy as one can assess how a particular policy affects welfare, which in the absence of an experiment of some kind is a surprisingly difficult task. The above points are illustrated from Professor Cameron's experience using experiments of many different kinds to better understand human behaviour and policy impacts. Examples include the behavioural impact of China's One Child Policy; how floods and earthquakes affect risk attitudes and time preferences; how sex-ratios affect behavioural preferences and criminality; and the consequences of criminalising sex work.

**ANDREW ATKESON,**
**UCLA**

**The AWH Phillips Memorial Lecture**

**"A Historical Perspective on the Challenge of Regulating Large Banks"**

Chair: John McDermott

From the start of the National Banking Era in the United States in 1864 through the financial reforms of the Great Depression, commercial banks in the United States were heavily involved in lending to support activities in securities markets and financial crises were a relatively frequent occurrence. Bankers themselves and regulators struggled to find restrictions on banking that would insulate the banking system from panics in securities markets without severing the links between the banking system and securities markets. After the crash of 1929, regulators gave up and severed those links. By the time of the financial crisis of 2008, these links had grown back, and we all rediscovered the risks that arise from links through money markets between banks and securities markets. This talk reviews the magnitude of U.S. banks' involvement in securities markets over the past 100 years, the history of regulatory responses to crises arising from that involvement, and what we can learn from newly collected data on the activities that are being financed in securities markets. The challenge of regulating large banks going forward lies in finding regulations that will insulate banking from panics in securities markets, without fully severing the links between the two.

**JOHN GIBSON,**
**University of Waikato**

**"Quantity and Quality Redux"**

Chair: Caroline Saunders

The demand for quality drives innovation. The biggest differences in welfare levels over time and across space likely come from the quality of what is consumed rather than the quantity. Since quantity and quality are both valued, consumers may substitute on these two margins in response to income and price shocks. Yet applied research in economics regularly ignores this, distorting poverty measurement and making households seem less able to cope with income and price shocks. Misunderstanding quality and quantity responses in household survey data also is likely to lead to biased econometric results that make policy makers too optimistic that small taxes on unhealthy food and drink can induce big changes in diets.

# FROM THE AFTER DINNER SPEAKER

**BERNARD HICKEY**

is the Manging Editor of Newsroom Pro, a subscription service part of the new Newsroom. He is based in the Parliamentary Press Gallery along with three other Newsroom reporters and editors, covering economics, business and finance.

Bernard spoke about the new political economy and how economic policy is made and broken in a post-Trump and post-Brexit era when voters distrust globalisation, many have given up voting (or never started) and elections can be won and lost on Facebook.

# NZAE CONFERENCE 2017


nzae
New Zealand Association of Economists
Kate Preston

# AWARDS PRESENTED AT NZAE CONFERENCE 2017

### DISTINGUISHED FELLOW OF THE NZ ASSOCIATION OF ECONOMISTS

**JOHN GIBSON**
University of Waikato

### LIFE MEMBERS OF THE NZ ASSOCIATION OF ECONOMISTS

**ANTHONY BYETT**
Consulting Economist

**MARY HEDGES**
NZ Work Research Institute at AUT

### DAVID TEECE PRIZE IN INDUSTRIAL ORGANISATION AND FIRM BEHAVIOUR

**RICHARD MEADE**
Cognitus Economic Insight (Magnus Soderberg)
*"Utility Firm Performance with Heterogeneous Quality Preferences and Endogenous Ownership"*

### SEAMUS HOGAN RESEARCH PRIZE

**NAZILA ALINAGHI**
University of Canterbury (Bob Reed)
*"Taxes and Economic Growth in OECD Countries: A Meta-Analysis"*

### STATISTICS NZ PRIZE

**RICHARD FABLING**
Independent Researcher (Arthur Grimes)
*"Picking up speed: Does ultrafast broadband increase firm productivity?"*

### A R BERGSTROM PRIZE IN ECONOMETRICS

**DAAN STEENKAMP**
RBNZ Economics Department
*"Explosiveness in G11 currencies"*

### NZ ECONOMIC POLICY PRIZE

**RICHARD MEADE**
Cognitus Economic Insight (Magnus Soderberg)
*"Utility Firm Performance with Heterogeneous Quality Preferences and Endogenous Ownership"*

### NZ INSTITUTE OF ECONOMIC RESEARCH POSTER PRIZES

**Open:**

**KATE PRESTON**
Motu Economic & Public Policy Research (Arthur Grimes)
*"Gender Differences in the Wellbeing and Wage Experiences of Internal Migrants"*

**Student:**

**JIANHUA DUAN**
University of Canterbury
*"Intermediaries and International Trade: A replication study"*

### PEOPLE'S CHOICE POSTER AWARD

**KATE PRESTON**
Motu Economic & Public Policy Research (Arthur Grimes)
*"Gender Differences in the Wellbeing and Wage Experiences of Internal Migrants"*

### JAN WHITWELL PRIZES

**Doctoral:**

**NAZILA ALINAGHI**
University of Canterbury (Bob Reed)
*"Meta-Analysis and publication Bias: How well does the Fat-Pet-Peese procedure work?"*

**Bachelors/Masters:**

**CAMERON HOBBS**
Victoria University of Wellington (Graham Guthrie)
*"Hostile Takeover defences and their role in investments"*

### CONFERENCE ASSISTANT AWARDS

**DEVMALI PERERA** (Canterbury)
**KARAM SHAAR** (VUW)
**SAMUEL OLADIPO** (Otago)
**EVA PARKER** (AUT)
**MARY-JO VERGARA** (Auckland)
**ABRAHAM AGYEMANG** (Massey)

### GRADUATE STUDY AWARDS

**ANH NGUYEN** (Otago)

**NAZILA ALINAGHI** (Canterbury)

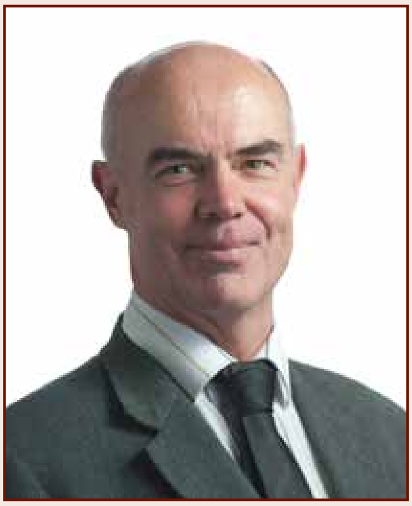
### BEST NZ ECONOMICS HONOURS DISSERTATION

**PHAN NAM**
Victoria University of Wellington
*"Studying the fiscal multiplier in the New Zealand economy"*

# CITATIONS FOR NEW LIFE MEMBERS

## LIFE MEMBERS

*Life Membership of the New Zealand Association of Economists may be awarded to a member or retired member who has made a significant contribution toward the development of the Association and the economics profession in New Zealand. This year, two Life Memberships were awarded at the Association's AGM, to Mary Hedges and to Anthony Byett.*



## MARY HEDGES

Mary has made significant contributions to the Association over many years. She was President of NZAE from 2009 to 2011, and a Council member from 2003 to 2013. Mary has played a very active role in organizing the Association's conferences. In particular, she represented NZAE on the Steering Committee of the 2008 Phillips Symposium, and subsequently acted as Chair of the conference committee. In this role she was instrumental in the transition from managing conferences in-house to using an external conference organizer. Mary arranged for the 2010 conference to use the new Owen Glenn Building at the University of Auckland and, even after leaving the Council, Mary was involved with conference organisation in Auckland in 2014. These major contributions to the Association make Mary a worthy recipient of NZAE Life Membership.

## ANTHONY BYETT

Anthony has made significant contributions to both the Association and the Education Trust over many years. He is the longest-serving member of the current Council, having served for 12 years. In that time, he has taken primary responsibility for the website and contributed to social media initiatives. Over this period, there has been at least one major re-build of the website and several smaller developments, as well as work associated with the separate conference website. Anthony has been Chair of the NZAE Education Trust for much of his tenure on Council. This period has seen a sizeable increase in funds for investment, development of clearer policies and guidelines for the Trust, and a successful re-application by the Trust to the Charities Commission, after changes to the Charities Act in 2005. His contributions to both the Trust and the Council make Anthony a worthy recipient of NZAE Life Membership.

# THE A. R. BERGSTROM PRIZE IN ECONOMETRICS FOR 2017 HAS BEEN AWARDED TO

**DAAN STEENKAMP**

FOR

***"EXPLOSIVENESS IN G11 CURRENCIES"***

If an asset price contains a 'bubble' it will exhibit explosive (i.e. exponential) dynamics. Recently developed tests by Phillips *et al.* (2015a) and Phillips *et al.* (2015b) provide an accurate way to gauge whether asset prices are experiencing explosive dynamics, or have done so in the past.

Daan Steenkamp's paper applies those tests to eleven of the most commonly traded exchange rates at a daily frequency and over a long sample. When measured at a daily frequency, the volatility of exchange rates tends to be high and potentially non-stationary, and there may be a size distortion in the standard tests causing them to over-reject the null that the series is explosive. For this reason, a wild bootstrapping technique is used to compute critical values for statistical interference.

A second contribution of Daan's paper is to consider the possibility of both positive and negative explosive periods. Currency pairs provide a natural test case in this regard because explosive increases (or collapses) in a foreign currency imply a corresponding collapse (or increase) in the given base currency. Furthermore, the influence of the base currency on the explosive dynamics may be inferred by considering the dynamics of its effective exchange rate, i.e. that currency's value against a wide basket of foreign currencies.

The results show that bouts of explosiveness in exchange rates against the United States (US) dollar are uncommon at a daily frequency. Periods of explosiveness tend to last for several days but involve only small changes in currency levels. These also usually reverse shortly afterwards.

Second, the dynamics of the US dollar appear to be largely responsible for the results found for the individual currency pairs, as evidenced by a high concordance of their explosiveness with explosiveness in the broad value of the US dollar exchange rate. This result suggests that there are relatively few instances where explosiveness in individual cross-rates reflected country-specific factors. There is also evidence that explosive episodes in currency markets coincide with periods of high market volatility.

In their assessment, the adjudicators Professors Mark Holmes and Bob Reed noted that Daan's work was "competent analysis based on cutting edge econometric techniques that provide valuable insights."

# THE DAVID TEECE PRIZE IN INDUSTRIAL ORGANISATION

THE DAVID TEECE PRIZE IN INDUSTRIAL ORGANISATION FOR 2017 HAS BEEN AWARDED TO

**RICHARD MEADE AND MAGNUS SODERBERG**

FOR

***"UTILITY FIRM PERFORMANCE WITH HETEROGENEOUS QUALITY PREFERENCES AND ENDOGENOUS OWNERSHIP"***

A theoretical model is developed in which a utility firm (e.g. a network monopoly) can be owned by either its customers, or by investors. Owners of either type select the firm's efficiency (i.e. production technology), service quality, and price. Ownership choice is made endogenously – based on the quality preference of the firm's potential customers – resulting in either investor ownership, customer ownership, or non-service. It is shown that customer ownership arises endogenously when customer's preference for quality falls below the threshold required for profitable entry by investors, but above that required for entry by customer-owners. This means that customer-owned utilities necessarily have customers with a lower preference for quality. They are therefore predicted to have lower efficiency, quality and price than investor-owned firms, and provide lower welfare overall. Support is found for these predictions using data from customer- and investor-owned Electricity Distribution Businesses (EDBs) in New Zealand, applying empirical specifications that address the endogeneity of quality and costs. Findings indicate that whether utilities should be customer- or investor-owned cannot be determined based on simple performance comparisons. Account must also be taken of how differences in customers' quality preferences affect the viability of different ownership forms.

# THE LONGER TERM IMPACTS OF JOB DISPLACEMENT ON LABOUR MARKET OUTCOMES

*By Dean Hyslop and Wilbur Townsend*

The process of job destruction typically involves involuntary job loss, unemployment, and loss of earnings, for affected workers in the short term. However, knowledge of the longer term impacts of such losses is critical for understanding the extent of adjustment costs borne by affected workers.

The Ministry of Business, Innovation and Employment (MBIE) contracted Motu to analyse the longer term impacts of involuntary job loss for New Zealand workers, looking specifically at subsequent employment, earnings, and income support.

The research also examined the effects on workers that were displaced during the global financial crisis of 2008-2010, compared to workers displaced during the earlier economic expansion.

## METHODOLOGY

Our analysis uses data from the Survey of Family, Income and Employment (SoFIE) to identify the sample of workers who reported an involuntary job loss associated with being laid off, made redundant or dismissed (a displacement) over the period 2001–10. The SoFIE sample of displaced and non-displaced workers are then matched to administrative data from Statistics New Zealand's Integrated Data Infrastructure (IDI) covering the period 1999–2015, to facilitate at least five years of post-displacement observations. The IDI administrative data on employment, earnings and benefit income that we use is linked employer-employee data (LEED) from Employer Monthly Schedules (EMS) which, since April 1999, each employer must file with Inland Revenue.

In order to focus on involuntary job losses that occur for economic reasons, we focus on workers who had been employed for at least one year before their job displacement.

As the data available for this analysis does not allow consistent measurement of self-employment earnings, or other second-tier income support payments, such as Accommodation Supplements or tax credits, these have not been included. We also show an increase in benefits received by workers' spouses after job-displacement. Both of these issues imply that the first-tier benefit receipt by displaced workers only partially covers the full extent of income support likely received following displacement.

Marital status can't be consistently measured over the full period of analysis as it is only available in the SoFIE survey. In addition, it is possible migration affects the estimated displacement impacts, which we have not been able to control for given the data available for the analysis.

## APPROACH

This paper provides three alternative approaches that vary in the comparison sample of non-displaced workers selected and/or the analytical method used to estimate the effects on the displaced workers over a five year period:

- Graphical event studies that show the monthly trends in workers employment rate, log(earnings) conditional on being employed, benefit receipt rates, and conditional log(benefit income) and log(total individual income), for displaced workers and three alternative samples of non-displaced workers.
- A regression-adjusted approach to estimate the impacts of displacement on these outcomes, which controls for a variety of observed and unobserved worker characteristics.
- A propensity score matching approach to estimate the impacts, by comparing the average outcomes of displaced and similarly-matched non-displaced workers.

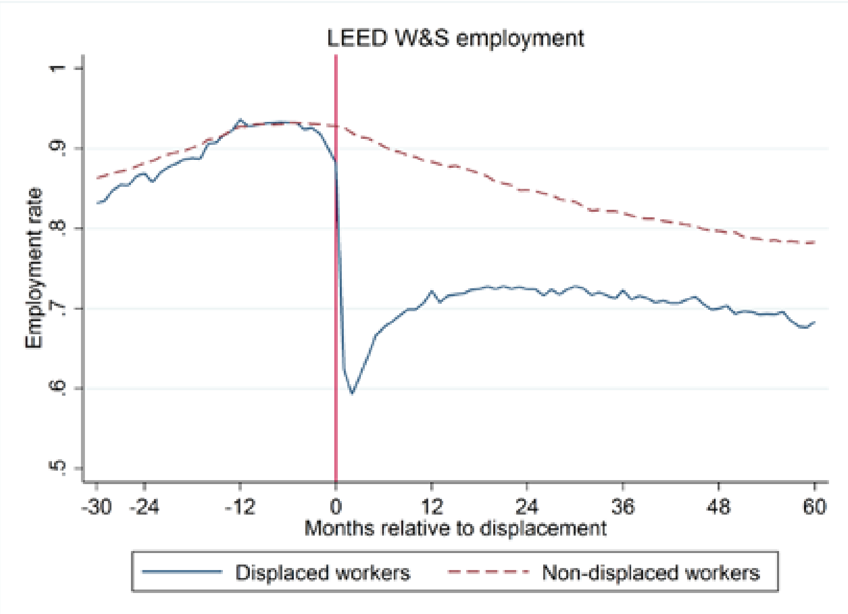



*Figure 1: Monthly employment rate – Workers with 1+ year tenure (random comparison full sample)*

## RESULTS

The estimated impacts across the three alternative approaches are remarkably similar, and are summarised as follows:

- We estimate that workers who experienced an involuntary job loss had 20-25% lower employment rates in the year following displacement compared to similar workers who did not lose their jobs. Although displaced workers' employment improved gradually over time, their employment rate remained around 10% lower than comparable workers five years later.
- The impacts were about 5% larger for workers who were displaced from jobs during the great recession from 2008.
- Among workers who were employed, displaced workers' earnings were around 25% lower on average in the first year after being displaced, and around 15% lower after five years.

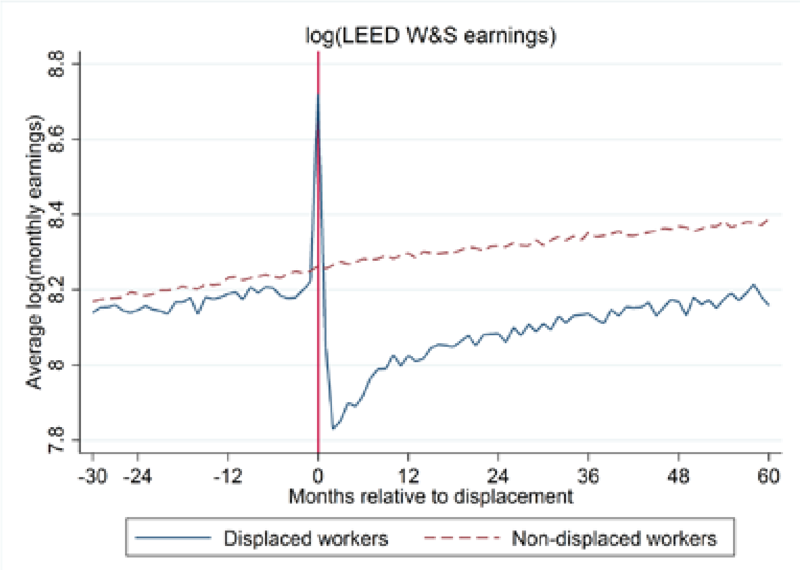



*Figure 2: Monthly wage and salary earnings – Workers with 1+ year tenure (random comparison full sample)*

The adverse employment and earnings effects of job-displacement were partly counterbalanced by higher levels of welfare benefit receipt and income support. Displaced workers first-tier benefit receipt was 6-11% higher in the first year after than for comparable workers, and 3-4% higher after five years.

The larger employment impacts for workers displaced during the great recession from 2008, were also counterbalanced by 3-5% higher rates of benefit receipt. However, despite such income support, displaced workers' total individual income was about 30% lower than comparable workers during the first year after displacement, and about 20% lower after five years.

Impacts were greater for older than younger workers. For example, for workers under 30, although the first-year employment and earnings impacts are sizeable (-18pp and about -20% respectively), the longer term effects of displacement are close to zero. In contrast, displaced workers over 50 have 31pp lower employment rates (and about 35% lower earnings) in the first year, and 11pp lower employment (and about 25% lower earnings) after five years on average.

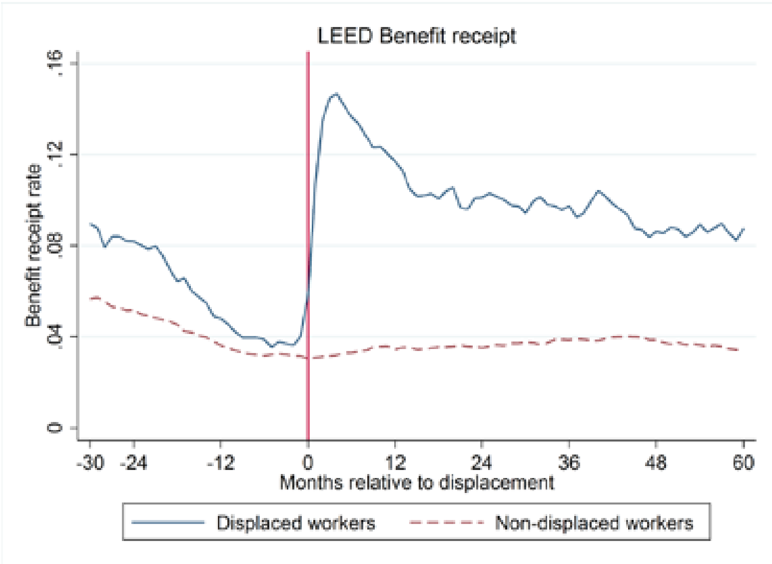



*Figure 3: Benefit receipt and income – Workers with 1+ year tenure (random comparison full sample)*

## CONCLUSIONS

Involuntary job loss has large and lasting negative impacts on workers subsequent employment and earnings. Government income support partially counterbalances the labour market impacts, but total incomes of displaced workers remain substantially lower than non-displaced workers.

The study *"The longer term impacts of job displacement on labour market outcomes"* by Dean Hyslop and Wilbur Townsend was funded by the Ministry of Business, Innovation and Employment and is available at http://motu.nz/our-work/population-and-labour/individual-and-group-outcomes/the-longer-term-impacts-of-job-displacement-on-labour-market-outcomes/.

government economics network

### GEN ANNUAL CONFERENCE

The 2017 GEN conference will be held on Friday 8 December 2017, at Te Papa Museum, Wellington. The conference theme for this year is "Responding to global challenges".

Many developed countries are facing common challenges to increasing well-being. These challenges include the pace of technology change and its impact on employment, rising inequality, slowing productivity growth and increasing concerns about trade and globalisation.

The 2017 GEN conference will explore these global challenges, how they impact on New Zealand and how New Zealand is responding to them.

Keynote speakers include:

- Dr Catherine Mann, OECD Chief Economist,
- Dr Jonathan Ostry, IMF Deputy Director Research, and
- Prof Warwick McKibbIn, Australian National University.

Registration opens in September, by which a provisional programme and information on other speakers will become available. Please keep 8 December 2017 free in your diary.

We look forward to seeing you at the conference.

To find out more or to subscribe to our mailing list for regular updates on events, please visit our website www.gen.org.nz or email info@gen.org.nz.

### KNOWLEDGE HUB UPDATES

#### Productivity Hub

On the 16th of June this year, the Productivity Hub Agencies (the Productivity Commission, MBIE, Treasury and Statistics NZ) ran a workshop on "An Investment Approach to Lifting Firm Productivity." With the investment approach transforming thinking and practice in social policy in NZ, the purpose of the workshop was to consider whether an investment approach could be used in economic policy to help lift the productivity of Kiwi firms. An investment approach was taken to mean: using data smarter to better understand the economic system; measuring the effectiveness of regulation and policy; and, feeding evidence of performance back into decision-making.

The first session of the workshop looked at overall productivity outcomes for New Zealand and it was a real pleasure for the Hub to welcome Catherine Mann, Chief Economist at the OECD, as our keynote speaker. Catherine provided some valuable insights into NZ's low productivity performance drawing on the OECD's recent release of the 2017 Economic Survey of New Zealand, much of which resonated with a follow-up presentation by Paul Conway from the Productivity Commission. The presentations highlighted that while we have some good performing firms, the general picture is one of being "disconnected and stuck." Frontier firms in New Zealand are disconnected from the international frontier, there are limited connections between domestic frontier and laggard firms, and there is weak reallocation of resources. This low productivity equilibrium is in turn created by capital shallowness, small domestic markets, weak international connection, and weak investment in knowledge based capital.

The remainder of the workshop consisted of two panel sessions covering what is needed to build a stronger evidence base and how this could encourage policy innovation. Overall, a key message from the panel sessions was that the breadth of research undertaken in recent years provides a strong platform for adopting an investment approach to lifting firm productivity. However, much more work needs to be done in terms lifting capability and using research to better inform policy. Importantly, recognising the challenges of the social investment approach and learning from them will be critical to a successful implementation.

For further information, a synthesis of recent productivity-related research, and/or a copy of the workshop presentations please email jack.dysart@mbie.govt.nz.

#### Transport Knowledge Hub

This year, Transport Knowledge Hub is running its Transport Knowledge Conference (TKC) in conjunction with the 39th Australasian Transport Research Forum (ATRF) Conference and an OECD/International Transport Forum (OECD/ITF) Roundtable.

The theme of this year's TKC is 'Managing transport demand: Technologies, social and economic impacts'. The conference will feature data, information and research to contribute to our understanding of the financial, infrastructure, business, economic, social and access impacts of transport demand management interventions.

The combined ATRF/TKC Conference will be held at the Grafton Campus of The University of Auckland, 27 to 29 November 2017. The OECD/ITF Roundtable will be held at the Langham Auckland, 30 November to 1 December 2017.

All three events will provide opportunities for many to present, learn about cutting edge developments, and to be involved and network. For more information and/or to register, visit www.atrf2017.nz and http://www.transport.govt.nz/research/transport-knowledge-hub/.

### GEN TRAINING COURSES

GEN organises a range of short courses for anyone who would like to get to grips with economic ideas and to understand how to apply economics and related principles in policy development.

| COURSE TITLE | LECTURER | WHEN |
|---|---|---|
| Introductory Macroeconomics for Policy Analysis | Andrew Coleman, Otago University | September 2017 |
| An introduction to New Zealand's economic history | Brian Easton | October/November 2017 |
| Introduction to Behavioural Economics for Policy | Dr Marcos Pelenur, MBIE | November 2017 |

Email info@gen.org.nz for more details and/or to register your interest.

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

**Martin Berka**
**Associate Professor**

Martin works in applied international macroeconomics while also setting up a Centre for Macroeconomics. He is currently working on Dutch disease and fiscal federalism related questions across Chinese provinces with Yu-chin Chen, on the adjustment of consumption baskets in the aftermath of the Global financial crisis across Eurozone regions with Mick Devereux, as well as a handful of other projects. He serves as an associate editor of the *Journal of Economic Surveys and New Zealand Economic Papers.* He is also a board member of the Australasian Macroeconomics Society, an executive officer at the Central Bank Research Association, and co-directs the Open-economy Macroeconomics programme at CAMA.

**Anne de Bruin**
**Professor**

Anne de Bruin continues to research mainly in the areas of entrepreneurship, social innovation, employment issues and regional development. In entrepreneurship, her current focus is social entrepreneurship, entrepreneurship in the creative industries, and women entrepreneurs. As Director of the New Zealand Social Innovation and Entrepreneurship Research Centre (SIERC), Massey University, she works to progress research in the field, e.g. serves on the Scientific Advisory Board of a large European Commission 7th European Framework Programme funded Project entitled: *"Social Innovation: Driving Force of Social Change".*

**Sue Cassels**
**Senior Lecturer**

Dr Sue Cassells is an Environmental Economist whose research sits at the interface between business and the environment. Currently this includes valuing environmental costs and benefits, both market and non-market values of natural resources. The other area of focus is the knowledge gap around environmental management in the context of small and medium enterprises in New Zealand.

**Oscar Lau**
**Lecturer**

Oscar's paper titled "Soft Transactions," (coauthored with Thomas Jeitschko) was just accepted for publication by the *Journal of Economic Behavior and Organization.* He is working on revising another paper at the request of the B.E. *Journal of Theoretical Economics.* Oscar also presented at the NZAE Conference in Wellington in July.

**Hatice Ozer-Balli**
**Associate Professor**

Hatice currently works on many projects including house price volatility for NZ, the Volatility of International Visitor Arrivals to New Zealand, Impact of gender and governance on microfinance efficiency, the social performance of microfinance institutions, performance of different groups of South Asian Microfinance Institutions, foreign direct investment, understanding dropout rates for higher secondary education in Indonesia, Measuring Consumption Gains from Trade, and the determinants of bilateral cross-border bond and equity flows.

**Kim Hang Pham Do**
**Senior Lecturer**

Kim Hang's research spans areas of applied economics; integrated theoretical and empirical research; predictions of economic decision-making processes for international/regional environmental problems and resolutions. She is particularly interested in analysing the interactions between ecological and social systems on economic growth and sustainable development. Her current works are related to development of theoretic and empirical frameworks to address the analytical issues related to cooperation in multilateral setups with externalities, and the role of issue linkage in arriving at efficient and equitable arrangements in transboundary resource management, trade liberalization and the environment.

**Sam Richardson**
**Senior Lecturer**

Sam researches in the economics of sport. He is presently examining sports generated remittances in the South Pacific, the economics of major sporting events in New Zealand, and the impact of New Zealand-born rugby coaches on non-native international teams.

# 2017 NZAE PhD STUDENT WORKSHOP

The inaugural NZAE PhD Student Workshop was held on Tuesday 11 July 2017, immediately prior to NZAE's Annual Conference. It was hosted by the Reserve Bank of New Zealand in their Ground Floor Museum. The following eight PhD candidates had an opportunity to present their material for around 30 minutes and receive feedback for around 15 minutes:

**SANDRA CORTÉS-ACOSTA** (Victoria University of Wellington):
*"Land governance structures and greenhouse gas emissions: lessons from Māori"*

**SHANNON TUMATAROA (Otago University):**
*"Irrational choice under conditions of economic hardship: The cognitive effects of poverty on decision-making"*

**SAMANGI BANDARANAYAKE (University of Canterbury):**
*"A replication of 'Are Competitive Banking Systems More Stable?' (Journal of Money, Credit, and Banking, 2009)"*

**ASAAD ALI** (University of Canterbury):
*"Expanding schooling opportunities in the Netherlands: A replication"*

**NGOC TRAN** (Waikato University):
*"International migration and institutional quality in the home country: Where you go and how long you stay matters!"*

**MUHAMMAD IRFAN** (Waikato University):
"Households' fuel selection in Pakistan"

**JIANHUA DUAN** (University of Canterbury):
*"Intermediaries and international trade: Replication of Ahn, Khandelwal, and Wei (2011)"*

**DEVMALI PERERA** (University of Canterbury):
*"Financial Liberalization, Financial Frictions and Trade"*

# WEAI CONFERENCES, 2018 AND BEYOND

NZAE is an Allied Society of the Western Economic Association International (WEAI).
NZAE members are invited to offer a paper or organize a session for the following upcoming conferences:

**93RD ANNUAL CONFERENCE, JUNE 26-30, 2018, VANCOUVER, B.C., CANADA**

**15TH INTERNATIONAL CONFERENCE, MARCH 21-24, 2019, TOKYO, JAPAN**

**94TH ANNUAL CONFERENCE, JUNE 28-JULY 2, 2019, SAN FRANCISCO, CALIFORNIA**

Recall also that the next International Conference is:

**14TH INTERNATIONAL CONFERENCE, JANUARY 11-14, 2018, NEWCASTLE, AUSTRALIA,**

**with Keynote Addresses by Nobel Laureate Daniel McFadden, University of California, Berkeley, WEAI Past President David Card, University of California, Berkeley, and WEAI President-Elect, Orley Ashenfelter, Princeton University.**

The submission deadline for presenting a paper, organizing a session, discussing a paper and/or chairing a session in Newcastle was August 15, 2017, but for further conference information, visit http://www.weai.org.

# 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: www.nzae.org.nz (list your job vacancies for economists here)

# MEMBERSHIP FEES

Full Member: $160.00 ($130.00 if paid by 31 March)

Graduate Student: $80.00 - applies to First year only ($65.00 if paid by 31 March)

If you would like more information about the NZAE, or would like to apply for membership, please contact:

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New Zealand Association of Economists
PO Box 568, 97 Cuba Mall.
WELLINGTON 6011
NEW ZEALAND
Phone: +64 4/(04) 801 7139
Email: economists@nzae.org.nz

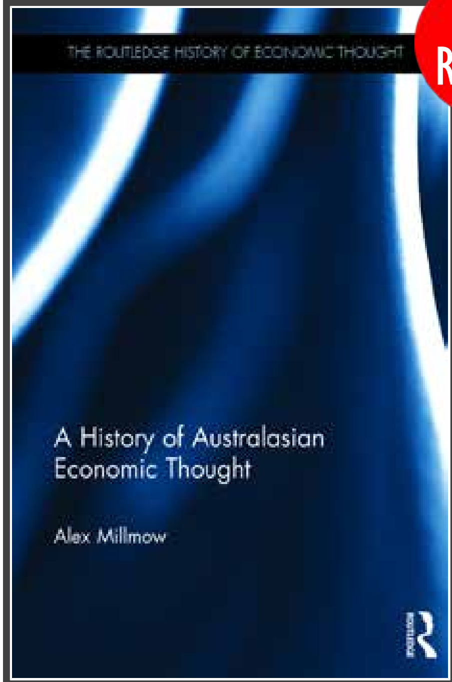
# MEMBER PROFILES WANTED

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

# NEW MEMBERS

(2017, March 16 through to July 18)

**Tauisi Minute Taupo, Merzan Wadia** (Victoria University of Wellington); **Graham Howard, Amy Louise Auld** (Statistics NZ); **Dr Ekaterina Sadetskaya** (MBIE); **Hannah Tuahine, Anne-Marie Brook** (Motu Economic & Public Policy Research); **Dr Utkur Djanibekov** (University of Bonn); **Kendon Matthew Bell** (UC Berkeley); **Mark Irwin Acheson Smith** (NZ Transport Agency); **Charlotte Littlewood** (Powerco Ltd); **Dr Kabir Dasgupta** (NZ Work Research Institute, AUT); **Martine Udahemuka** (The NZ Initiative); **Dean Ford, Peter Bailey (**Ministry of Foreign Affairs & Trade); **Dr Peer Skov** (AUT).




NEW RELEASE

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**Alex Millmow** is Associate Professor in economics at the Federation Business School, Federation University, Australia. He is also the President of the History of Economic thought Society of Australia. Alex's research interests include the making of the Australian economics profession and the role of economic ideas in steering public policy.

*A History of Australasian Economic Thought* explains how Australian and New Zealand economists exerted influence on economic thought and contributed to the economic life of their respective countries in the twentieth century.

Besides surveying theorists and innovators, this book also considers some of the key expositors and builders of the academic economics profession in both countries.

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