

Asymmetric information

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New Zealand Association of Economists Inc.

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“Small and apparently insignificant details can have major impacts on people’s behaviour”

[P.3 of Thaler, R. H., & Sunstein, C. R. (2008). *Nudge: improving decisions about health, wealth, and happiness.* New Haven: Yale University Press.]

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EDITORIAL

A tipping point for economics?

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

At the NZAE conference five years ago, in his keynote address, John McMillan advocated a broader approach in economics research (see AI No.23, p.19). He suggested that synthesising research can add as much value as the original research, which blurs the line between research and literature review. He also saw value in narrative economics and case studies. He was more hesitant when asked if he would recommend these approaches to his research students. Three of the four keynote speakers at this year's conference emphasised the value of careful consideration of aspects such as on-the-ground circumstances, the nature of the data, the attitudes of key decision-makers, and processes and developments over time. Perhaps the environment has changed to the point where there is increased receptivity to a wider variety of approaches and more detailed consideration of previously passed-over dimensions.

Severin has described framing as "selection, emphasis, exclusion, and elaboration"¹. Theoretical approaches, and their specification

in empirical estimation, involve these four characteristics. We should be careful to check whether our choice of framing is subject to inertia, simply following the default options. Thaler and Sunstein use both these terms, along with "status quo bias"². They are describing everyday behaviour, but as economists we are not immune in our own work. All-in-all, it should not be too difficult to identify alternative perspectives, methods, questions and information sources that can be productively applied.

As a closing remark, we should acknowledge the debt we owe to Ananish Chaudhuri for his outstanding editorship of *New Zealand Economic Papers*. He is stepping down at the end of the year, leaving us with a significantly improved publication. His contribution has been recognised with a special award. Thank you Ananish.

¹ P.320 of Severin, W. J. (1997). *Communication theories: origins, methods, and uses in the mass media* (4th ed.). New York: Longman.

² Thaler, R. H., & Sunstein, C. R. (2008). *Nudge: improving decisions about health, wealth, and happiness*. New Haven: Yale University Press.

NEW NZAE LIFE MEMBER - JOHN YEABSLEY

It is with great pleasure the Association honours John Yeabsley with the award of life membership of the NZ Association of Economists. The spring board to John's career was the excellent academic preparation he received at the University of Canterbury. To an initial BSc in Mathematics he added a BA in Philosophy and Logic. This broad yet rigorous foundation was to serve him well throughout his career. Before leaving Canterbury, John realised that in fact economics was a discipline to which he could apply his mathematics and logic skills, and graduated with an MComm with First Class Honours in Economics.

John then completed a PhD at the University of Essex under the supervision of Sir Anthony Aitkinson. He recalls he was the only student to take New Zealander Rex Bergstrom's econometrics class. He was also there at the same time as another New Zealander, Peter Phillips.

John has had a long and distinguished career as an economist in the New Zealand public service where he has held senior posts in the Department of Labour (including General Manager of the NZ Immigration Service) and the Department of Trade and Industry, as Assistant Secretary. John represented New Zealand as the Economic Counsellor with the Mission to the UN in Geneva. He is currently a Senior Research Fellow at the NZIER and from 1994 to 1997 was Director of the NZIER. Throughout his professional career, John has been, and still is, an active member of the Association.

John has a formidable reputation as a clear thinker and an uncanny ability to identify important insights on a wide range of problems in the public sector. He has served on or lead reviews of immigration

policy, crime prevention, labour markets, tariffs and textiles, amongst others. His broad contributions to the public sector have been recognised through appointments to advisory boards in the Ministries of Justice and Social Development and in Statistics New Zealand.

In making this award we wish to honour John for his service to the profession, the wider New Zealand public, and the Association in particular. To all of these groups John has made numerous high quality contributions over a long period. He has been unfailingly generous in offering advice to colleagues and supporting junior economists.

John 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.
2. Organised and facilitated conferences of the Association. Recently he was the co-chair for the highly successful 2008 NZAE/ESAM Conference in honour of AW Phillips in Wellington, the largest gathering of economists ever held in New Zealand. Throughout this endeavour his keen insights, knowledge of the profession and his highly personable approach to team work proved invaluable.
3. Served for an extended period on the Council culminating in his term as President of the Association from 1998 to 2001. During that time he undertook the important task of setting the Association's administrative and financial procedures on a professional footing.

The Association honours John for the broad contributions he has made on many fronts, and has pleasure in awarding him life membership of the Association.

Members are invited to submit brief articles on any issue of interest to NZAE members, and/or comments and suggestions.

Enquiries and contributed articles should be sent to Stuart Birks (*K.S.Birks@massey.ac.nz*). *Views and opinions expressed in these articles are those of the authors, and do not represent the views of the New Zealand Association of Economists*

A YOUNG PERSON'S APPROACH TO PENSIONS

Recent research by Andrew Coleman illustrates the importance of using well structured models to analyse the welfare consequences of different economic policies. His research examines how issues relating to one part of the population—those over 65 years old—have significant implications for younger generations. The research shows that complexities and uncertainties involved with policy development can be significant and it highlights the benefits of developing models as tools to assist quality of decision making.

New Zealand over the next 40 years will be characterised by an increasing number and proportion of older people. The fraction of the population aged over 65 years will likely increase from 510,000 in 2006 to 1,350,000 in 2051, or from 12 percent of the population to 25 percent of the population. These trends underpin high profile policy concern about the long term affordability of New Zealand Superannuation and projected increases in real health spending.

Population ageing also affects young people. Andrew's research looks at the intergenerational impact of increasing longevity on the access and affordability of housing.

Increased longevity affects housing affordability through three mechanisms. First, it raises the total population, increasing total demand for housing. Secondly, living longer induces older people to spend a greater fraction of their retirement in relatively large, high quality "family-sized" housing, increasing the demand for high quality housing. Thirdly, it increases aggregate government expenditure on pensions and healthcare, leading to increased taxation.

These changes affect housing demand amongst working age people in several ways. The higher taxes lower disposable incomes. The larger demand for housing, particularly "family sized" housing, increasingly means the supply and cost of housing available to younger people will be adversely affected. And in anticipating living longer themselves, younger people may change their behaviour, possibly saving more.

The overall effect of population changes on the demand for housing is unclear. To identify how patterns of housing demand may change with population ageing, Andrew constructed a stylised model of the economy that explores how people who differ by age and income interact in a common housing market with a common taxation and public expenditure system.

The key conceptual framework underlying the model is the idea of a housing lifecycle or property ladder. Households start life with low incomes and wealth, and are restricted in the amount

they can borrow. In response, they may live at home or rent a small flat. As incomes and wealth increase, they may choose to purchase a small house. They can stop at this stage, or purchase a larger house as they get older and wealthier. In retirement they may continue to live in this house, or trade down to something smaller and more convenient. In broad terms, the households are characterised by their peak housing quality, the time they spend ascending the ladder, and whether or not they trade down.

Aggregate housing demand will reflect all three of these characteristics. The model explores how different economic factors affect aspects of a household's journey up the housing ladder, and how prices, aggregate demand and aggregate supply are affected in turn. The model is solved under the assumption that households make sensible, forward-looking decisions about housing. It also assumes that the government raises income taxes proportionately to finance any increased expenditure on pensions and healthcare that result from an ageing population.

The model produces five key results.

First, unless the supply of houses is extremely elastic, population ageing leads to a significantly larger fraction of the retired population living in high quality houses, raising house prices.

Second, the tax-advantaged status of housing means that there will be little change in the housing standards of most middle aged people, despite higher prices.

Third, as the population ages, younger people will spend more time climbing the housing ladder. Their home ownership rates will decline, as will their demand for better quality housing. However, this decline will be more than offset by increased demand for better quality housing by older households – unless the supply of high quality houses is quite inelastic. So overall a large increase in the total demand for better quality housing is projected.

Fourth, the welfare consequences of income taxes, imposed to pay for the higher pension and medical expenses associated with population ageing, fall disproportionately on younger people. As they are the most affected by borrowing constraints, they are likely to experience the largest changes in desired housing status, lowering their welfare.

Fifth, the model suggests that a majority of people in the economy, including a majority of low income people, would be better off overall if the government did not raise its pension and medical expenditure as the population ages, and did not raise taxes, but rather encouraged people to save more. This result is perhaps the most surprising, but arises because the higher taxes needed to pay for pensions make it harder for credit-restricted young households to attain their housing aspirations.

These results are merely an outcome of an economic model. Nonetheless, the insights from the model seem reasonable, and they help us see relationships that may otherwise go unnoticed. In this case, by using a model to examine relationships between different population cohorts, we see that it may be important to also investigate the inter-temporal preferences of younger working age people when thinking about pensions.

Andrew's paper and information about the datasets he used in this research are available at www.motu.org.nz.

FROM THE 2B RED FILE

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

Raj Patel is a charismatic speaker with impeccable academic credentials. So he is popular with the CNN and BBC interviewers. That popularity is enhanced by the fact that his latest premise is basically that markets are the source of all evil. In his 2009 book *The Value of Nothing: How to Reshape Market Society and Redefine Democracy* (London: Portobello Books) he runs the populist line that “today’s economic crisis is a failure of free market thinking” and “from its inception, the free market has spawned discontent” (p.15) – one does wonder from when he dates the inception? In the end it is a mish-mash of behavioural economics, climate change, Buddhism and utopian ideals. The frustrating aspect of all this is the author’s failure to recognise that what he sees as market failure is typically underpinned by government failure. Nokia is lambasted for making profits from cell phones which incorporate products derived from coltan – much mined in the Congo where women earn half that of men (p.54). The non sequiturs are truly breath taking. One is left to wonder if his prescription for more regulation and intervention will really achieve the improvement in human conditions to which we can all subscribe.

I confess to a long standing scepticism regarding “social capital” – it has always struck me as a convenient catch-all for an ill-defined collection of concepts which in aggregate really can’t be measured. Not for one second is this to suggest that aspects of trust, family relations or a sense of community are not important elements in the functioning of a modern economic system. And it is blindingly obvious when some elements are missing – almost a decade of living in Colombia left me with many examples of how economic efficiency is impeded through high transactions costs when contracting parties lack trust in each other. All this is to say that as economists we would be coming up short if we fail to recognise and incorporate elements of the social context in our analyses of individual choice and behaviour.

These ideas are admirably captured by Malcolm Gladwell (2008) in his book *Outliers: The Story of Success* (New York: Little, Brown and Co.). The basic question posed by Gladwell is the following: What factors explain the success of outstanding performers (be they Kiri Te Kanawa or Bill Gates)? His premise is that innate ability (our genes), ambition (innate drive) peppered with a dash of good luck are not sufficient. Not unlike *Freakonomics*, he explores a wide range of contexts from Czech hockey players, to the Beatles and New York lawyers. In every case he draws on cohort, generation, culture, family and class as the most important drivers. But don’t think for a minute that it just a silver spoon theory. He argues that success comes primarily from dedication – using examples from science, computing, the arts and sports he deduces a “10,000 hours” rule. He finds that this is almost a universal standard – those achieving success have invested of the order of 10,000 hours to perfect their skills and dominate the field. It is having lots of social capital behind you that makes this investment possible – family and community support, trust and a culture of succeeding. So if you want to call all those bits social capital, then I guess it matters.

I have long been fascinated by the story of an infamous Scot, one John Law: a “convicted murder, monetary theorist, and

architect of the first great stock market bubble”. This was the description given him by another Scot who is deeply involved with financial markets, but this time from a purely scholarly (if somewhat less colourful) perspective. Niall Ferguson, currently a Harvard professor of history, has added another book to his already impressive output of historical research, again written in a compelling, and interesting style. *The Ascent of Money: A Financial History of the World* (Melbourne: Penguin Books, 2009).

The bare bones of global financial history is potentially pretty dry stuff; but when Ferguson fleshes it out with fascinating accounts of wars, scandals, and rascals the result is a thoroughly readable story that spans 10,000 BC to the global financial crisis of 2008. He has written and presented a series of television documentaries and when I recently contacted him about stopping in New Zealand after delivering the John Bonython lecture at the Centre for Independent Studies in Sydney, he declined (most graciously) but was committed to proceeding straight to Africa for filming a new series. In between he held appointments at Oxford and the Hoover Institution at Stanford. Also a good website: www.niallferguson.com where you can see *The Ascent of Money* – 2009 International Emmy Award recipient for Best Documentary.

The relationship between economic growth and inequality has been on the menu of development economists for decades (witness the Kuznets U curve). The fact that the question persists is testimony to the fact that there ain’t no quick and easy answers – if you find one it is probably wrong. This is tough ground for the most hardened econometricians to plough. So in come an epidemiologist and an anthropologist, both with credible CVs. Richard Wilkinson and Kate Pickett (2009) *The Spirit Level: Why Equal Societies almost always do better* (London: Allen Lane). But I was not holding out much hope that they might have cracked it. And my fears were confirmed. Here we have an impressive array of data looking for a theory.

My quantitative upbringing in economics went from theory to hypothesis to data and testing.

But Wilkinson and Pickett are content to assemble lots of data and juggle the spirit level until the bubble settles in their definition of the middle. The fundamental issue of the direction of causality is never really resolved. And the authors are content with building their stories around graphs of well being indices vs. inequality. Their disdain for a theoretical structure to give meaning to their data is nowhere better captured than by their statement that “how a society becomes more equal is less important than whether or not it actually does so” (p. 177). So any basis for developing policies just went out the window.

One cannot help but feel they started from the position that economic growth has run its course in wealthy countries and any more simply feeds “unnecessary” consumerism and leads to unsustainable outcomes. Predictably, they lay at least part of the blame for global warming on inequality. The authors build their case on a whole series of charts showing teenage pregnancies, hours worked, life expectancy, obesity, incarceration rates and social mobility are all related to income inequality. But without some serious multivariate analysis to test plausible theories one is left with the abiding suspicion that more than a few graphs are needed to address a complex issue. Furthermore, the data is all cross sectional so one gets little or no insight into the dynamics of income distribution. That happiness indices do not rise across

rich countries does not strike me as constituting a solid case for less economic growth.

Let me close with an entry that is surely topical - George Magnus (2009) *The Age of Aging: How demographics are changing the global economy and our world* (Singapore: John Wiley (Asia)). While I am at a point in my life where I prefer not to pay a great deal of attention to the question of aging, this volume lays out the trends in a readable way while avoiding economic sillies. So if you need a sensible, accessible synthesis of the global ageing issues from an economic perspective, then this volume by a senior advisor at UBS Investment Bank is a good starting point.

THE 2010 CONFERENCE

By Stuart Birks, with a contribution by Bill Kaye-Blake

The 51st conference of the NZAE, a joint event with the Law and Economics Association of Economists, was notable for the attention given to fundamental criticisms of economics. This was in evidence in particular in some of the keynote addresses.

Keynote 1: Wolfgang Kasper was a joint LEANZ/NZAE keynote speaker, and it is in law that some of the limitations of neoclassical economics should be readily apparent. (Posner et al. notwithstanding, a body of theory built on logic and exit is unlikely to adequately represent an area in which persuasion and voice are central.) Along with his criticisms, he promoted the Austrian school as a superior alternative. In this he sold himself short by spending too much time on the criticisms and too little on the alternative. The case is better presented in his written paper at: http://www.nzae.org.nz/conferences/2010/Papers/Keynote/Kasper_Whats_Wrong_with_Neoclassical_Orthodoxy.pdf

He sees limited value in analyses of utility maximising individuals with perfect knowledge operating in a *ceteris paribus* world which can be represented in two dimensions, with zero transaction costs, short time horizons and a focus on equilibrium. While analysis involves simplification, "we must not assume away what Friedrich Hayek called the constitutional conditions, i.e. those aspects that constitute the essence of what we wish to understand". Consequently economists who assume perfect knowledge, "do not simplify, they just build essentially unrealistic mental constructs". The result, he argues, was that neoclassical economists overlooked fundamental determinants of growth. Consequently they were reduced to describing the post-WWII German experience as "miraculous", beyond explanation. Echoing Galbraith and Kuhn, he perceives strong institutional reasons for the persistence of this questionable body of thought.

Instead of presenting a detailed case for his preferred alternative, Kasper then outlines more failings of standard practice. Much may sound familiar (and, in many cases, justified), such as econometric estimation in which, "The model approach, which collapses history into a few parameters, easily lulls observers into uncritical confidence".

He ends his criticisms with an attack on diminishing returns, as has been presented elsewhere (Hudson & Lowe, 2004; Pierson, 2000). It is an example of the rhetorical stratagem of homonymy. The neoclassical concept of diminishing returns relates to static analysis with fixed technology. Kasper's refutation is based on the existence of technical change over time such that output per

unit of input can increase. These are distinct concepts, the only common feature being the assigned name. With homonymy, "[the] trick is to extend a proposition to something which has little or nothing in common with the matter in question but the similarity of the word; then to refute it triumphantly, and so claim credit for having refuted the original statement" (Schopenhauer, c1851, 3.II).

Some of his criticisms, including the above, may be due in part to a misrepresentation of "*ceteris paribus*". This is a means of systematically considering the effects of individual changes within a theoretical structure. It does not mean that the theorist is assuming other influences remain unchanged in the real world. In any simplified approach a model is constructed in which some things will vary and others, exogenous to the model, are assumed constant. Had he seen that this is a common feature to all analysis, he might have argued instead for a shift in focus when selecting which variables to consider and which to leave out. That would have strengthened his critique.

Comparative static analysis represents issues in terms of a comparison of outcome A and outcome B, where A and B are equilibria or optima under alternative circumstances. This leads us to see solutions in terms of changing structure, simply put in place the required conditions for the preferred outcome after which everything can adjust and we reach a new equilibrium. It ignores imperfect information, learning processes, satisficing and the otherworldly unattainability of a theoretical ideal. The framing prevents consideration of continual evolution, with a focus on change, adjustment processes and strategies for continuous change, along with adjustment paths and speed of adjustment. We should also note path dependence and historical institutionalism (Pierson, 1996), whereby changes at one time may be part of a course of events determining outcomes at some other future time. Kasper would also argue that it blinkers the analyst, preventing a full appreciation of the potential for (and inevitability of) change and a "...complex, dynamic and changing reality". Hence:

"Menger accepted mathematical formalism as appropriate to describe equilibria, but rejected it as too narrow a form of expression to deal with normally prevalent economic phenomena, such as entrepreneurial creativity or the continual evolution of the division of labour."

He calls not only for a paradigm shift, but also in a change in methods of analysis. He is critical of the use of econometrics, and his assertion, "modelling can easily become an excuse for not observing reality", would have been favourably received by Peter Kennedy.

There is an additional weakness that Kasper did not address, namely the failure to recognise that theories about the real world are analogies, rather than representations, of the real world. This would apply even to the Austrians. The difference is that they offer an alternative framing of the issues, noting that framing involves selection, emphasis, exclusion, and elaboration (Severin, 1997, p. 320) to shape the perception of an issue. The Austrian approach gives more emphasis to evolutionary or institutional factors, but is likely to have other unstated weaknesses.

In summary, he gave a thought-provoking address, but there is a lot more to be considered. Open-minded investigators are likely to find the journey rewarding.

Keynote 2: David Henscher (by Bill Kaye-Blake) The John McMillan Memorial Lecture at the 2010 NZAE conference was delivered by Prof David Hensher. Prof Hensher is the Director of the Institute of Logistics and Transport Studies at the University of Sydney, where he conducts and directs internationally-renowned research on transport systems and their users. In his many years at ITLS, he has consulted on numerous transport and infrastructure projects worldwide. His wealth of experience was clearly evident in the keynote address he gave at the conference.

As Prof Hensher joked at the start, the lecture was unusual for an economics presentation. It contained no equations or statistical tests, but instead had lots of pictures and examples from transportation systems around the world. The result was an engaging presentation that seemed well-pitched to the mixed audience of specialists and non-specialists, policy-makers and researchers. It was also appropriate for a McMillan lecture, which is intended for work exploring what Marshall called 'the ordinary business of life'. Several times in the lecture, Prof Hensher returned to the idea of understanding how people use the transportation systems in the ordinary course of their days and using that understanding to make transportation more efficient and equitable.

One of the themes of the talk was improving transportation systems. Prof Hensher suggested that improving systems is requiring a shift in mindset, from an old focus on 'projects and corridors' to new ideas about networks. Transportation networks should be seen as systems, in which connectivity, frequency, and visibility are the most important characteristics. They are also multi-dimensional, as usage can be spread out not only over space but also over time. A point for transportation planners that should have been obvious, but apparently needed reinforcement, was that people's journeys do not run from node to node or along specific corridors. They begin at an origin and end at a destination, such as starting at home and ending at work. When thinking about transportation systems, it is important to consider the whole journey.

The other main theme was paying for these transportation networks. It really boiled down to something familiar to Kiwi audiences: user pays. Many examples were provided of road systems that were using different types of prices to affect driver behaviour and road usage. The goal generally was more efficient use of the limited road resources through proper pricing. One example was the cordon around central London, in which drivers pay a fee to enter the central city. By March 2008, the charge had resulted in a 21 percent decrease in congestion from 50,000 fewer cars per day in central London, while generating revenue of approximately AU\$214m. Other examples came from Stockholm and California, in which road tolls or cordon charges varied by time of day. Tables were provided that showed how the charges varied hourly or even half-hourly during rush hour. By charging more for peak times, these tolls systems are inducing drivers to vary the times at which they travel or to change their routes.

Prof Hensher showed, though, that inducing change is not just about creating good prices. The network has to be flexible, the pricing transparent, and the alternatives visible. More efficient use of networks requires spreading the load over different times, days, routes, and modes of transport. If, for example, transport agencies want higher tolls to induce mode switching, then public transport has to be available. It also has to be sufficiently flexible to be useful, and visible enough that individuals are aware of the alternatives available.

Underlying these pricing regimes are technological improvements. Dynamic pricing requires systems that can keep track of when and where people are travelling. GPS systems allow tracking of vehicle movement. Automatic toll systems using devices mounted in individual cars reduce the transaction costs of dynamic pricing. In turn, these devices require some form of electronic payment, such as linking to credit cards, bank accounts, or other payment methods. These technologies were largely unaddressed in Prof Hensher's talk, but certainly raise a number of questions. One question is the extent to which new pricing strategies are driven by new technologies as opposed to economic advice. Economists should probably not be too quick to think transport agencies are finally 'coming to their senses'; in fact, the reasons for the changes may be as much technological as anything else. A second question is how robust these systems are. This was briefly mentioned but not explored in the lecture. Dynamic pricing requires a number of pieces of technology to function and interact. Computer failures, power outages, malicious individuals, and other facts of modern life could all disrupt the transportation network. It would be useful to know how much good road pricing also introduces fragility into the transportation network.

A third question raised by the new technologies was asked in the question period: the privacy of individuals. Fully dynamic pricing clearly requires knowing where individual vehicles and therefore individual drivers are at all times. This is in fact the vision for the Netherlands, which is introducing kilometre pricing for all vehicles on all roads in the entire country. If this information is collected by the government, it could represent an extreme level of surveillance. If it is collected by the private sector – entirely possible given the focus on public-private partnerships in infrastructure – then it is potentially commercially valuable information being provided gratis by individual consumers. It is akin to the databases built up by supermarket loyalty card programmes, but without the specials and prize schemes. Unfortunately, when provided the opportunity to discuss these concerns, Prof Hensher largely dismissed the whole notion that one might be rightly concerned.

An idea to which Prof Hensher returned several times was that economic thought and research had contributed to valuable changes in transportation. The changes had come over time, with ideas slowly gaining acceptance amongst transport agencies, and new approaches being trialled over time. It was thus a very hopeful lecture, providing evidence that good economic research can, ultimately, improve the ordinary business of life.

Keynote 3: Peter Kennedy did not provide a paper to accompany his keynote address, "Abusing Econometrics", so I will outline some of his key points here, drawing on his PowerPoint slides. He is the author of a text now in its sixth edition, *A Guide to Econometrics* (2008, Blackwell). The flavour of his address is indicated by the aim in the text to provide an intuitive feel for the concepts and techniques of econometrics "without the usual clutter of notation and technical detail". It is more important to know what you are doing and why than to be able to prove selected theorems. This is an admirable objective, given that some, especially novice, researchers appear to mechanically apply textbook techniques without understanding what they mean or even knowing if they are appropriate for a particular application. He is perhaps overly complementary to practitioners when he says:

"At least 80 percent of the material in most of the existing textbooks in econometrics focuses purely on econometric techniques. By

contrast, practicing econometricians typically spend 20 percent or less of their time and effort on econometric techniques per se; the remainder is spent on other aspects of the study, particularly on the construction of a relevant econometric model and the development of appropriate data before estimation, and the interpretation of results after estimation.”

Kennedy’s major concern is the lack of debate on the appropriate use of econometrics, and its consequent misuse. A list of replies that he had sent to contributors in his role as associate editor of the Journal of Economics Education illustrated the errors he commonly saw. However, they focus on techniques, or 20 percent of the task. Issues prior to estimation and later in interpretation and context are important. Even where they are given much time by researchers, they are not necessarily given sufficient thought. Many see research as answering questions, but a vital component is the choice of questions being asked. These depend on framing, which is crucial to our perception of issues. Kennedy suggests that applied work is difficult, of low status among the in-group, and inconvenient. Consequently, “We teach what we enjoy teaching and what we know how to teach, not what the world needs”. The criteria of PBRF ensure that accountability is to the group, not to the wider research community, and this keeps us within the established conventions (no matter how dubious they may appear to others.

One slide states, “Goodhart’s Law: All econometric models break down when used for policy.” I am no longer surprised when yet another econometrician provides a quotable statement to the effect that econometrics does not deliver. An earlier example is given in AI No.23 on p.6, along with a list of issues with econometrics on pp.17-19. Among the elementary mistakes, Kennedy points out, “It doesn’t make sense to use an ordered qualitative variable as though it is an ordinary explanatory variable – you need to replace it with dummies”. It is a pleasure to see that said, but then, why do we see a proliferation of studies including, as variables, indices for which there is no firm rationale for the choice or values of the components and for the weights assigned to them?

Kennedy then listed his “top ten abuses”. Here are a few:

Abuse 8: Regressing Without Thinking: The cost of computing has dropped exponentially, but the cost of thinking is what it always was. That is why we see so many articles with so many regressions and so little thought.

Abuse 5: Ignorance of Context and Data: Don’t try to model without understanding the non-statistical aspects of the real-life system you are trying to subject to statistical analysis. Statistical analysis done in ignorance of the subject matter is just that - ignorant statistical analysis.

Abuse 3: Failing to Look for Additional evidence: Is econometrics a universal solvent? Search for additional evidence, both corroborating evidence, and, especially, disconfirming evidence. “Insider econometrics,” in which information obtained by interviewing/surveying knowledgeable insiders (decision makers) is used to guide traditional econometric analyses.

Abuse 2: Falling into the Significance Trap: Hypothesis testing is overstated, overused and practically useless as a means of illuminating what the data in some experiment are trying to tell us.

Abuse 1: Not Reporting a Sensitivity Analysis: Presentations of research findings are usually notoriously misleading accounts of how the research itself was conducted.

Key points to draw from this, beyond the need to undertake econometrics well, are that econometrics alone is not enough. Often without explicit recognition, the constraints of econometrics results in framing issues to fit the techniques and functional forms. We see this in the extreme with “controlling for” other factors, where generally little or no thought is given to functional form. We should understand our data and we should go out into the real world, talking to people and understanding what might actually be happening. It is not enough simply to push strings of numbers through a computer package.

Kennedy closed with a recommendation that more focus be placed on research design, giving a reference: Joshua Angrist and Jörn-Steffen Pischke, (2010) *The Credibility Revolution in Empirical Economics: How Better Research Design is Taking the Con out of Econometrics*, NBER Working Paper No. 15794.

There is a more serious message in his presentation. If we are aware of the limitations of our methods but others believe the propaganda, we face an ethical issue. If we believe the propaganda and others don’t, the issue is existential.

[continued on page 10]

AWARDS AND PRIZES

The following awards and prizes were presented at the conference:

Life Membership: John Yeabsley

Jan Whitwell Prize: Penny Mok (MED)

NZIER Poster Competition – Student Prize: Hugh McDonald (University of Otago)

NZIER Poster Competition – Open: Andrew Chou (Statistics NZ) and Dorian Owen (University of Otago)

People’s Choice Poster Prize: Hugh McDonald (University of Otago)

NZ Capital Market Best Paper Award: Kuntal Kumar Das (University of Canterbury)

Graduate Study Awards: Shuzhang Sun (Lincoln University) and Peck-Leong Tan (Waikato University)

Conference Assistants: Fardous Alom (Lincoln University); Rachel Webb (University of Canterbury); Nathaniel Robson (Victoria University); Lifeng (Daisy) Shen (University of Auckland); and Darian Woods (University of Canterbury)

Award for service as editor: Ananish Chaudhuri (University of Auckland)

Statistics NZ Prize: Jacques Poot and Steve Stillman, for “The Importance of heterogeneity when examining Immigrant Education-occupation Mismatch: Evidence from New Zealand” (Authors not present – received by David Maré)



Keynote 1: Wolfgang Kasper



Registration Team



Shuzhan Sun
(Graduate Study Award)



Keynote 2: David Henscher



The Head



Penny Mok
(winner of the Jan Whitwell prize)



Keynote 3: Peter Kennedy



Fardous Alom, Conference Assistants
Award winner



Dorian Owen and John Yeabsley



Hugh McDonald (Student winner of
the NZIER poster competition)

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



Ananish Chaudhury
(Award for service as editor)



Life Member: John Yeasbley



Stephen Knowles with the plaque
for Ananish Chaudhury



Table



Keynote 4: Les Oxley



Peck-Leong Tan
(Graduate Study Award)



Darian Woods, Conference
Assistants Award winner



Lifeng (Daisy) Shen, Conference
Assistants Award winner



Rachel Webb, Conference Assistants
Award winner



Nathaniel Robson, Conference
Assistants Award winner

Keynote 4: Les Oxley bravely stepped up to cover a last-minute withdrawal, but he was well prepared. In line with his theme of evaluating publications, we are asked to access his paper via the SSRN site (<http://ssrn.com>). The reference is Chang, C.-L., McAleer, M., & Oxley, L. T. (2010). Great Expectatrics: Great Papers, Great Journals, Great Econometrics. *SSRN eLibrary 1618167*, which means that the access point for downloading is: <http://ssrn.com/abstract=1618167>. To be sure that you have the correct version, please download several times onto different computers.

A light presentation style was persuasively used to convey a serious message. PBRF has resulted in a degree of metric-based assessment, whereby publications are judged according to the standing of the journal in which they are published. Oxley and his co-authors found that highly rated journals contained important papers, but that papers in high rating journals are not necessarily important. There is a “halo effect” from publishing in such journals, with many of the papers never being subsequently cited, even by their authors.

They designed an additional measure of “post-publication rejection”, the proportion of a journal’s papers that have never been cited. With an amazing lack of insight, they failed to name this measure after themselves, instead calling it PI-BETA. This stands for “Papers Ignored - By Even The Authors”, so arguably it should be rewritten PI-EBTA anyway. Perhaps they were being modest, but the Chang-McAleer-Oxley statistic of post-publication rejection would have been more impressive, and offers a chance of immortality.

Any measure of outputs is problematic. There are likely to be rewards for sticking within conventions, and an emphasis on articles gives a focus on marginal developments in contrast to major alternatives. Ranking journals within a discipline penalises cross-disciplinary work, although such work is more likely to give novel combinations (a major source of innovation). As Oxley and his colleagues suggest, citation can be a useful additional measure. However, an article may be cited because it is bad, as with articles written in response. Alternatively, a good article may be ignored for political reasons, as with “agenda denial” (Cobb and Ross, 1997) where a dominant group does not want to draw attention to other views.

Oxley’s fundamental point is that the measures used are suspect. His more specific point is summarised as: “Publish a paper in a great journal, and the journal makes you great. Publish a great paper in a journal, and you make the journal great.”

The reality is that the statistics that are chosen are likely to increase in significance for funding allocations and individual career progression. This will have implications for the development of disciplines. Once a statistic becomes politically important there are strong incentives to manipulate it through strategic game-playing. For example, key individuals may capture a discipline, or a sub-area of a discipline, then reinforce their position by selectively citing each other. There is scope for research in this, but which journal would publish it, and would it then be cited? (See Coelho and McClure, 2006.)

General comments

All streamed conference papers were quality assured on the basis of extended abstracts, with registration and paper submission being conducted online. 80 percent were accepted. There was also a revitalised poster display, which hopefully will become an established feature of our conferences. Most papers are available online at <http://www.nzae.org.nz/conferences/2010/programme.html>

With nearly 100 papers in the parallel streams, it is not possible to give a detailed assessment of them all and I will not attempt to do so. There was a wide variety of papers using a range of techniques, and much useful discussion. Audience feedback is an important part of any conference and is to be encouraged. The following are not intended as serious comments, but there is a serious side to them. There are weaknesses to our approaches that we conventionally ignore. That is our rhetoric. There are also rhetorical techniques that can be used in debate in place of logical argument. As economists, we should note that all is not logical and rational.

For those of you who may be reluctant to comment from the floor, there are some relatively safe and sometimes very effective points to raise. Recall that all theories are simplified analogies of the real world, and they and our empirical methods are based on numerous, frequently unstated, often unrealistic, restrictive assumptions. In that vein, here are several stock questions that may successfully stump a presenter.

There are all the usual questions about the real meaning of the data series being used, the effects that a particular variable might be accidentally picking up, whether lagged relationships are being recognised, or whether it is realistic to assume certain variables are exogenous. In addition, you could consider alternative interpretations of results (tests only assess for consistency), different theoretical perspectives, observations or behaviour reflecting disequilibrium situations, inappropriate functional forms, possible structural change, inappropriate aggregation over time and space, and many more.

Some classics require little or no knowledge at all. There is the confounding interjection (plonking – see AI no.23 p.17), “but not in the south”, or the alternative, “but only in the south”. Several speakers have been stumped by one past professor’s quizzical comment, “At the margin?” in response to a stated finding. This is frequently a meaningless point, but framed in a way that all economists instinctively assume to be profound. “Income elasticity is greater than one.” “At the margin?” “We must increase household saving.” “At the margin?” “The wool price is so low that it is uneconomic.” “At the margin?”

One of the strangest that I observed was in response to a comment by a panellist at a law conference. A female lawyer in the audience simply remarked in a very mild tone, “Surely you don’t believe that, do you John?”, at which point he immediately recanted. Then, for a classic illustration of avoidance of audience response, or perhaps of attack as the best form of defence, you might appreciate a look at: <http://www.youtube.com/watch?v=dXpVYieptwA>

On a more serious note, thanks are due to the conference committee and organisers, who ran things very efficiently. It was impressive, and we hope to see more of the same in future.

Cobb, R. W., & Ross, M. H. (Eds.). (1997). *Cultural strategies of agenda denial: Avoidance, attack, and redefinition*. Lawrence: University Press of Kansas.

Coelho, P. R. P., & McClure, J. E. (2006). Why Has Critical Commentary Been Curtailed at Top Economics Journals? A Reply to Robert Whaples. *Econ Journal Watch*, 3(2), 283-291. Retrieved from <http://www.econjournalwatch.org/pdf/CoelhoMcClureEconomicsInPracticeMay2006.pdf>

Hudson, J., & Lowe, S. (2004). *Understanding the policy process: analysing welfare policy and practice*. Bristol: Policy Press.

Pierson, P. (1996). The path to European integration: A historical institutionalist analysis. *Comparative Political Studies*, 29(2), 123-163.

Pierson, P. (2000). Increasing returns, path dependence, and the study of politics. *American Political Science Review*, 94(2), 251-267.

Schopenhauer, A. (c1851). *The art of controversy* Available from <http://etext.library.adelaide.edu.au/s/schopenhauer/arthur/controversy/>

Severin, W. J. (1997). *Communication theories: origins, methods, and uses in the mass media* (4th ed.). New York: Longman.

SIGNIFICANCE TESTS YET AGAIN

by Stuart Birks

It is strange that a point that can be made in one page has to be expressed as a 15 page paper to be published, and even then the point will be ignored. Schmidt (1996) demonstrated this when he tried to show psychologists how their (and our) standard approaches can lead us on a wild goose chase. The approach taken is a useful one for giving better understanding of quantitative results. It involves consideration of a test or an application by specifying a "true" underlying situation and providing data accordingly. See what results would be computed from these data how we might interpret those results. This can then be compared to the actual situation that generated the data. Schmidt's key diagram is on p.117:

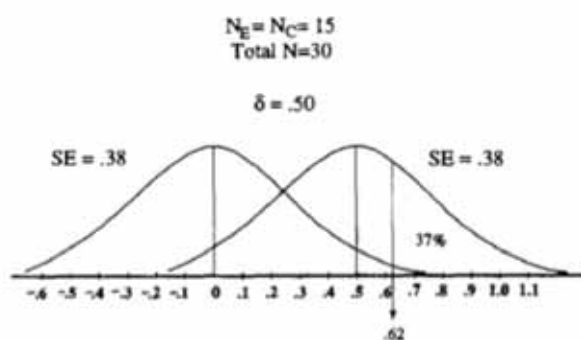


Figure 2. Statistical power in a series of experiments. Required for significance: $d_c = 0.62$ (one-tailed test, $\alpha = .05$); statistical power = 0.37; Type II error rate = 63%; Type I error rate = 0%.

It tests for a significantly higher mean test score in an experimental group compared to a control group. The curve on the left is all that would normally be used, with a one-tailed test and a requirement that the experimental group's mean score be at least 0.62 above that of the control group.

Now consider if the true population difference is 0.5. The curve on the right gives the actual difference in test results, with the variation due to sampling error. There can be no type I errors (false positives) because the true result is positive. However, the test will give a positive result in only 37% of cases, with a false negative in 63%! (With a 2-tailed test the error rate would be 74%.) Moreover, in the cases where results are positive, the values would be at least 0.62, leading researchers to believe that the true effect is greater than it really is. In addition, researchers undertaking several tests may then focus on identifying factors that distinguish between the cases with positive and those with negative results, a totally pointless pursuit in this example!

This point can be explained in less than five minutes in a lecture or seminar, but you can be sure that it will have no effect on how tests are used and interpreted. The rhetoric and conventions of current practice are too strong, and we will continue to mislead ourselves and others.

There is another point from this that might be noted. The best that empirical research can do is show apparent consistency or otherwise with a proposed structure. Our confidence in the result should depend in part on the alternative explanations that can be found on the same evidence. The reasoning applied by Schmidt can easily be done. **Start with a (hypothetical) known situation and see what results the generated data would give according to your test.**

In this example Schmidt demonstrated a high proportion of incorrect test results. It is another way of looking at the fallacy of the transposed conditional. If you only consider results on the assumption that the null hypothesis is true, you can say nothing about situations where it is false. Schmidt's proposed alternative approach is to use point estimation and confidence intervals, or, when possible, meta-analyses.

Schmidt, F. L. (1996). Statistical Significance Testing and Cumulative Knowledge in Psychology: Implications for Training of Researchers. *Psychological Methods*, 1(2), 115-129.

REVIEW OF EXPENDITURE ON POLICY ADVICE

<http://www.treasury.govt.nz/statesector/policyexpenditurereview>

Submissions should be received on or before
15 September 2010

THE OFFICIAL WORD ON PRODUCTIVITY PERFORMANCE FROM STATISTICS NEW ZEALAND

Over recent years, interest in productivity measurement has increased significantly as it is seen as a key determinant of a nation's long-term standard of living and the competitiveness of the economy.

Since 2005, Statistics New Zealand has included the publication of macro and industry level productivity measures as important components of its economic statistics work programme. The development of firm-level measures is being met by providing researchers with access to microdata via the Longitudinal Business Database. This article briefly outlines the macro/industry productivity work.

Since 2006, Statistics New Zealand has published productivity growth estimates for the 'measured sector' of the economy. The measured sector is an aggregation of industries which now cover approximately 74 percent of the economy. Industries excluded are mainly those which provide their output free or at nominal prices: government administration and defence; health; and education. Also excluded are property services and owner-occupied dwellings.

Use of the same industrial classification system allows New Zealand and Australian productivity growth rates to be compared over a narrower version of the measured sector, covering approximately 63 percent of each country's economy. From 1978-2009, labour productivity in this sector grew by 2.0 percent annually in Australia, and 2.1 percent annually in New Zealand. The difference in multifactor productivity (MFP) performance was slightly higher – 0.8 percent annually in Australia, compared with 1.0 percent annually in New Zealand.

While New Zealand has had similar or slightly higher measured sector growth rates than Australia over a 30-year period, OECD data shows Australia to be significantly ahead on total economy labour productivity growth performance. On the face of it, the implication is that New Zealand's non-measured sector performance has been considerably worse - but, underneath the surface, there are measurement differences which need to be disentangled from true productivity differences. Statistics New Zealand and Treasury co-authored an NZAE paper "Taking on the West Island: How does our productivity performance stack up?" which addresses this issue.

Statistics New Zealand recently released the first set of official industry productivity estimates, breaking the measured sector down into 23 industries. For all but three of these, the time series extends back to 1978. Communication services are the standout labour productivity performer, growing by 9.3 percent per annum over this time. Other strong performers include agriculture; forestry and fishing; electricity, gas and water; and finance and insurance. From 1978, the only industry in which labour productivity fell was accommodation, cafes and restaurants, at a

rate of 1.3 percent annually. Labour productivity also declined in cultural and recreational services; and business services, but for these industries the statistics only commence in 1996.

In March 2010 Statistics NZ completed a feasibility study into government sector productivity measurement. The focus of the feasibility study was the health and education industries, two major areas of government service provision which receive the highest public expenditure, and which have been studied the most by other countries and international organisations. The main conclusion from the feasibility study is that it is possible to estimate change in the productivity of government health care and education services in New Zealand according to the best current practice worldwide. However, the feasibility study noted some big challenges for the compiler, the main ones being:

- Scope – such as the industry perspective, the public / private perspective, and the financing perspective
- Defining government output and dealing with quality change
- Lack of prices

As a first stage, Statistics NZ are commencing work on estimating the industry productivity performance, and adding health and education to the existing market sector estimates.

Statistics New Zealand has also developed and published an official composition-adjusted labour productivity series. A composition-adjusted series is generally considered to provide the most representative measure of labour input, because it does not treat workers as being homogeneous, and instead tries to adjust for different skill levels across the workforce, and over time. The proxies used for skill are educational attainment and experience, where the relative skill levels are estimated through regression analysis, using hourly wages. The composition-adjusted series, commencing in 1998, reflects an increase in the overall skill level of the measured sector during this period. The headline measure of labour productivity picks up this skill increase in the residual multifactor productivity estimate, while the composition-adjusted approach allows for it to be separately identified as an input to production.

Statistics New Zealand will be building on the existing suite of productivity data over the next three years. Planned developments include:

- The expansion of the measured sector to incorporate the property services, health, and education industries. This will take the measured sector to more than 85 percent of the economy
- Subject to feasibility, further disaggregation of the industry statistics published in June 2010
- Subject to feasibility, productivity levels measures. The current statistics measure growth rates only, rather than actual levels of labour or capital productivity
- The publication of unit labour costs, that is, the average labour cost per unit of output. This can also be interpreted as growth in the average hourly wage rate, adjusted for labour productivity growth

More information, including all publications and data, is available at www.stats.govt.nz/productivity, or by contacting Brendan Mai at productivity@stats.govt.nz

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

...economic research at the University of Auckland August 2010

Email addresses and personal webpages for members of the department can be found on the department's website:

<http://www.business.auckland.ac.nz/comwebcontent/1/7/20/142.html>

EI-hadj Bah: macroeconomics and internal economics.

Debasis Bandyopadhyay: Money supply and economic growth in the absence of a fractional reserve system. A new welfare improving scheme for designing social security. Emigration of skilled labour and education policy. Long-run productivity growth in New Zealand.

Ananish Chaudhuri: Experimental research on (1) the evolution of social norms including the role of trust, reciprocity and altruism in economic interactions, (2) attitudes towards corruption across countries; (3) gender differences in economic decision making.

Zhijun Chen: industrial organization, competition policy, and applied microeconomics with specialized topics including retail competition, vertical restraint and cartel organisation.

Tony Endres: 1. Theoretical research on entrepreneurship with special reference to behavioral aspects. 2. History of economic ideas on international financial problems and policies 3. Modern controversies concerned with international financial integration and financial globalization. 4. The theory of capital and capital structures.

Tim Hazledine: Airline pricing and its implications for competition policy. This is joint research with Professor David Gillen of the University of British Columbia into the 'new airline price discrimination' - pricing and competition on NZ, Tasman, Canadian and trans-border air travel routes in the age of the internet and competition from low-cost carriers. What makes countries rich and happy? This project develops the concept of "moral capital" as the indispensable input that permits the division of labour and consequent prosperity, allowing countries to choose to differ in the dimensions of prosperity and happiness.

Mary Hedges: Currently working in the area of psychological economics and the determinants of tertiary training choice. Current joint research includes an International Healthy Start to Life project with colleagues at UA, AUT and NZIER. This study is using several longitudinal data sets from countries in differing states of nutritional and economic development. These are being used to facilitate population based validation of the econometric models developed in Phase I of the study to estimate the life course costs associated with a less than healthy

start to life. Other major research focus is economic pedagogy specifically curriculum design, assessment and determinants of success at tertiary level.

John Hillas: My research is mainly concerned with the topic of strategic equilibrium in noncooperative games. One strand focuses on foundational issues concerning the nature of various equilibrium concepts and how we should understand them. Another strand concerns the technical aspects of the definition of strategic stability and the relation between different definitions that have been proposed.

Bryce Hool: resource contracts, royalty regimes and depletion policy.

Bilgehan Karaby: international economics, trade, and policy.

Taesuk Lee: time-series econometrics, applied econometrics, and financial econometrics.

Sholeh Maani: Sholeh's research is in the area of economics of the labour market, in particular the effects of human capital and mobility. Her research highlights differences in labour market outcomes by gender, immigration and ethnicity, and the importance of life-time personal and public investments in higher education. In a paper in the current issue of *Journal of Economic Surveys* (July 2010) she examines the effect of home-time-use on the market wage rate; and in a paper which was presented to the European Association of Labour Economists (EALE) 2010 conference (session C:14), she examines the effect of economic resources on student academic achievement. She is currently working on a new project on skilled immigrant effects. She is joint-editor of the *Australian Journal of Labour Economics*.

John Panzar: Research includes industrial organization, regulation economics and applied microeconomic theory.

Peter Phillips: Stationary and non-stationary time series econometrics, Bayesian methods, econometric model determination, time series forecasting, finite sample econometrics, non-parametric and semi-parametric techniques, panel data asymptotics and modelling, dynamic non-linear modelling, financial econometrics.

Steve Poletti: Economics of Network Industries. Regulation and design of electricity markets. Currently working on "Market Power, Real-Time Pricing and Government Procurement of Peak Generating Capacity in the Electricity Market".

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

Alan Rogers: Main research area is econometric theory. Recent research has been mainly concerned with certain geometrical aspects of linear estimation theory, and also with the behaviour of some minimum norm estimators in regression models with non-standard error distributions.

Matthew Ryan: My current research touches on several areas. (i) Decision Theory. I'm engaged (with various collaborators) on a major research programme to explore applications of generalised (or abstract) convexity to decision theory and social choice. I'm also dabbling in the axiomatic foundations of stochastic expected utility. On a more applied note, I have a project with two co-authors (Luca Rigotti and Rhema Vaithianathan) to study the updating of ambiguous beliefs and its role in the dynamics of innovation. (ii) Auctions. My current interest here is in the auctioning of PPP contracts. This is joint work with Flavio Menezes from UQ. (iii) Strategic Information Transmission. Under this heading, I am currently working with Rhema Vaithianathan on a model of pharmaceutical advertising. Working papers on these various topics (or most of them) can be found on my homepage: <http://www.homes.eco.auckland.ac.nz/mrya008/>. Shortly, I will be embarking a new project with Dr Patrick Girard from the Department of Philosophy to build a modal logic for ambiguous semantics. We hope that this will help us to better understand the role of ambiguity in contracting and other economic phenomena.

Erwann Sbair: Structural econometrics for empirical games. (i) Empirical part: study of bidders behaviour, for example in Treasury bonds auctions or electricity spot market. (ii) Theoretical part: study of a local identification tool and applications to different game theoretical models. Also, applied econometrics in the fields of energy, transport and experimental economics.

Rob Scollay: Director of the APEC Study Centre. Research includes Regional trade agreements, Asia Pacific trade relations, trade policy analysis, WTO issues, trade problems of Pacific Island states.

Basil Sharp: Energy and resource economics, spanning time series analysis of quota prices, resource development and utilisation. Rights based systems of resource management. Application of spatial econometric models and choice models to contemporary issues, including wind farms, crime and urban form.

Jennifer Steele: applied microeconomics, economic development, game theory and international trade.

Susan St John: Economies of the family and child poverty, researching policy development of working for families, tax and benefit reforms. Also working in the Retirement Policy and Research Centre (with M Littlewood) on current policy issues, eg KiwiSaver, household wealth and saving, decumulation policies including annuities and home equity release. Activities of the centre include development of the Pensions *reforms* website which has international editors providing policy summaries and commentary on key academic contributions to pensions debates.

Rhema Vaithianathan: Health economics and health care financing, with a broader interest in public economics. Currently I am undertaking a number of projects. One is an empirical analysis of child labour

in Mexico which looks at whether child-labour bans might be bad for a developing economy. I am also starting to work on the economic determinants of obesity in New Zealand. In particular, whether the socio-economic determinants of obesity amongst Pacific Island people is different due to the more positive attitude amongst Pacific Island people to large body size.

Ping Yu: microeconomic theory.

The Department is also home to three research centres.

Energy Centre

This involves staff from the Department of Economics (John Panzar, Stephen Poletti, Bart van Campen, David Young, and Judith Wang) and the Faculty of Engineering (Robert Kirkpatrick, Golbon Zakeri). Current research programme covers: (i) NZ's electricity markets; (ii) agent based modeling; (iii) mechanism design for incorporating intermittent generation; (iv) NZ's forestry initiative; Upper North island Transport Study; (v) public transport. Post graduate research is supported by the Energy education trust of NZ. Details about the Centre can be found at the Centre website: <http://www.business.auckland.ac.nz/energy/18027.html>

Asia Pacific Economic Cooperation (APEC) Study Centre

The Centre aims to promote interdisciplinary study and research on APEC related themes involving political, social and cultural, as well as economic issues. The Centre will be located alongside the New Zealand Asia Institute and the Development Studies Institute at the University of Auckland, and will work closely with both of these institutes. The research focus of the centre includes: trade and investment issues in APEC, human resources issues in APEC, liberalisation performance of APEC economies, design and effects of free trade agreements, trade architecture of the Asia-Pacific region, implications of the spread of preferential trading initiatives in the Asia-Pacific region.

Retirement Policy and Research Centre:

The 'Retirement Policy and Research Centre' operates as a virtual centre with its own web page: http://www.auckland.ac.nz/uoabusiness/retirement-policy-and-research-centre/retirement-policy-and-research-centre_home.cfm. One of the major first initiatives of the RPRC has been to create a not-for-profit webpage www.PensionReforms.com to stimulate high quality, international debate on pension issues - both public and private. A key RPRC project is underway to survey the 100 largest employers in New Zealand on employee benefit issues. This will set a baseline from which the impact of KiwiSaver can be measured. The RPRC will also work with the SME (small and medium enterprises) survey team from Massey University to monitor the effects on smaller businesses. This survey builds on one conducted in 2003 on workplace superannuation for the Periodic Report Group. The information generated from this initiative should allow KiwiSaver to be evaluated for its impact on existing schemes and workplace costs. In addition to these major projects members of the centre continue to deliver a number of papers and had invited overseas speakers deliver papers here including Alison O'Connell (Director Pensions Policy Institute, London).

Centre for Mathematical Social Science (CMSS): The CMSS was established in 2010. It is based in the Department of Mathematics, but is an inter-disciplinary endeavour with strong

involvement from Economics, Computer Science, Philosophy and Engineering Science. We hope to draw more social scientists into its orbit as it develops. The CMSS runs a (semi-)regular seminar series, as well as occasional Workshops and Conferences. It has also hosted several international visitors. Its role is to promote dialogue between mathematicians and computer scientists working on social science applications, and social scientists using mathematical or computational methodologies. For upcoming (and past) events, please see the CMSS website: <http://cmss.auckland.ac.nz/>

WHAT'S AHEAD?

By Anthony Byett

There exist plenty of opportunities to update yourself on latest research and the activities of others in the second half of the year judging by the number of talks listed at www.nzae.org/conferences/general. This webpage is a collation of seminars, workshops, forums and conferences of relevance to New Zealand economist, updated 2-3 times per month by the NZAE. Please provide details of your event to anthony.byett@xtra.co.nz for inclusion.

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

- 10-Aug. The 6th Australia-New Zealand Climate Change & Business Conference in Sydney.
- 10-Sep. A forum on "Rethinking welfare for the 21st century: Beyond the terms of reference" at the University of Auckland.
- 17-Sep and 24-Sep. Jonathon Klick, Professor of Law at the University of Pennsylvania Law School presenting within the Otago and Canterbury seminar programmes.
- 16-Dec. A Reserve Bank of New Zealand workshop on "The transmission of international shocks to open economies".

NZEP - MESSAGE FROM THE INCOMING EDITOR

Mark Holmes (University of Waikato) has been appointed as the new Editor of New Zealand Economic Papers for a three year period effective from January 1 2011. Mark looks forward to working with members of the Association in order to maintain and enhance the very high standards that the Journal has achieved.

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

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.

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

NEW MEMBERS

Mark Johnston (King's College); **Dr Ying Zhou** (Auckland University of Technology); **Amanda Eliason** (Ministry of Economic Development); **Keizo Mizuno** (Kwansei Gakuin University); **Asadul Islam** (Monash University); **James Horrocks**; **Joe Hirschberg** (University of Melbourne); **Jenny Lye** (University of Melbourne); **Anita King** (Energy Efficiency and Conservation Authority); **Dan Farhat** (Otago University); **Vicky Wall** (Department of Labour); **Richard Manning** (Department of Labour); **Anne Fale** (Department of Labour); **Xintao Zhao** (Department of Labour); **Sarah Crichton** (Department of Labour); **Preston Davies** (LECG); **Ingrid Sage**; **Angus White** (New Zealand Treasury); **Mary Hoover** (Auckland University of Technology); **James Zuccollo** (NZIER); **David Evison** (University of Canterbury); **Dan Marsh** (University of Waikato); **Simon McLoughlin** (New Zealand Treasury); **Dieter Katz** (New Zealand Treasury); **Yvonne Phillips** (Environment Waikato); **Chris Schilling** (NZIER); **Matthew Haigh** (Statistics New Zealand); **Aaron Carson** (Statistics New Zealand); **Jaikishan Desai** (Victoria University); **Rebecca Barnes** (Ministry of Health); **Joy Kuhns** (CPIT); **Stephen Wilcox** (Waitakere City Council); **Christopher Hajzler** (Otago University); **Duncan Chadwick** (AECOM); **Alistair Dixon** (KEA3 Ltd); **Rachel Holden** (KEA3 Ltd); **Danielle Sandilands** (Statistics NZ); **Omar Aziz** (Treasury); **John Bright** (Genesis Energy); **Chris Young** (Motu Economic Research).

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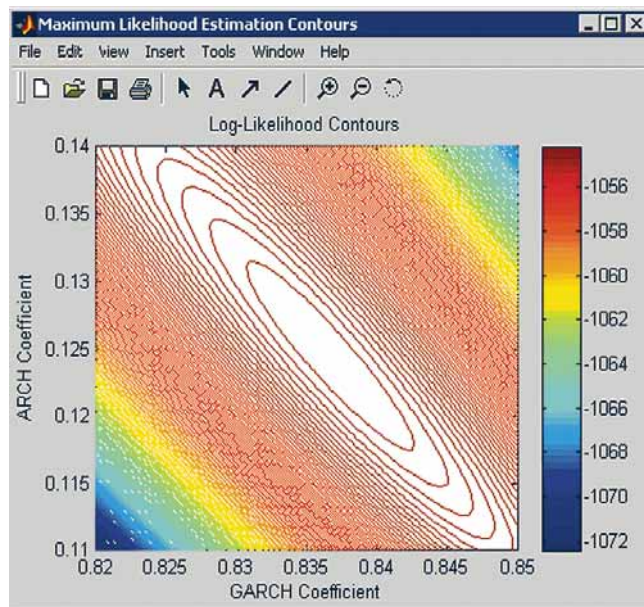
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Contour plot of a log-likelihood function for a GARCH(1,1) model fitted to a typical equity return series.

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

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Asymmetric Information is a situation whereby there is unequal knowledge between the parties of a transaction resulting in an unusual advantage to the party with additional knowledge. This occurs primarily before the transaction/pre-contractual problem. Adverse selection and Moral hazard can result from severe cases of asymmetric information problem. For example, used car owners possess more asymmetric information than they disclose while selling their cars. Definition of asymmetric information: This is a situation where there is imperfect knowledge. In particular, it occurs where one party has different information to another. A good example is when selling a car, the owner is likely to have full knowledge about its service history and its likelihood to break-down. The potential buyer, by contrast, will be in the dark and he may not be able to trust the car salesman. Asymmetric information can lead to adverse selection, incomplete markets and is a type of market failure.