ESAM12

Handbook

Econometric Society Australasian Meeting

3 -6 July 2012 | The Langham Hotel, Melbourne, Australia

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Tim Roughgarden co-sponsored by Deakin University School of Accounting, Economics and Finance and University of Queensland School of Economics

Contents

Welcome to ESAM12

The Econometric Society Australasian Meeting in 2012 (ESAM12) will be held in Melbourne, Australia, from 3 to 6 July 2012 and hosted by Deakin University. The Conference venue is The Langham Hotel Melbourne. The program will consist of world famous keynote and invited speakers, as well as contributed papers on a wide range of topics including: theoretical and applied econometrics, microeconomics, and macroeconomics. The Conference Organising Committee is formed by a young group of academics from the School of Accounting, Economics and Finance at Deakin University. The Academic Program Committee includes high profile researchers from the region.

ESAM12 Organising Committee

Acknowledgements

We would like to thank the members of the organising committe for their commitment, hard work, and dedication. Their energy and enthusiasm has been the factor driving the organisation of this conference all along. We are also grateful to academic program committee members whose valuable time and input ensured a rigorous collection of papers. We would also like to thank the All Occasions Group, especially Candice Sferco, Tegan McClean, and Jodie Sinel, for their dedicated support in organisational details. Anne Cobb, Carolyn Mead and Bruce Hoyle have contributed to the organisation on the Deakin side. Our internal and external sponsors' generosity is also thankfully acknowledged. Many other academics have also helped put together this event at various stages and in various capacities. Without any implications, we are grateful for the contributions from James Morley, Kevin Fox, Andy McLennan, Flavio Menezes, Nilss Olekalns, Jenny Williams, Ian King, Lisa Cameron, Asad Islam, Russell Smyth, Brett Inder, Farshid Vahid, Heather Anderson, Jiti Gao, Max King, Maria Racionero, Trevor Breusch, Renee Fry, Mardi Dungey, Elizabeth Savage, John Geweke, Devashish Mitra, Bruce Chapman, Michael Shields, Wang-Sheng Lee, Adrian Pagan, Garry Barrett, Keith McLaren, and Lata Gangadharan.

Associate Professor Mehmet Ulubasoglu (Deakin)
Professor Michael Kidd (QUT)
Conference Co-Chairs

ESAM12 Organising Committee

The following academics from Deakin University form the Conference Organising Committee.

Dr Prasad Bhattacharya
Dr Aydogan Ulker
Dr Luca Colombo
Dr Cong Pham
Dr Debdulal Mallick
Dr Xueli Tang
Dr Mokhtarul Wadud
Dr CJ Sun
Dr Emin Gahramanov
Dr Cahit Guven
Dr Abdul Aziz Hayat Muhammad
Dr Sarah Carrington

Conference Organisers

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Email: conference@aomevents.com
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ALL OCCASIONS GROUP

Academic Program Committee

Professor Michael Kidd (QUT)
Associate Professor Mehmet Ulubasoglu (Deakin)
Professor Nejat Anbarci (Deakin)
Professor Chris Doucouliagos (Deakin)
Professor Paresh Narayan (Deakin)
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Dr Aydogan Ulker (Deakin)
Dr Luca Colombo (Deakin)
Dr Cong Pham (Deakin)

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Airport Transfers

The Melbourne Airport is situated 25 minutes from the central business district and major hotels. The Skybus Super Shuttle is the official transit link between Melbourne Airport and the central business district. It departs every 15 minutes from Southern Cross station, a five-minute walk from the CBD at a cost of AUD$17.00 one way and AUD$28.00 return.

Car Parking

Wilson Car Parks:
Early bird rate (before 10.00am) between $11.00 - $16.00

- 2 Riverside Quay, Southbank
- Freshwater Place, Southbank
- 25 Queensbridge Street, Southbank
- Corner City Road & Southgate Avenue, Southbank

Please visit the website for more information:

www.wilsonparking.com.au/go/regions/southbank

Secure Parking:
Southgate Avenue, Southbank
Early bird rate (before 9:30am) $14.00

Catering

Arrival tea/coffee, morning and afternoon teas, and lunches will be served in the Ballroom Foyer on the Podium Level.

Disclaimer

The information presented in this handbook is correct at the time of printing. In the event of unforeseen circumstances, the Organising Committee reserves the right to delete or alter items in the Conference Program.

Dress Standards

Smart casual dress is suggested for the Conference sessions and Dinner.

Conference Evaluation

An electronic evaluation will be distributed post-conference. To assist with the planning of future ESAM events, we hope that you will take the time to provide feedback on the Conference.

Messages and Notices

Messages may be left with the Conference Organiser staff at the registration desk.

Mobile Telephones and Pagers

As a courtesy to other participants please ensure that all mobile telephones and pagers are turned off or are on 'silent' mode during all presentations.

Name Badges

All delegates, sponsors, speakers and day registrants will be issued with a name badge at registration. Admittance to all sessions and social functions included in the registration fee will require presentation of your badge.

Onsite Contacts

Candice and Tegan from All Occasions Management will be available at the registration desk for the duration of the Conference for any assistance in relation to the Conference. If urgent, please call their mobile phones:

Candice - 0401 883 911
Tegan - 0403 435 099

Public Transport

Melbourne's public transport system consists of Metlink trams, trains and buses. Metcard or myki tickets must be purchased to travel on metropolitan trains, trams and buses, and can be used on all public transport. For metropolitan fares, routes and timetables, please visit www.metlinkmelbourne.com.au.

The FREE City Circle tram service operates within Melbourne's CBD. The service operates in a circular route passing major tourist attractions, as well as linking with other tram, train and bus routes in and around Melbourne. Trams run in both directions approximately every twelve minutes between 10am and 6pm Sunday to Wednesday and extended hours, 10am - 9pm Thursday, Friday and Saturday.

Registration Desk

All delegates must register to attend the Conference. The registration and information desk will be located in the Ballroom Foyer on the Podium Level, and will be open during the following hours:

Wednesday 4 July 2012	08:00 to 17.30
Thursday 5 July 2012	07:45 to 17:00
Friday 6 July 2012	08:00 to 17:00

Security

Please ensure that you take all items of value with you at all times when leaving a room. Do not leave bags or laptop computers unattended.

Special Requirements

If you have advised the Conference Organiser of special dietary requirements, please identify yourself to the waiting staff for assistance.

General Information

Speakers & Presenters Guidelines

When arriving at ESAM12 please see the staff at the Registration Desk located in the Ballroom Foyer on the Podium Level to register and for further direction to the session room.

Please arrive in the session room at least 15 minutes prior to your session. Introduce yourself to the Chairperson of your session.

Familiarise yourself with the microphones and other room equipment. Please load your PowerPoint from a USB. Students and committee will be on hand (identified by a red category strip on their name badge) to assist with this process.

The Chairperson has been instructed to end the session on time and will warn you when your time is nearly up by using cards showing 10 minutes, 5 minutes, 2 minutes and Finish. The sessions are timed to allow for questions at the end of each session.

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Silver Top Taxis 131 008
13 Cabs 13 22 27
Arrow 13 22 11
Embassy Taxis 13 17 55

Taxis are available from both domestic terminals (Terminal 1 - T1 and Terminal 3 - T3). Expect a taxi fare of around A$90.00 to A$100.00 for a return trip between the CBD and Melbourne Airport. A $2.00 taxi parking fee applies to passengers leaving Melbourne Airport from a taxi rank.

Temperature

For the month of July, Melbourne's mean average daily temperature is 13ºC, the average daily minimum is 6ºC.

Tourist Information

If you are visiting Melbourne, a visitor's guide and map can be found at the Conference Registration Desk.

Wireless Internet Access

Wireless internet is available from the Langham reception desk at $10 per person for a 24 hour block. This is a special conference discounted rate. Please visit the Langham Hotel Reception desk to organise internet access.

Privacy Policy

In accordance with the requirements of the Australian Privacy Act 2000, the All Occasions Group (encompassing All Occasions Management and Travelscene at All Occasions) complies with such legislation which is designed to protect the rights of the individual to privacy of their information. All information collected with respect to your registration for participation in this Conference will only be used for the purposes of planning, conduct of the event or communication regarding future events. These details may be made available to parties directly related to the Conference including but not limited to the All Occasions Group, venues, accommodation and travel providers (for the purposes of room/travel bookings and Conference options), key sponsors (subject to strict conditions) and other related parties as deemed necessary. It is also usual practice to produce a 'Delegate List' of attendees at the Conference and to include the individual's details in such a list. By completing this registration form, you acknowledge that the details supplied by you may be used for the above purposes. It is your responsibility to ensure that all information provided to the All Occasions Group is accurate and kept up to date. To access or update your information, please email or fax the All Occasions Group on conference@aomevents.com or 08 8125 2233.

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Program - Wednesday 4 July

Time					
8.00am - 9.00am	**Registration Opens**				
9.00am - 9.15am	**Opening: Vice Chancellor and President of Deakin University Professor Jane den Hollander**				
9.15am - 10.30am	**Alfred Nobel Lecture: *Equilibrium Labor: Turnover, Firm Growth, and Unemployment*** *Dale Mortensen, Northwestern University (2010 Nobel Prize Winner in Economic Sciences)* *Session Chair: Ian King*				
10.30am - 11.00am	*Morning Tea*				
11.00am - 12.30pm	**Invited Session**	**Contributed Sessions**			
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Peter Bardsley*	*Trinh Le*	*Dana Hanna*	*Markus Brueckner*	*Dooyeon Cho*
	Matching and Contracting *Public Contracting in Delegated Agency Games* ***David Martimort, Paris School of Economics*** *Cadet-Branching at U.S. Army Program* ***Tayfun Sonmez, Boston College***	**Labour Economics 1** *Changing Unchanged Inequality: Higher Education, Youth Population, and the Japanese Seniority Wage System* ***Ken Yamada, Singapore Management University*** *Horizontal Transfer and Promotion: New Evidence and an Interpretation from the Perspective of Task-Specific Human Capital* ***Katsuya Takii, Osaka University*** *Decomposing differences in labour force attachment between Indigenous and non-Indigenous Australians* ***Trinh Le, University of Melbourne***	**Cognitive Skills** *Early-life Exposure to an Indonesian Midwife Program and Adolescent Cognitive Skill* ***Sven Neelsen, Erasmus University*** *Can video games affect children's cognitive and non-cognitive skills?* ***Agne Suziedelyte, The University of New South Wales*** *Determining the Effect of Family Size, Birth Order and Sibling Separation on the Cognitive Development of Children in the Millennium Cohort Study* ***Dana Hanna, ANU***	**Long-Run Growth** *Hicks Meets Kuznets: Sector Biased Technical Change and Persistence of Structural Change* ***Pengfei Zhang, Peking University*** *Genetic Distance and Long-run Diffusion of Technology* ***Minoo Farhadi, Monash University*** *Distortions to Agriculture and Economic Growth in Sub-Saharan Africa* ***Markus Brueckner, National University of Singapore***	**Determinants of Exchange Rates** *A Darwinian Perspective on "Exchange Rate Undervaluation"* ***Qingyuan Du, Monash University*** *Do Policy-Related Shocks Affect Real Exchange Rates? An Empirical Analysis Using Sign Restrictions and a Penalty -Function Approach* ***Taya Dumrongrittikul, Monash University*** *Trade Intensity, Carry Trades and Exchange Rate Volatility* ***Dooyeon Cho, Korea Institute for International Economic Policy (KIEP)***
12.30pm - 1.30pm	*Lunch*				

						Room
						Ballroom
						Ballroom
						Ballroom Foyer
	Yarra 1	**Yarra 2**	**Flinders**	**Towers 2**		
	Abraham Akra	*Mark Doolan*	*Gregor Pfeifer*	*David Ryan*		
	VAR: Methods & Applications *Currency Intervention vs. Speculative Sentiment - Analysis of Japanese and US FOREX Markets* ***Xuxin Mao, University of Glasgow*** *Generalized Impulse Response Analysis in a fractionally integrated Vector Autoregressive model* ***Hung Do, Monash University*** *Competition in the Bill Payment Market* ***Abraham Akra, The University of Sydney***	**Forecasting: Theory** *Testing for Predictive Ability in the Presence of Level Breaks* ***Sunoong Hwang, KIET*** *Within-sample tests of multiple-period predictability* ***Chris Heaton, Macquarie University*** *On the efficacy of techniques for evaluating multivariate volatility forecasts* ***Mark Doolan, QUT***	**Pricing** *Exploiting Externalities: Facebook versus Users, Advertisers and Application Developers* ***Hongyu Chen, Nanyang Technological University, Singapore*** *When Group Buying Facilitates the Monopolist's Power* ***Hsien-Hung Chiu , National Chi Nan University*** *The Incidence of Cash for Clunkers - An Analysis of the 2009 Car Scrappage Scheme in Germany* ***Gregor Pfeifer, Saarland University***	**Energy Economics** *Correlations Between Biofuels and Related Commodities Before and During the Food Crisis: A Taxonomy Perspective* ***Karel Janda, Institute of Economic Studies*** *Clean Technology R&D: The Impact of One-Way Endogenous Spillovers* ***Soo Keong Yong, University of Queensland*** *Catching on the Rebound: Economic Modelling of Energy Services and Determining Rebound Effects resulting from Energy Efficiency Improvements* ***David Ryan, University of Alberta***		
						Ballroom Foyer

Program - Wednesday 4 July (continued)

1.30pm - 3.00pm	**Invited Sessions**			
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**
Chair:	*Murali Agastya*	*Aydogan Ulker*	*Lisa Cameron*	*Emin Gahramanov*
	Game Theory *Robust Predictions in First Price Auctions* ***Stephen Morris, Princeton University*** *Strategic Equilibrium in Club and Coalition Economics* ***Myrna Wooders, Vanderbilt University***	**Applied Microeconometrics** *Rising Wage Inequality and Postgraduate Education* ***Steve Machin, UCL and LSE*** *How the Allocation of Children's Time Affects Cognitive and Non-Cognitive Development* ***Michael Keane, University of New South Wales***	**Development Economics** *Growth and Poverty Revisited: Why Don't we see Poverty Convergence?* ***Martin Ravallion, World Bank*** *Examining Underinvestment in Agriculture: Evidence from Rainfall Insurance and Capital Experiments in Ghana* ***Dean Karlan, Yale University***	**Savings & Consumption** *An International Comparison of Altruism and Bequest Motives* ***Charles Horioka, Osaka University*** *Fiscal Reform and Government Debt in Japan: A Neoclassical Perspective* ***Selahattin Imrohoroglu, University of Southern California***
3.00pm - 3.30pm	*Afternoon Tea*			

3.30pm - 5.15pm	**Concurrent Sessions**				
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Joakim Westerlund*	*Nicholas Feltovich*	*Buly Cardak*	*Ching-jen Sun*	*Minchung Hsu*
	Econometric Theory 1 *Estimation of Income Distributions from Grouped Data Using a Mixture of Lognormals* ***Gholamreza Hajargasht, University of Melbourne*** *VAR Modeling and Business Cycle Analysis: A Taxonomy of Errors* ***Wenying Yao, Monash University*** *Identifying observed factors in approximate factor models: estimation and hypothesis testing* ***Liang Chen, U. Carlos III de Madrid*** *Cross-Sectional Averages or Principal Components?* ***Joakim Westerlund, Deakin University***	**Experimental Economics 1** *Loving the Long Shot: Risk Taking with Skewed Gambles* ***Philip Grossman, Monash University*** *Selective Memory and Motivated Delusion: Theory and Experiment* ***Xiaojian Zhao, Hong Kong University of Science and Technology*** *On Blame and Reciprocity* ***Bogachan Celen, Columbia University*** *Directed search, coordination failure and seller profit: an experimental comparison of posted pricing with single and multiple prices* ***Nicholas Feltovich, Monash University***	**Labour Economics 2** *Wage Mobility in East and West Germany* ***Daniel Schnitzlein , DIW Berlin*** *Welfare-to-Work Reform and Intergenerational Resource Allocation* ***Christine Ho, Singapore Management University*** *Are more able inventors more mobile?* ***Alfons Palangkaraya, University of Melbourne*** *Intergenerational Earnings Mobility and the Role of Inherited Endowments* ***Buly Cardak, La Trobe University***	**Bounded Rationality and Contracting** *A matter of interpretation: ambiguous contracts and liquidated damages* ***Jeffrey Kline, University of Queensland*** *Contracting over Prices* ***Shurojit Chatterji, Singapore Management University*** *Inductive reasoning about awareness* ***John Quiggin, University of Queensland*** *Costly Monitoring, Dynamic Incentives, and Default* ***Gaetano Antinolfi, Washington University and Federal Reserve Board***	**Government Benefits and Taxation** *Men's Rush to Marriage: Implications of Child Support Enforcement for Marriage, Fertility, and Long-Term Inequality* ***Satoshi Tanaka, University of Queensland*** *Optimal Capital Income Taxation with Means-tested Benefits* ***Cagri Kumru, Australian National University*** *A theory of optimal government waste* ***Leslie Reinhorn, University of Durham*** *Health Insurance Reform: The impact of a Medicare Buy-In* ***Minchung Hsu, GRIPS***
5.30pm - 6.30pm	**Presidential Address:** ***Who owns this firm? A critique of shareholder value maximization*** *Jean Charles Rochet, University of Zürich, and Toulouse School of Economics, President of the Econometric Society* *Session Chair: Andy McLennan*				

						Ballroom Foyer
	Yarra 1	**Yarra 2**	**Flinders**	**Towers 2**	**Towers 1**	
	Daniel Mueller	*Mardi Dungey*	*Rosemary Humberstone*	*Cong Pham*	*Valentin Zelenyuk*	
	State Fragility and Political Choice *Bounded Rationality and Contracting* ***Natasa Bilkic, University of Paderborn*** *What Underlies Weak States? The Role of Ethnic Fractionalization and Terrain Ruggedness* ***Pablo Jimenez-Ayora, Deakin University*** *The Shocking Origins of Political Transitions: Earthquakes* ***Muhammad Rahman, Deakin University*** *Political Selection and the Relative Age Effect* ***Daniel Mueller, Queensland University of Technology***	**Risk and Return** *A Quantile Analysis of Default Risk for Speculative and Emerging Companies* ***Akhmad Kramadibrata, Edith Cowan University*** *Does Equity Mispricing Influence Household and Firm Decisions?* ***James Hansen, Reserve Bank of Australia*** *Hedonic Price-Rent Ratios for Housing: Implications for the Detection of Departures from Equilibrium* ***Iqbal Syed, University of New South Wales*** *Ranking Systemically Important Institutions* ***Mardi Dungey, University of Tasmania***	**R&D and Innovation** *Spillovers Licensing and Welfare* ***Shuai Niu, UNSW*** *Estimating the value of patent rights in Australia* ***Changtao Wang, UNSW*** *Intellectual Property Rights and Market Size* ***Frederique Goy, University of New South Wales*** *Absorptive capacity investment in new product innovation* ***Rosemary Humberstone, University of Melbourne***	**Trade and Gravity** *Gravity Model Without CES Preferences* ***Shawn Tan, University of Melbourne*** *Can trade agreements curtail trade creation and prevent trade diversion? Evidence on cross trade agreement effects* ***Juyoung Cheong, University of Queensland*** *Heterogeneous effects of preferential trade agreements: To what extent do distance, and size and income differences matter?* ***Kam Tang , University of Queensland*** *The Effect of WTO on the Extensive and the Intensive Margins of Trade* ***Pushan Dutt, INSEAD***	**Limited Dependent Variables 1** *Estimation of Semiparametric Binary Choice Models with Missing Response Data* ***Tadao Hoshino, Tokyo Institute of Technology*** *Identification and Estimation of Simultaneous Discrete Response Models* ***Yu Zhou, University of Michigan*** *To Smooth or Not to Smooth? The Case of Discrete Variables in Nonparametric Regressions* ***Valentin Zelenyuk, University of Queensland***	
						Ballroom

Program - Thursday 5 July

Time					
7.45am - 8.45am	**Registration Opens**				
8.45am - 10.30am	**Contributed Sessions**				
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Simon Grant*	*Denzil Fiebig*	*Garry Barrett*	*Claudio Mezzetti*	*Aziz Hayat*
	Asset Pricing *Linear Beta Pricing with Inefficient Benchmarks* ***David Feldman, University of New South Wales*** *Momentum Effect in a Noisy Rational Expectation Model with Higher Order Beliefs* ***Qi Zeng, University of Melbourne*** *Price Manipulation, Dynamic Informed Trading and Uniqueness of Equilibrium in a Sequential Trade Model* ***Shino Takayama, The University of Queensland*** *A two-parameter model of dispersion aversion* ***Simon Grant, The University of Queensland***	**Experimental Economics 2** *The use of alternative preference elicitation methods in complex discrete choice experiments* ***Hong il Yoo, UNSW*** *Using elicitation mechanisms to elicit the demand for nutritious maize: Evidence from experiments in rural Ghana* ***Shyamal Chowdhury, University of Sydney*** *Variation in risk seeking behavior in a natural experiment following a large negative resource shock induced by a natural disaster* ***David Savage, QUT*** *Consideration sets and their role in modelling doctor recommendations about contraceptives* ***Denzil Fiebig, UNSW***	**Labour Economics 3** *Prediction Errors: Comparing Objective and Subjective Re-employment Probabilities* ***Sonja Kassenboehmer, University of Melbourne*** *Over-education: Is it voluntary for some individuals?* ***David Black, The University of Melbourne*** *Dead Man Walking: The Impact of Over-Education on Life Satisfaction* ***John Haisken-DeNew, University of Melbourne*** *Changes in Subjective Well-being with Retirement* ***Garry Barrett, University of Sydney***	**Mechanism Design and Implementation** *Duality in Contracting* ***Peter Bardsley, Melbourne University*** *Knowledge-Belief Space Approach to Robust Implementation* ***Akira Yokotani, Maastricht University*** *Dynamic Financial Constraints: Distinguishing Mechanism Design from Exogenously Incomplete Regimes* ***Alexander Karaivanov, Simon Fraser University*** *Repeated Nash Implementation* ***Claudio Mezzetti, University of Melbourne***	**Financial Econometrics** *Risk Premia in Crude Oil Futures Prices* ***Jing Cynthia Wu , The University of Chicago*** *Conditional tests of monotonicity in term premia* ***Vijay Murik, Vanguard Investments Australia Ltd*** *A modified regularized goodness-of-fit test for copulas* ***Wanling Huang, McGill University and CIRANO*** *A New Model of Trend Inflation* ***Joshua Chan, Australian National University***
10.30am - 11.00am	*Morning Tea*				
11.00am - 12.15pm	**E.J. Hannan Lecture:** ***Kidney Exchange: Accomplishments and New Challenges*** *Al Roth, Harvard University* *Session Chair: Nejat Anbarci*				
12.15pm - 1.15pm	*Lunch*				

						Room
	Yarra 1	**Yarra 2**	**Flinders**	**Towers 2**	**Towers 1**	
	Barbara Hanel	*George Tauchen*	*Joe Hirschberg*	*Tomohiro Ara*	*Jongsay Yong*	
	Immigration *Skilled Immigration, Innovation and Wages of Native-born American* ***Chau Nguyen, Monash University*** *Language, Discrimination and Infrastructure: Sources of Inequality and Ethnic Minorities in Vietnam* ***Hoa-Thi-Minh Nguyen, The Australian National University*** *A Distributional Analysis of the Native-Immigrant Wage Gap: The Importance of Employment Discrimination* ***Dipanwita Sarkar, Queensland University of Technology*** *Are Repeated Cross Section or Longitudinal Estimates of Migrant Assimilation Better? A Tale of Two Biases* ***Barbara Hanel, The University of Melbourne***	**Nonparametric Econometrics** *Bandwidth estimation for a nonparametric regression model with mixed types of regressors: A Bayesian approach* ***Xibin Zhang, Monash University*** *A Nonparametric Granger Causality Test in Continuous Time* ***Sai Man Simon Kwok, The University of Sydney*** *Improving Conditional Density Estimation to Make it More Useable for Econometricians* ***Julia Polak, Monash University*** *Inverse Realized Laplace Transforms for Nonparametric Volatility Density Estimation in Jump-Diffusions* ***George Tauchen, Duke University***	**Econometric Theory 2** *Testing for Partial Exogeneity with Weak Identification* ***Firmin Sabro Doko Tchatoka, University of Tasmania*** *Point Optimal Testing in the Presence of Unavoidable Nuisance Parameters* ***Sivagowry Sriananthakumar, RMIT University*** *Testing Common Nonlinear Features in Nonlinear Vector Autoregressive Models* ***Dao Li, Dalarna University*** *Inverse Test Confidence Intervals for Turning-points: A Demonstration with Higher Order Polynomials* ***Joe Hirschberg, University of Melbourne***	**Trade, Technology and Development** *Technology, Trade costs, and Export Sophistication* ***Ermias Weldemicael, The University of Melbourne*** *Technology Choice, Learning Dynamics and Financial Development* ***Tanida Arayavechkit, University of Pennsylvania*** *Agglomeration and directional imbalance of transport costs: the role of density economies* ***Kenmei Tsubota, Institute of Developing Economies, Japan External Trade Organization*** *Institutions as a Source of Comparative Advantage* ***Tomohiro Ara, UNSW***	**Health Economics 1** *The effects of competition on prices and quality chosen by Australian GPs* ***Peter Sivey, University of Melbourne*** *Estimating the cost of improving hospital performance using quality measures with statistical error* ***Chun Lok Li, The University of Melbourne*** *The Consequences of a Public Health Insurance Option: Evidence from Medicare Part D Prescription Drug Markets* ***Daniel Miller, Clemson University*** *On the hospital volume and outcome relationship: Do methods of risk adjustment and measures of volume matter?* ***Jongsay Yong, University of Melbourne***	
						Ballroom Foyer
						Ballroom
						Ballroom Foyer

ESAM12

Program - Thursday 5 July (continued)

1.15pm - 2.45pm	Invited Session	Contributed Sessions			
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Renee Fry*	*Debdulal Mallick*	*Michael Coelli*	*Margaret McKenzie*	*Arghya Ghosh*
	Time Series *Tests of Specification and Distributional Change for Predictive Densities* ***Barbara Rossi, Duke University*** *Exogeneity tests, weak identification and IV estimation* ***Jean-Marie Dufour, McGill University***	**Bangladesh** *Girls' Education, Stipend Programs and the Effects on Younger Siblings' Education in Bangladesh* ***Lutfunnahar Begum, Monash University*** *Firm Heterogeneity and Costly Trade: A New Estimation Strategy and Policy Experiments* ***Ivan Cherkashin, Australian National University*** *Ramadan School Holidays as a Natural Experiment: Impacts of Seasonality on School Enrollment in Bangladesh* ***Seiro Ito, Institute of Developing Economies***	**Family Economics** *Fertility, Consumption and Household Bargaining* ***Hayley Fisher, University of Sydney*** *The Career Costs of Children* ***Katrien Stevens, University of Sydney*** *Family Friendly Occupations and the US Gender Wage Gap* ***Michael Coelli, The University of Melbourne***	**International Financial Issues 1** *The Japanese Current Account: Why Does It Still Remain High?* ***Junji Yamada, University of Toyama*** *Unravelling Financial Sector Rents: the Competition Puzzle* ***Tim Hazledine, University of Auckland*** *Shifting Motives: Explaining the Buildup in Official Reserves in Emerging Markets since the 1980s* ***Jonathan Ostry, International Monetary Fund***	**Trade and Labour** *Strategic Sourcing, Markups and Labor Demand Elasticities* ***Nicholas Sly, University of Oregon*** *Unemployment in an Interdependent World* ***Gabriel Felbermayr, Ifo Institut for Economic Research at the University of Munich*** *Trade and Unionization* ***Arghya Ghosh, University of New South Wales***
2.45pm - 3.05pm	*Afternoon Tea*				
3.05pm - 4.35pm	**Contributed Sessions**				
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Alessandro Tarozzi*	*John Wooders*	*Maurice Bun*	*Antonio Mele*	*Prasad Bhattacharya*
	Program Evaluation *Health Spillover Effects of a Conditional Cash Transfer Program: the Case of Familias en Accion Program in Colombia* ***Diana Contreras Suarez, Monash University*** *Beyond Microcredit: Giving the Poor a Way to Save Their Way out of Poverty* ***Kumar Aniket, University of Cambridge*** *Micro-loans, bednets and malaria: Evidence from a randomized controlled trial in Orissa (India)* ***Alessandro Tarozzi, Universitat Pompeu Fabra***	**Experimental Economics 3** *Rich Communication and Coordinated Resistance against Divide-and-Conquer* ***Vai-Lam Mui, Monash University*** *Belief Formation in a Signalling Game without Common Prior: An Experiment* ***Alex Possajennikov, University of Nottingham*** *Blind Stealing: Experience and Expertise in a Mixed-Strategy Poker Experiment* ***John Wooders, University of Technology Sydney***	**Econometric Theory 3** *Estimation of Linear Dynamic Panel Data Models with Time-Invariant Regressors* ***Claudia Schwarz, Goethe University Frankfurt*** *Consistent Estimation of Panel Data Models with a Multifactor Error Structure* ***Bin Peng, Monash University*** *Identification in linear dynamic panel data models* ***Maurice Bun, University of Amsterdam***	**Monetary Policy and Inflation 1** *Financial Frictions and Inflation Differentials in a Monetary Union* ***Nikolay Hristov, ifo Institute for Economic Research*** *A Reconsideration of the Tobin Effect* ***Kim-Heng Tan, Nanyang Technological University*** *The suboptimality of commitment equilibrium when agents are learning* ***Antonio Mele, University of Oxford and Nuffield College***	**Jump & Break** *Modeling the joint dynamics of spot and futures markets with a regime switching long memory volatility process* ***Jonathan Dark, University of Melbourne*** *Currency Jumps and Crises: Do Developed and Emerging Market Currencies Jump Together?* ***Kam Fong Chan, University of Queensland*** *Structural breaks in inhomogeneous diffusion models* ***Bonsoo Koo, Monash University***
4.40pm - 5.50pm	**Colin Clark Lecture:** ***Structural change, industrialization, and economic convergence*** *Dani Rodrik, Harvard University* *Session Chair: Devashish Mitra*				

Yarra 1	Yarra 2	Flinders	Towers 2	Towers 1	
Indranil Chakraborty	*Juliana Silva Goncalves*	*Benoit Julien*	*Ruipeng Liu*	*Dinko Dimitrov*	
Governance and Delegation *A Market for Justice* ***Daniel Chen, Duke University*** *Board structure, product market competition and incentive compensation* ***Jing Wang, Nanyang Technological University*** *Partial Delegation* ***Indranil Chakraborty, National University of Singapore***	**Education Economics 1** **Joint determinations of household schooling expenditure and student's achievement** **Guochang Zhao, Australian National University** *Can Small Class Policy Close the Gap? An Empirical Analysis of Class Size Effects in Japan* ***Hideo Akabayashi, Keio University*** *The effect of alcohol and drug consumption on academic performance: a treatment effect evaluation* ***Juliana Silva Goncalves, Queensland University of Technology***	**Matching, Search, and Equilibrium** *Some unpleasant properties of log-linearized solutions when the nominal rate is zero* ***Yuichiro Waki, University of Queensland*** *The equilibrium skill distribution when search is directed* ***Suren Basov, La Trobe University*** *Island Matching and Coordination* ***Benoit Julien, Australian Graduate School of Management***	**GMM** *Exploiting strong instruments unduly neglected by standard GMM* ***Jan Kiviet, University of Amsterdam/Nanyang Tech. University*** *Robust GMM-type Estimation with Misspecified Moment* ***Jungick Lee, The Bank of Korea*** *Higher Dimensional Multifractal Processes: A GMM Approach* ***Ruipeng Liu, Deakin University***	**Social Networks** *Structural Estimation of a Pairwise Stable Network Formation of Friendships* ***Yuhei Miyauchi, University of Tokyo*** *How to connect under incomplete information* ***Dinko Dimitrov, Saarland University***	
					Ballroom Foyer

Yarra 1	Yarra 2	Flinders	Towers 2	Towers 1	
George Mailath	*Chris Doucouliagos*	*Cahit Guven*	*Mariano Kulish*	*Leandro Magnusson*	
Search, Matching and Learning *Search and Moral Hazard* ***Guillaume Roger, The University of New South Wales*** *Stochastic stability on uncountable state spaces* ***Jonathan Newton, University of Sydney*** *Premuneration Values and Investments in Matching Markets* ***George Mailath, University of Pennsylvania***	**Banking and Productivity** *Profitability and Productivity: A Comparison between US and European Large Commercial Banks* ***Chuan Wang, Monash University*** *Domestic Systemically Important Banks: An Indicator-Based Measurement Approach for the Australian Banking System* ***Patrick Brämer, University of Magdeburg*** *Productivity and efficiency at large and community banks in the U.S.: A Bayesian true random effects stochastic distance frontier analysis* ***Guohua Feng, University of North Texas***	**Education Economics 2** *Measuring Education Effectiveness: Differential School Effects and Heterogeneity in Value-Added* ***Mike Helal, University of Melbourne*** *Does An Additional Year of Schooling Improve Skills in Reading, Mathematics and Science? Regression Discontinuity due to Imprecise Control over Birthdates* ***Wei-Kang Wong, NUS*** *The Effects of Schooling on Labor Outcomes in a Developing Country* ***Mabel Andalon Lopez, University of Melbourne***	**Macro Dynamics** *Evaluating the role of firm-specific capital in New Keynesian models* ***Joao Madeira, University of Exeter*** *Effects of incorrect specification on the finite sample properties of full and limited information estimators in DSGE models* ***Sebastian Giesen, Halle Institute for Economic Research*** *Estimation and Solution of Rational Expectations Models with Anticipated Structural Changes* ***Mariano Kulish, Reserve Bank of Australia***	**Robust Inference** *A Common-Feature Approach for Testing Present-Value Restrictions with Financial Data* ***Alain Hecq, Maastricht University*** *Serial correlation robust inference with missing data* ***Seunghwa Rho, Michigan State University*** *Bootstrap methods for inference with cluster-sample IV models* ***Leandro Magnusson, University of Western Australia***	
					Ballroom

Program - Friday 6 July

Time					
8.00am - 9.00am	**Registration opens**				
9.00am - 10.30am	**Invited Sessions**				
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	
Chair:	*Luca Colombo*	*Joakim Westerlund*	*Pasquale Sgro*	*Mardi Dungey*	
	Economic Theory *Implementation under ambiguity* ***Nicholas Yannelis, University of Iowa*** *Quantifying the Inefficiency of Equilibria* ***Tim Roughgarden, Stanford University***	**Econometric & Statistical Methods** *Some Impossibility Results for Point Estimators* ***Keisuke Hirano, University of Arizona*** *A Dual Approach to Confidence Intervals for Partially Identified Parameters* ***Jingyong Hahn, UCLA***	**Trade and Economic Geography** *Back to the Future of Green Powered Economies* ***Scott Taylor, University of Calgary*** *Uncertainty and Trade Agreements* ***Nuno Limao, University of Maryland College Park***	**Macro & Finance** *The Role of Inventories and Speculative Trading in the Global Market for Crude Oil* ***Lutz Kilian, University of Michigan*** *Job Creation Tax Credits and Job Growth: Evidence from U.S. States* ***Rob Chirinko University of Illinois***	
10.30am - 11.00am	*Morning Tea*				
11.00am - 12.30pm	**Contributed Sessions**				
Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Jae Kim*	*Elizabeth Savage*	*Sarah Carrington*	*Zvi Eckstein*	*Bob Breunig*
	Forecasting Applications *Information Rigidity and Herding in Economic Growth Forecasts: Stylized Facts from a Large International Panel* ***Natalia Tamirisa, International Monetary Fund*** *Testing the predictability of exchange rate using the shape of yield curves: Evidence from Australia* ***Anh Tuan Bui, Macquarie University*** *A Closer Look at Return Predictability of US Stock Market: Evidence from Fama-French Portfolio and Panel Variance Ratio Test* ***Jae Kim, La Trobe University***	**Health Economics 2** *The impact of FDA regulation on innovation in the high risk medical device market* ***Ilke Onur, University of South Australia*** *Getting stuck in the blues: Persistence of mental health problems and its associated health care utilisation* ***Stefanie Schurer, Victoria University of Wellington*** *Lifestyle choices and health care expenditure* ***Elizabeth Savage, University of Technology***	**Monetary Policy and Inflation 2** *Are Real Entry Wages Rigid over the Business Cycle? Empirical Evidence for Germany from 1977 to 2009* ***Heiko Stueber, Institute for Employment Research (IAB)*** *Monetary Policy Effects on the Relation Between Inflation and Stock Returns* ***Mira Farka, California State University*** *Inflation Inequality in Europe* ***Michael Graff, ETH Zurich***	**Labour Supply** *Child Disability, Welfare Payment, Family Structure and the Mother's Labor Supply* ***Zeng-Hua Lu, University of South Australia*** *Labour supply responses to policy changes with hours constraint* ***Xiaodong Gong, University of Canberra*** *Household Interaction and the Labor Supply of Married Women* ***Zvi Eckstein, Tel Aviv University***	**Limited Dependent Variables 2** *Estimating Dynamic Discrete Choice Models of Product Differentiation: An Application to Medicare Part D with Switching Costs* ***Jungwon Yeo, Singapore Management University*** *An Integrated Kernel Weighted Smoothed Maximum Estimator for the Semilinear Binary Response Model* ***Jerome Krief, LSU*** *A Monte Carlo Study of Bias Corrections for Panel Probit Models* ***Blair Alexander, ANU***
12.30pm - 1.30pm	*Lunch*				

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						Room
						Ballroom Foyer
	Yarra 1	Yarra 2	Flinders	Towers 2	Towers 1	
	Reshad Ahsan	*James Feigenbaum*	*Flavio Menezes*	*Rong Zhang*	*Fabrizio Carmignani*	
	Developing Economies *Trade, Income and the Baltic Dry Index* ***Lin Faqin, University of Adelaide*** *Can generator generate more investment? Evidence from Indian firm -level data* ***Hongjia Zhu, The University of New South Wales*** *Structural Change in the Indian Economy* ***Reshad Ahsan, University of Melbourne***	**Household Consumption and Investment** *Endogenous time preference and households' behaviour: the case of Australia* ***Yibai Yang, University of Sydney*** *Explaining consumer debt risk through a micro model of income volatility and credit markets: The case of Chile* ***Carlos Madeira, Central Bank of Chile*** *Is It Really Good to Annuitize?* ***James Feigenbaum, Utah State University***	**Collusion and Mergers** *Overt Collusion under Competition Enforcement* ***Igor Muraviev, Higher School of Economics and ICEF*** *Reduced intensity of competition makes mergers* ***Flavio Menezes, University of Queensland*** *Research Joint Ventures and Optimal Emissions Taxation* ***Joanna Poyago-Theotoky, La Trobe University***	**Bayesian Econometrics** *Bayesian Inference for Time-varying Coefficient Time Series Models* ***Tingting Cheng, Monash University*** *Bayesian Testing of Granger Causality in Makrov-Switching VARs* ***Tomasz Wozniak, University of Melbourne*** *Parameter estimation for a discrete-response model with double rules of sample selection: A Bayesian approach* ***Rong Zhang, The Melbourne Institute of Applied Economic & Social Research***	**International Financial Issues 2** *Foreign Exchange Intervention and Volatility: Evidence from an Emerging Market* ***Renee Fry, Australian National University*** *FDI and Total Factor Productivity growth: New Macro Evidence.* ***Botirjan Baltabaev, Monash University*** *Revisiting the effects of remittances on bank credit: a macro perspective* ***Fabrizio Carmignani, Griffith University***	
						Ballroom Foyer

ESAM12

Program - Friday 6 July

1.30pm - 2.45pm	**A.W. Phillips Lecture: *Nonlinear Panel Data Models with Heterogeneity and Endogeneity*** *Jeffrey Wooldridge, Michigan State University* *Session Chair: Michael Keane*
2.45pm - 3.15pm	*Afternoon Tea*
3.15pm - 4.45pm	**Contributed Sessions**

Room:	**Ballroom A**	**Ballroom B**	**Ballroom C**	**Swanston 2**	**Swanston 1**
Chair:	*Wang - Sheng Lee*	*Elisabetta Magnani*	*Markus Schaffner*	*Xueli Tang*	*Gazi Hassan*
	Public Policy *Outcomes from workplace learning in school-based vocational education* ***Cain Polidano, University of Melbourne*** *Do Work Decisions among Young Adults Respond to Extended Parental Coverage?* ***Hee-Seung Yang, Monash University*** *Did the 2007 Welfare Reforms for Low Income Parents in Australia Increase Welfare Exits?* ***Duncan McVicar, University of Melbourne***	**Social Capital** *Trust: The Role of Culture, Institutions and Economic Conditions* ***Domenico Tabasso, University of Melbourne*** *Social Networks and Wages in South Africa* ***Darian Naidoo, The University of Sydney*** *Bequest-regulating Social Norms and Intra-household Caring Activities* ***Elisabetta Magnani, University of New South Wales***	**Experimental Economics 4** *Experimental Evidence on the Response of Consumption and Asset Prices to Temporary Income Shocks* ***Lachlan Deer, University of Adelaide*** *The Flexibility of Fairness ideals: An Experimental Approach* ***Natsuka Tokumaru, Kyoto Sangyo University*** *Heart beats and economic decisions: Observing mental stress in the ultimatum bargaining game* ***Markus Schaffner, Queensland University of Technology***	**Growth, Inequality and Uncertainty** *Optimal linear and two-bracket income taxes with idiosyncratic risk* ***C.C. Yang, Academia Sinica*** *Economic Growth and Inequality Patterns in the Presence of Costly Technology Adoption and Uncertainty* ***Zivanemoyo Chinzara, Queensland University of Technology*** *A Dominance Criterion for Measuring Income Inequality from a Centrist View - The Case of Australia* ***Francisco Azpitarte, University of Melbourne***	**Financial Crises** *The Identication of Price Jumps: Stock Market Indices During the Crisis* ***Jan Novotny, University of Manchester*** *The Option-Implied Density of the S&P500: What Drives Market Uncertainty and Crisis Prediction?* ***Yi Ling Low, The University of Melbourne*** *Sovereign Country Rating, Growth Volatility and Financial Crisis* ***Gazi Hassan, The University of Waikato***

4.50pm - 6.00pm	**Panel: How to Publish in Top Journals** **Stephen Morris**, *Princeton University, Editor of Econometrica (2007-2011)* **Dani Rodrik**, *Editor of the Review of Economics and Statistics (2007-2011)* **Keisuke Hirano**, *Co-Editor of the Journal of Business and Economic Statistics, present.* *Session Chair: Maxwell King*

Social Program

Welcome Reception

Tuesday 3 July 2012
5.00pm - 6.30pm
Ballroom, Podium Level
The Langham Hotel, Melbourne

Conference Dinner

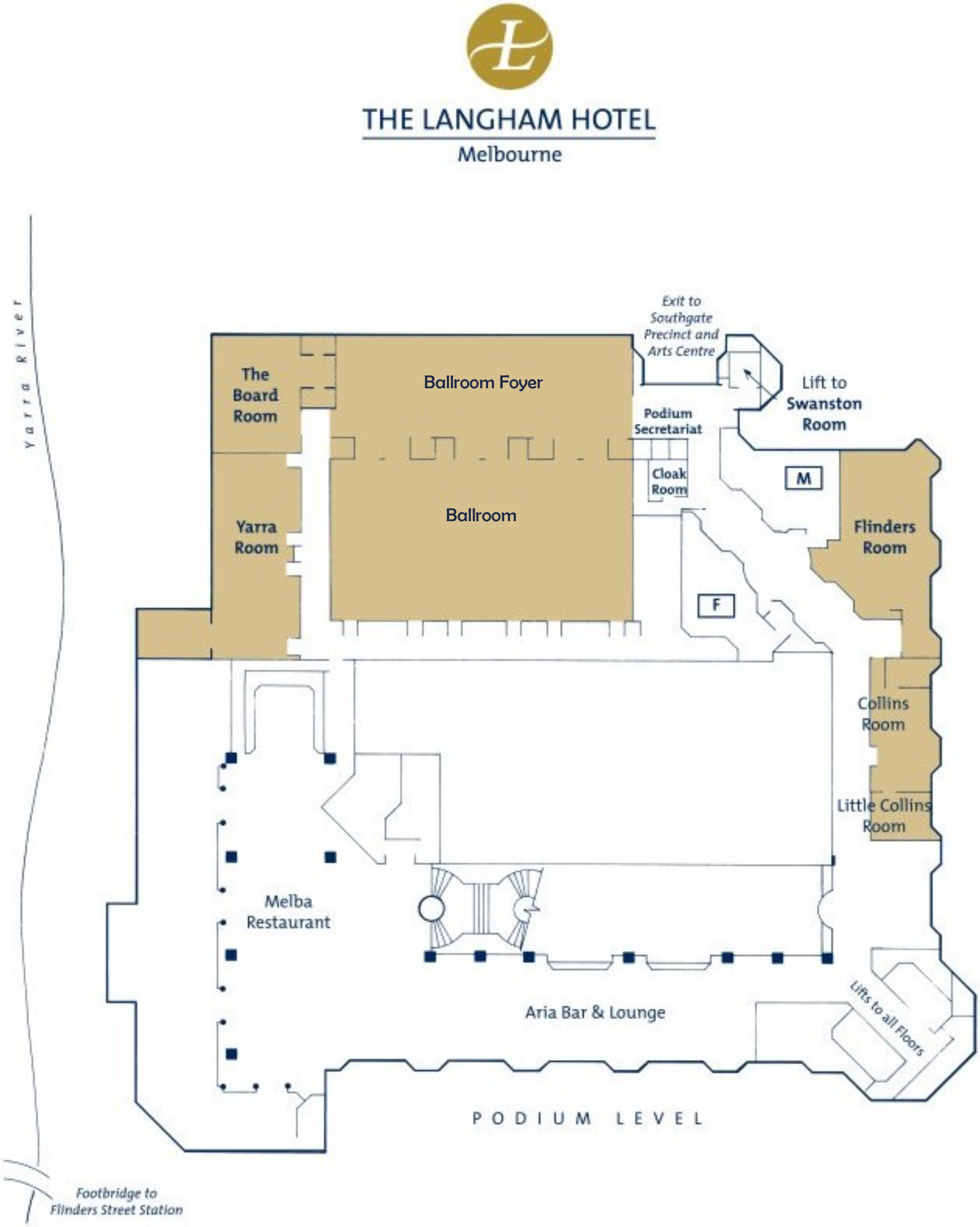
Thursday 5 July 2012
6.30pm pre-dinner drinks
7.00pm - 10.30pm dinner
Crown Towers Hotel, River Room
Dress Standards: Smart Casual

ESAM12

					Ballroom
					Ballroom Foyer
Yarra 1	Yarra 2	Flinders	Towers 2	Towers 1	
Uwe Dulleck	*Stefanie Schurer*	*Franklin Soriano*	*Suraj Prasad*	*Abhijit Sengupta*	
Political Economy *A Model of Party Discipline in Congress* ***Galina Zudenkova, Universitat Rovira i Virgili*** *Multidimensional political competition with non-common beliefs* ***Kazuya Kikuchi, Hitotsubashi University*** *Politicians as Experts, Electoral Control, and Fiscal Restraints* ***Uwe Dulleck, Queensland University of Technology***	**Time & Preference** *Identifying the Effect of Temporal Work Flexibility on Parental Time With Children* ***Juliane Scheffel, The University of Nottingham Ningbo China*** *An Empirical Investigation of Quasi-hyperbolic Discounting* ***Justin van de Ven, University of Melbourne*** *Healthy Lifestyle Choices: The Connection between Diet, Exercise, and Locus of Control* ***Stefanie Schurer, Victoria University of Wellington***	**Econometric Methods and Applications** *Small Business Redefined: A Quasi-Linear Fuzzy Classification of Firm Size* ***Sasan Bakhtiari, University of New South Wales*** *Doubly Robust Estimation of Causal Effects with Multivalued Treatments* ***Derya Uysal, Institute for Advanced Studies*** *Propensity Score Matching: An Application Using the ABS Business Characteristics Survey* ***Sezim Dzhumasheva, Australian Bureau of Statistics*** ***Session Sponsored by:*** Australian Bureau of Statistics	**Promotions & Career** *The Deteriorating Career Prospects of Scientists* ***Kwanghui Lim, Melbourne Business School*** *Intellectual Influence: Quality versus Quantity* ***Alexandru Nichifor, University of St. Andrews*** *Promotions, Multiskilling and Incentives for Skills* ***Suraj Prasad, University of New South Wales***	**Game Theory Applications** *Private Provision of Public Goods: the Case of the "Best Shot" Production Function* ***David Malueg, University of California Riverside*** *Partnership Dissolution when Efficiency Warrants Multiple Owners* ***Eric Chou, National Tsing Hua University*** *On the Optimality of Auctions with Secret Reserve Prices* ***Abhijit Sengupta, University of Sydney***	
					Ballroom

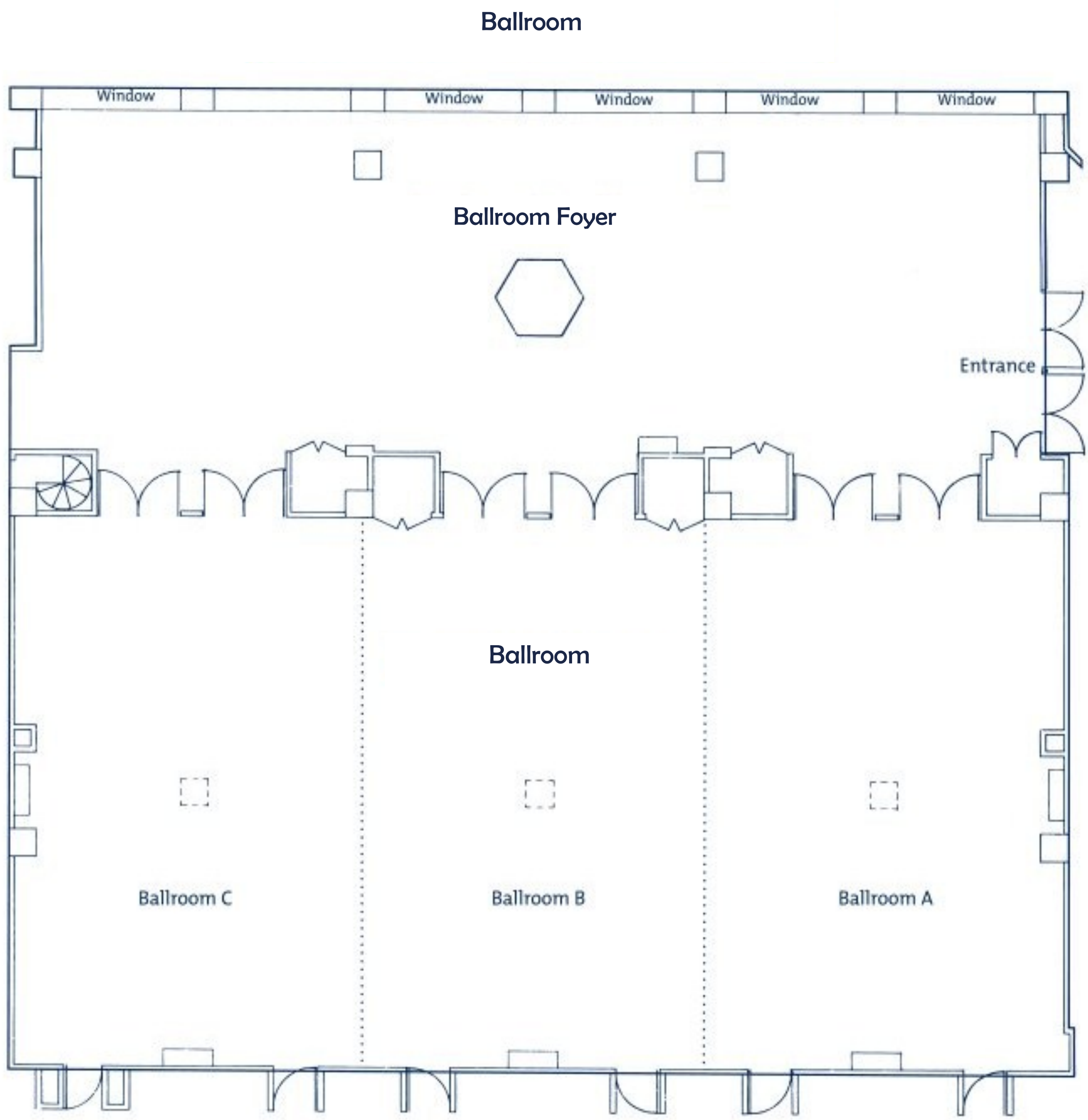
Venue Map

Podium Level - Ballroom (Plenary Sessions)



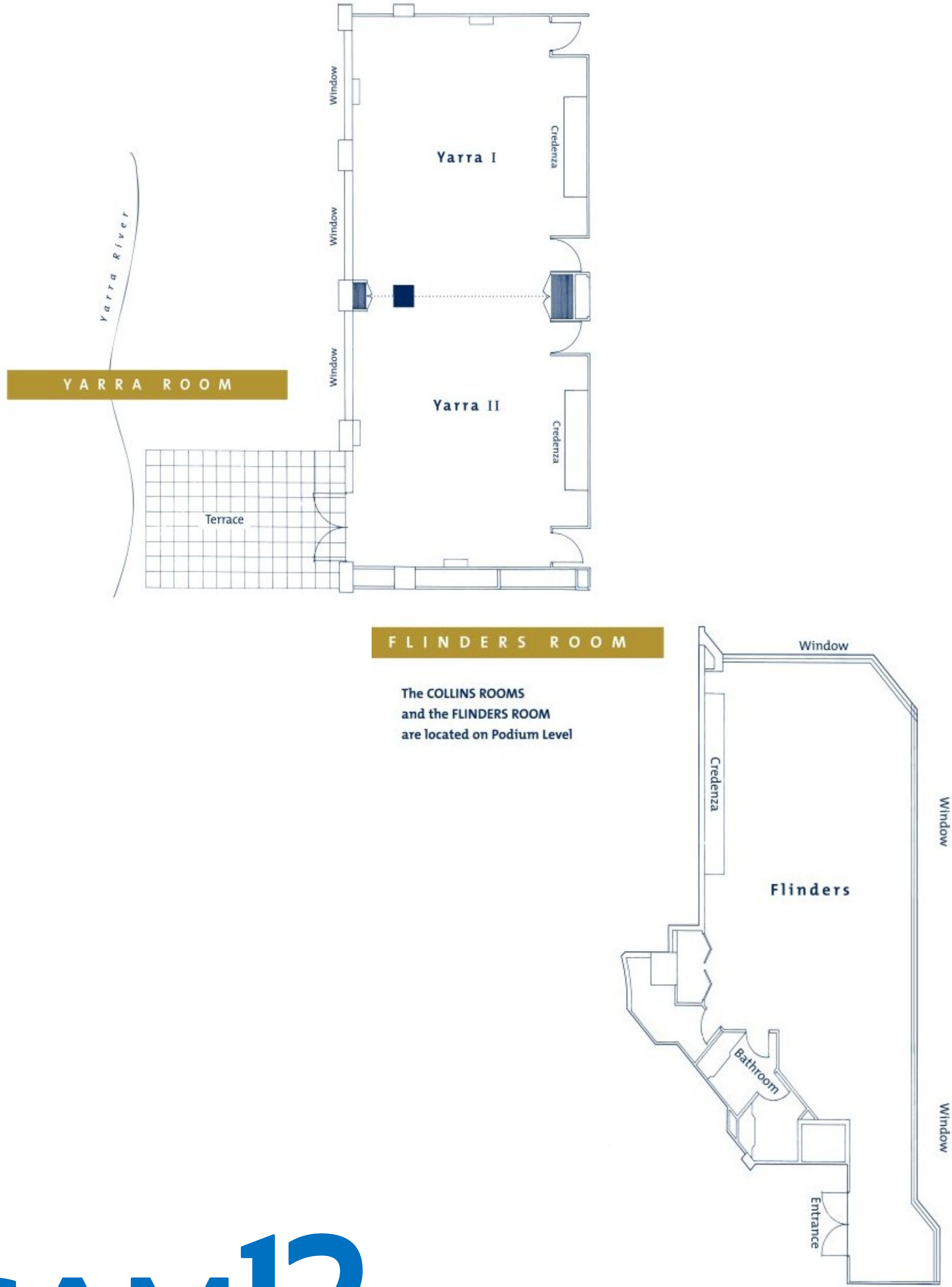
Venue Floor Plan (Breakout Sessions)

Podium Level - Ballroom will be split into Ballroom A, B and C.



Venue Floor Plan (Breakout Sessions)

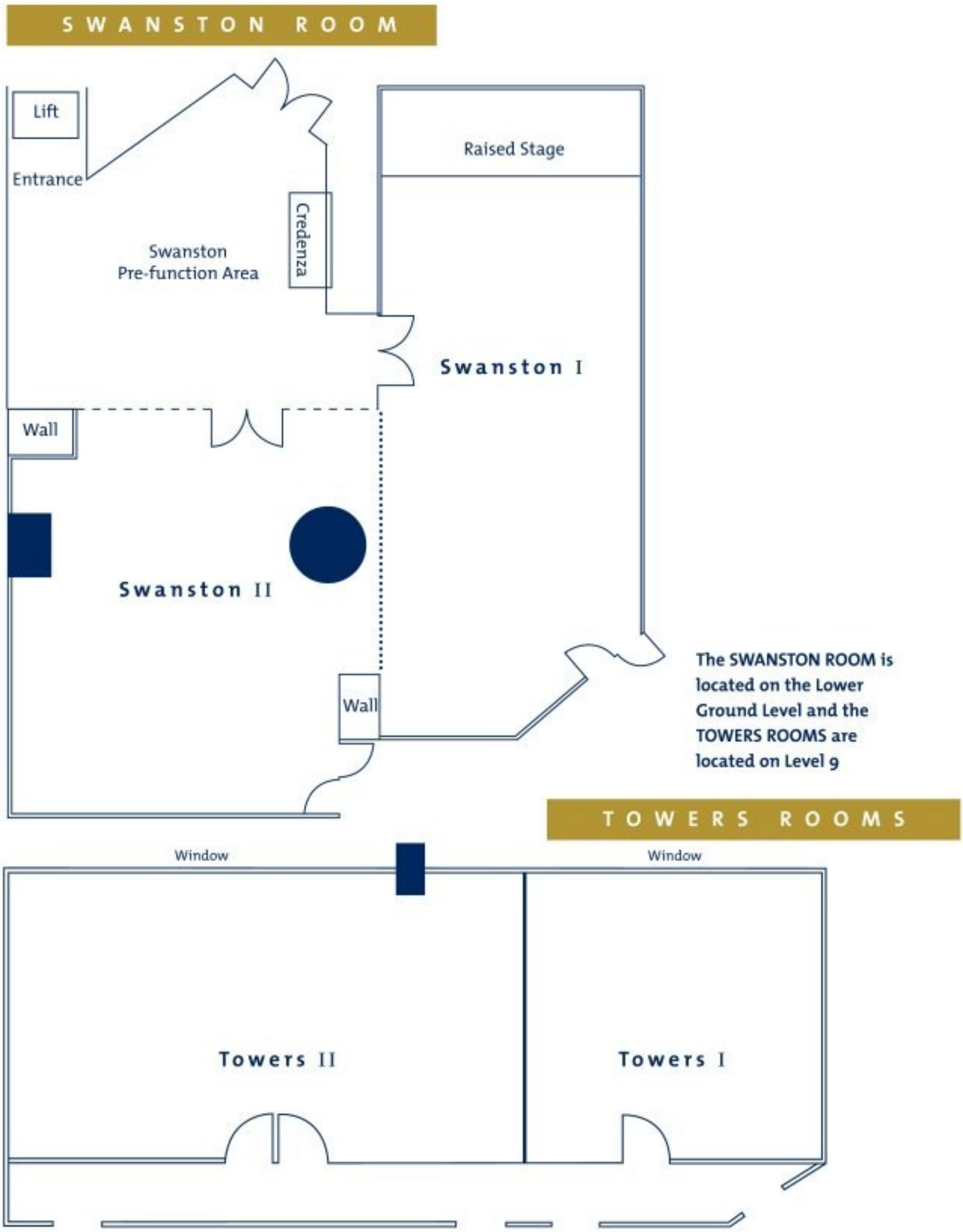
Podium Level - Yarra 1 and 2 and Flinders



Venue Floor Plan (Breakout Sessions)

Lower Ground Level - Swanston Room 1 and 2

Level 9 - Towers 1 and 2



Keynote Speakers - Abstracts

Wednesday 4th July - 9.15am - 10.30am

Dale Mortensen, Northwestern University (2010 Nobel Prize Winner in Economic Sciences)
Equilibrium Labor Turnover, Firm Growth and Unemployment

This paper considers a dynamic, non-steady state environment in which wage dispersion exists and evolves in response to shocks. Workers do not observe firm productivity and firms do not commit to future wages, but there is on-the-job search for higher paying jobs. The model allows for firm turnover (new start-up firms are created, some existing firms die) and firm specific productivity shocks. In a separating equilibrium, more productive firms signal their type by paying strictly higher wages in every state of the market. Consequently, workers always quit to firms paying a higher wage and so move efficiently from less to more productive firms. As a further implication of the cost structure assumed, endogenous firm size growth is consistent with Gibrat's law. The paper provides a complete characterization and establishes existence and uniqueness of the separating (non-steady state) equilibrium in the limiting case of equally productive firms. The existence of equilibrium with any finite number of firm types is also established. Finally, the model provides a coherent explanation of Danish manufacturing data on firm wage and labor productivity dispersion as well as the cross firm relationship between them.

Wednesday 4th July - 5.30pm - 6.30pm

Jean Charles Rochet, University of Zürich, and Toulouse School of Economics, President of the Econometric Society
A Theoretical Foundation for the Stakeholder Corporation

This paper presents a model of the stakeholder corporation and analyzes the equilibrium of an economy with stakeholder firms. The analysis is based on a model of a production economy that differs from the standard approach where uncertainty is modeled by an exogenous probability distribution over states of nature.

The property that differentiates it from the standard model (which justifies the shareholder approach to the corporation) is that firms' choices of investment influence the probability distributions of their outputs, and hence exert external effects on consumers and employees: as a result profit maximization and competitive behavior do not lead to Pareto optimality. Using a Coasian approach to resolve the problem of externalities, we show that if firms issue not only equity shares but also marketable property rights for employees and consumers, and if firms' managers maximize the total values of their firms (shareholder value plus consumer and employee values) then Pareto optimality of equilibrium is restored when agents are identical. In the more realistic case where agents are heterogeneous, reforming capitalism by giving some weight to employee and consumer surpluses in the objective of the firms always increases social welfare.

Thursday 5th July - 11.00am - 12.15pm

Alvin Roth, Harvard University
Kidney Exchange: Accomplishments and New Challenges

One of the interesting recent applications of market design has been to Kidney Exchange, which allows incompatible patients and their donors to exchange kidneys with other such pairs. Kidney exchange now takes place in the U.S., Europe, Asia, and Australia. It has grown as market design solutions have been found to various obstacles. However obstacles remain to further growth. Some of them are new: as kidney exchange has grown, it has become possible for hospitals to free ride on the public good it creates. I'll discuss the history of kidney exchange from a market design perspective, and the current challenges.

Thursday 5th July - 4.40pm - 5.50pm

Dani Rodrik, Harvard University
Structural change, industrialization, and economic convergence

This lecture will focus on structural change, and industrialization in particular, in driving economic convergence. I will document that manufacturing industries are special in that they are "escalator industries," in which labor productivity exhibits unconditional convergence. The failure of aggregate convergence can be understood by explaining why some countries are better at moving labor into these escalator industries than others. I will discuss the experiences of selected countries with structural change, and the roles of government and market failures in impeding desirable structural change.

Friday 6th July - 1.30pm - 2.45pm

Jeffrey Wooldridge, Michigan State University
Nonlinear Panel Data Models with Heterogeneity and Endogeneity

This talk discusses several approaches to identifying and estimating nonlinear panel data models in the presence of unobserved heterogeneity and endogenous explanatory variables. Method of moments and "fixed effects" type approaches are covered. In addition, a unified approach based on correlated random effects and control function procedures is offered, as well as a related approach based on quasi-limited information maximum likelihood estimation in the presence of discrete endogenous explanatory variables. Some new methods for nonnegative responses and fractional responses are provided to illustrate the limitations and strengths of the different approaches.

Invited Speakers - Abstracts

Wednesday 4th July - 11.00am - 12.30pm - Matching and Contracting

David Martimort, Paris School of Economics
Public Contracting in Delegated Agency Games

We study games of public delegated common agency under asymmetric information. Using tools from non-smooth analysis and optimal control, we derive best responses and characterize equilibria (both continuous and discontinuous) using {\em self -generating} optimization programs of which any equilibrium allocation must be a solution. Special attention is given to common agency games in which each principal's payoff is a linear function of the agent's action. In such games the self-generating optimization program reduces to the maximization of the principals' “aggregate" virtual surplus in which the agent's marginal valuation is replaced by a confluence of “virtual" valuations that reflect common agency problems. One noteworthy subset of equilibrium allocations are “virtually truthful'' which are the incomplete-information generalization of Bernheim and Whinston's (1986) “truthful'' equilibria. Virtually-truthful equilibria are simple to calculate and illustrate two distinct sources of equilibrium distortion: inefficient contracting by a given coalition of active principals and inefficient participation (insufficient activity) by principals. Our results are illustrated by means of two games: a public goods game in which each player simultaneously offers a menu contract to a common provider of the public good in order to induce greater supply, and a lobbying game between conflicting interest groups in which each group offers a menu of contributions to a common political decision-maker in an attempt to influence policymaking.

Tayfun Sonmez, Boston College
Cadet-Branching at U.S. Army Program

Prior to 2006, the United States Military Academy (USMA) matched cadets to military specialties (branches) using a single category ranking system to determine priority.

Since 2006, priority for the last 25 percent of the slots at each branch has been given to cadets who sign a branch-of-choice contract committing to serve in the Army for three additional years.

Of the three incentive plans implemented under the Officer Career Satisfaction Program (OCSP), this change in matching has been the most effective in combating historically low retention rates among junior army officers. Building on theoretical work of Hatfield and Milgrom (2005) and Hatfield and Kojima (2010), we show that the resulting new matching problem not only has practical importance but also it fills a gap in the market design literature. Even though the new branch priorities designed by the Department of the Army fail a substitutes condition, thought to be necessary for the existence of stable outcomes until Hatfield and Kojima (2008) showed otherwise, the cumulative offer algorithm of Hatfield-Milgrom gives a cadet-optimal stable outcome in this environment. The resulting mechanism restores a number of important properties to the current USMA mechanism including stability, strategy-proofness and fairness which not only increase cadet welfare consistent with OCSP goals but also provides the Army with very accurate estimates of the effect of a change in the parameters of the mechanism on number of man-year gains by the branch-of-choice incentive program. Our paper also shows that matching with contracts model have great potential to prescribe solutions to real-life resource allocation problems beyond domains that satisfy the substitutes condition.

Wednesday 4th July - 1.30pm - 3.00pm - Game Theory

Stephen Morris, Princeton University
Robust Predictions in First Price Auctions

We investigate the effect of information on the variety of equilibrium behavior in first-price auctions. In particular, we solve for extreme Bayes correlated equilibria (BCE) of the first-price sealed-bid auction with risk neutral bidders and private values. BCE is a generalization of correlated equilibrium to games of incomplete information, and the set of BCE has been shown by Bergemann & Morris (2011) correspond to the set of pairs of information structures and Bayesian equilibria. We use this duality to back out information structures that support equilibria on the frontier of bidders' payoffs and revenue. For the case of two bidders with binary valuations, we construct information structures and corresponding equilibria that map out the frontier of payoffs and revenue. This family of BCE matches the computed frontier obtained through linear programming. We show that for a symmetric prior over valuations, these equilibria obtain upper and lower bounds on revenue. This work generalizes previous research on how behavior in the first price auction varies with bidders' information, e.g. Maskin & Riley (2003), Fang & Morris (2006), and Azacis & Vida (2011). Maskin & Riley consider the private value case, and the latter two consider conditionally independent information structures. We also provide computational evidence on the nature of extreme equilibria of the first price auction with many valuations.

Invited Speakers - Abstracts (continued)

Wednesday 4th July - 1.30pm - 3.00pm - Game Theory (continued)

Myrna Wooders, Vanderbilt University
Strategic Equilibrium in Club and Coalition Economics

The cornerstone of modern economic theory is the classic notion of a competitive economy in which each individual is motivated solely by the satisfaction of his own wants; given his preferences and wealth an individual takes prices for all commodities as given and maximizes his own satisfaction. The notion of a competitive economy is of great importance; it is used widely in empirical analysis and also is a benchmark against which other notions of economic equilibrium are measured. One way in which the classic models fall short, even within the context of competitive theory, is that group effects - clubs - are not allowed; individuals are not influenced by others with whom production and consumption are carried out; the acts of trade and consumption are separate from the individuals engaged in these actions. This paper continues a line of research examining the competitiveness of large club (coalition, or local public good) economy. First, a variant of a model already in the literature is introduced. The model enables treatment using both cooperative and non-cooperative approaches. From a cooperative approach, it is shown that the core of the economy is nonempty and treats similar individuals equally. If the model is restricted so that within-club choices are limited, then core outcomes are Nash equilibrium outcomes of a strategic game of club formation. In general, however, Nash equilibrium outcomes of the game may not intersect the core, even with a continuum of players. I introduce a concept of strong club equilibrium, which allows coordination of strategies by small groups of players. In contrast to Nash equilibrium, the strong club equilibrium outcomes coincide with the core.

Wednesday 4th July - 1.30pm - 3.00pm - Applied Microeconomics

Steve Machin, UCL and LSE
Rising Wage Inequality and Postgraduate Education

This paper documents significant increases in the number of postgraduates working in the United States and Great Britain and reports that their relative wages have significantly risen over time. Postgraduates and college only workers are shown to be imperfect substitutes in production and, amongst graduate workers, relative demand has shifted faster in favour of postgraduates. We study reasons for this and find that postgraduates more highly complement computers and thus have benefited more from their spread than have college only workers. Moreover, the skills sets possessed by postgraduates and the occupations in which they are employed are significantly different to the college only group. Hence, the growing presence of postgraduates in the workplace has been an important factor in explaining rising wage inequality amongst graduates.

Michael Keane, University of New South Wales
How the Allocation of Children's Time Affects Cognitive and Non-Cognitive Development

The allocation of children's time among different activities may be important for their cognitive and non-cognitive development. In our work we exploit time use diaries from the Longitudinal Study of Australian Children to study the effect of time allocation across a wide range of alternative activities. By doing so we characterize the trade-off between the activities to which a child is exposed. On the one hand, our results suggests that time spent in educational activities, particularly with parents, is the most productive input for cognitive skill development. On the other hand, non-cognitive skills appear insensitive to alternative time allocations. Instead, these skills are greatly affected by the mother's parenting style.

Wednesday 4th July - 1.30pm - 3.00pm - Development Economics

Dean Karlan, Yale University
Examining Underinvestment in Agriculture: Evidence from Rainfall Insurance and Capital Experiments in Ghana

The investment decisions of small-scale farmers in developing countries are conditioned by their financial environment. Binding credit market constraints and incomplete insurance can reduce investment in activities with high expected profits. We conducted several experiments in northern Ghana in which farmers were randomly assigned to receive cash grants, grants of rainfall index insurance, or a combination of the two. We find very strong responses of investment in agriculture from the insurance. In two subsequent years, rainfall index insurance (sometimes coupled with cash grants) was sold to farmers at randomized prices. Demand for index insurance is strong, farmers with insurance invest significantly more on their farms, and increased insurance is associated with riskier production choices in agriculture. Both investment patterns and the demand for index insurance are consistent with the presence of important basis risk associated with the index insurance, and with imperfect trust that promised payouts will be delivered. Demand for insurance in subsequent years is strongly increasing in a farmer's own receipt of insurance payouts, and with the receipt of payouts by others in the farmer's social network.

Invited Speakers - Abstracts (continued)

Wednesday 4th July - 1.30pm - 3.00pm - Development Economics (continued)

Martin Ravallion, World Bank
Growth and Poverty Revisited: Why Don't we see Poverty Convergence?

The developing world has made considerable progress against absolute poverty in the aggregate, but with uneven progress across countries and regions. There have also been rising concerns about inequality in many countries, and (related) concerns that the global growth processes have not been sufficiently inclusive.

There is a puzzling aspect of all this: while the overall incidence of poverty is falling in the developing world, it is not falling any faster in its poorest countries. In short, we do not see poverty convergence. That is puzzling if we accept two widely-held "stylized facts" about economic development, namely that there is an "advantage of backwardness"—higher growth rates in countries starting out with a low mean—and that there is an "advantage of growth," whereby a higher mean income tends to come with a lower incidence of absolute poverty. The advantage of backwardness should mean that countries starting out with a low mean income and (hence) high incidence of poverty should see a higher subsequent growth rate and (hence) higher pace of poverty reduction. However, we do not see that in the data.

The presentation will review the evidence on this issue and suggest a solution to the puzzle—a solution that throws new light on the importance of addressing inequality to making growth more pro-poor. Consistently with theoretical models of economic growth incorporating borrowing constraints, I will show that there is an adverse direct effect on the consumption growth process of high initial poverty incidence at a given initial mean consumption. A high incidence of poverty also entails a lower subsequent rate of progress against poverty at any given growth rate. Thus, for many poor countries, the growth advantage of starting out with a low mean income is lost due to a dynamic handicap associated with the high initial incidence of poverty. This dynamic "disadvantage of poverty" appears to sit side-by-side with other factors impeding poverty reduction, such as human underdevelopment and policy distortions.

These new research findings point to the importance to longer-term growth and poverty reduction of both redistributive policies in poor countries and efforts to make markets work better for poor people.

Wednesday 4th July - 1.30pm - 3.00pm - Savings and Consumption

Charles Horioka, Osaka University
An International Comparison of Altruism and Bequest Motives

In this paper, I analyze comparable data on the degree of altruism, the strength and nature of bequest motives, and bequest division for four countries (China, India, Japan, and the United States) from a multi-country household survey conducted by Osaka University in order to shed light on the degree to which individuals are altruistic toward their parents, children, and charitable organizations (complete strangers) and the extent to which individuals' degree of altruism varies from country to country. I find that there are substantial variations among countries in the degree of altruism of their citizens, with Indians and Americans being the most altruistic (the least selfish), the Japanese being the least altruistic (the most selfish), and the Chinese being somewhere in between. As for the reasons for these findings, it appears that inter-country differences in the degree of religiosity are more important than inter-country differences in income levels, culture, and social safety nets.

Selahattin Imrohoroglu, University of Southern California
Fiscal Reform and Government Debt in Japan: A Neoclassical Perspective

Past government spending in Japan is currently imposing a significant fiscal burden that is rejected in a net debt to GNP ratio above 100 percent. In addition, the aging of Japanese society implies that public expenditures and transfers payments relative to GNP are projected to continue to rise until at least 2050. In this paper we use a standard growth model to measure the size of this burden in the form of additional taxes required to meet these obligations that maintain current promised levels of per capita public pension and health services. The fiscal adjustment needed is about a 30 percentage point increase in taxes, using either the consumption tax rate or the labor income tax rate. The latter is far more distorting than the former, leading to a significant loss in welfare. Our results highlight the importance of containing the projected increases in public spending and exploring policies designed to the tax base.

Invited Speakers - Abstracts (continued)

Thursday 5th July - 1.15pm - 2.45pm - Time Series

Barbara Rossi, Duke University
Tests of Specification and Distributional Change for Predictive Densities

We propose new methods for evaluating predictive densities. First, we propose new Kolmogorov-Smirnov and Cramér-von Mises-type tests for correct specification of predictive densities that are robust to dynamic misspecification and to the presence of instabilities. In addition, we offer a simple way of testing for distributional change in predictive densities even if they are mis-specified. Our results indicate that our tests are well sized and have good power in detecting misspecification and time variation (individually and jointly) in predictive densities.

An empirical application to the density forecasts of the Survey of Professional Forecasters shows the usefulness of our methodology.

Jean-Marie Dufour, McGill University
Exogeneity tests, weak identification and IV estimation

We study the effects of weak identification on Durbin-Wu-Hausman (DWH) specification tests an Revankar-Harttley exogeneity test. We propose a finite-and large-sample analysis of the distribution of DWH tests under the null hypothesis (level) and the alternative hypothesis (power), including when identification is deficient or weak (weak instruments). Our finite -sample analysis provides several new insights and extensions of earlier procedures. The characterization of the finite-sample distribution of the test-statistics allows the construction of exact identification-robust exogeneity tests even with non-Gaussian errors (Monte Carlos tests) and shows that such tests are typically robust to weak instruments (level is controlled).

Furthermore, we provide a characterization of the power of the tests, which clearly exhibits factors which determine power. We show that DWH-tests have no power when all instruments are weak [similar to Guggenberger (2008)]. However, power does exist as soon as we have one strong instruments. The conclusions of Guggenberger (2008) focus on the case where all instruments are weak (a case of little practical interest). Our asymptotic distributional theory under weaker assumptions confirms the finite-sample theory.

We present simulation evidence indicating: (1) over a wide range cases, including weak IV and moderate endogeneity, OLS performs better than 2SLS; (2) pretest-estimators based on exogeneity have an excellent overall performance compared with usual IV estimator.

Friday 6th July - 9.00am - 10.30am - Economic Theory

Nicholas Yannelis, University of Iowa
Implementation under ambiguity

We provide non cooperative foundations for the core of an economy with asymmetric information called maximin core as agents's expectations are based on the maximin expected utility.

We introduce the notion of maximin equilibrium and show that the maximin core is implementable as a maximin equilibrium, i.e., we construct a game whose maximin equilibrium coincides with the maximin core.

Tim Roughgarden, Stanford University
Quantifying the Inefficiency of Equilibria

We survey the use of approximation measures to quantify the inefficiency of game-theoretic equilibria. Such measures have been successfully analyzed in many applications, including network routing, resource allocation, network formation, and even models of basketball.

We highlight the use of potential functions, which enable the application of optimization theory to the study of equilibria and have been a versatile and powerful tool in this area. We also discuss recent results on the "intrinsic robustness" of such approximation bounds.

Invited Speakers - Abstracts (continued)

Friday 6th July - 9.00am - 10.30am - Econometric & Statistical Models

Keisuke Hirano, University of Arizona
Some Impossibility Results for Point Estimators

We examine challenges to point estimation when the objects of interest are nonsmooth functionals of the underlying data distribution. In applications of bounds analysis and moment inequality models, estimands may be directionally differentiable but not differentiable. We show that in these cases, there exist no point estimators that are locally asymptotically unbiased, regular, or locally quantile-unbiased. This places strong limits on estimators, bias correction methods, and inference procedures, and provides motivation for considering other criteria for evaluating estimators and inference procedures, such as local asymptotic minimaxity and one-sided quantile unbiasedness. We also also consider estimation problems with singularities, which can arise in instrumental variables and related models. Related arguments show that unbiasedness, translation equivariance, and quantile-unbiasedness cannot be achieved.

Jingyong Hahn, UCLA
A Dual Approach to Confidence Intervals for Partially Identified Parameters

We propose a new approach to statistical inference on a parameter that satisfies moment inequalities. The null hypothesis that the parameter satisfies the moment inequalities is given a dual characterization as a composite hypothesis regarding point identified parameters. We are careful in the specification of the alternative hypothesis that also has a dual characterization as a composite hypothesis regarding point identified parameters. This setup substantially simplifies the conceptual basis of the inference problem. By inverting the Likelihood Ratio test statistic for this composite null and composite alternative inference problem, we obtain a closed form expression for the confidence interval that does not require any tuning parameter. We use our method to derive a confidence interval for a regression coefficient in a multiple linear regression with an interval censored dependent variable.

Friday 6th July - 9.00am - 10.30am - Trade and Economic Geography

Scott Taylor, University of Calgary
Back to the Future of Green Powered Economies

We investigate how the energy (Joules/kg) and power density (Watts/m2) of renewable energy sources determine the extent of energy exploitation, the density of urban agglomerations, and the peak level of income per capita. Economic historians refer to economies where all energy comes from direct and indirect solar ows as organic economies; current usage suggests we call them Green Powered economies. By introducing an explicit spatial structure into a simple general equilibrium model we are able to investigate how the density of available energy supplies creates density in energy demands by agglomerating economic activity - a result we term the density-breeds-density hypothesis. We then test this hypothesis on data from pre and post fossil -fuel England from 1086 to 1801.

Nuno Limao, University of Maryland College Park
Uncertainty and Trade Agreements

We examine the links between trade agreements and economic/political uncertainty. We disentangle the "uncertainty-managing" motive for a TA from the more standard "mean motive," identify the conditions under which there is an uncertainty-reducing motive, and study what determines the importance of this motive relative to the mean motive. We show that a standard trade model with income-risk neutrality generates a "puzzle", namely that there tends to be an uncertainty-increasing motive for a TA.

With income-risk aversion, on the other hand, the uncertainty-managing motive for a TA is determined by interesting trade-offs, which in turn can be linked to observable (or estimable) quantities. We highlight that the origin of the shocks (country-specific or global) and their type (shocks to economic fundamentals or to political preferences) is important in determining the direction and strength of the uncertainty-managing motive. We also examine the investment and trade impacts of the uncertainty-managing component of a TA, and show that these may not always go in the direction that policy practitioners highlight when describing the benefits of TAs.

Invited Speakers - Abstracts (continued)

Friday 6th July - 9.00am - 10.30am - Macro & Finance

Lutz Kilian, University of Michigan
The Role of Inventories and Speculative Trading in the Global Market for Crude Oil

We develop a structural model of the global market for crude oil that for the first time explicitly allows for shocks to the speculative demand for oil as well as shocks to flow demand and flow supply. The speculative component of the real price of oil is identified with the help of data on oil inventories. The model estimates rule out explanations of the 2003-08 oil price surge based on unexpectedly diminishing oil supplies and based on speculative trading. Instead, this surge was caused by unexpected increases in world oil consumption driven by the global business cycle. There is evidence, however, that speculative demand shifts played an important role during earlier oil price shock episodes including 1979, 1986, and 1990. Our analysis implies that additional regulation of oil markets would not have prevented the 2003-08 oil price surge. We also show that, even after accounting for the role of inventories in smoothing oil consumption, our estimate of the short-run price elasticity of oil demand is much higher than traditional estimates from dynamic models that do not account for price endogeneity.

Rob Chirinko, University of Illinois
Job Creation Tax Credits and Job Growth: Evidence from U.S. States

An unemployment rate remaining unacceptably high and monthly job gains barely keeping pace with labor force growth have generated discussions about innovative fiscal policy instruments, such as job creation tax credits (JCTCs), to help stimulate labor demand. To inform ongoing discussions, this paper studies the effects of JCTCs enacted by U.S. states over the past 20 years. Twenty-three states have adopted JCTCs, and their experiences provide a rich source of information for assessing the effectiveness of such policies. We investigate whether JCTCs affect employment growth before, at, and after the time they go into effect. These questions are investigated in an event study framework applied to monthly panel data on employment, the JCTC effective and legislative dates, and various controls. We find that the JCTC elasticity of employment is 0.35. This estimate suggests that President Obama's recently proposed JCTC would create 280,000 incremental jobs and would lower the unemployment rate by 0.1 percentage points.

Wednesday 4 July - 11.00am - 12.30pm - Labour Economics 1

Ken Yamada, Singapore Management University
Changing Unchanged Inequality: Higher Education, Youth Population, and the Japanese Seniority Wage System

Wage inequality fell in the 1990s and rose after 2000 among male workers in Japan. Narrowing wage inequality during the 1990s can be accounted for by a fall in between-group wage inequality resulting from declining returns to experience and tenure and a stable return to education. Widening wage inequality after 2000 can be accounted for by a rise in within-group wage inequality resulting from a relative increase in educated and experienced workers.

Katsuya Takii, Osaka University
Horizontal Transfer and Promotion: New Evidence and an Interpretation from the Perspective of Task-Specific Human Capital

This paper provides new evidence about horizontal transfer and promotion using the largest available personnel panel data in Japan and interprets them from the perspective of task-specific human capital. We find that firms synchronize their employees' promotion and horizontal transfers. Then, we show theoretically that task-specific human capital can naturally generate such synchronization. We also find that the directors in an accounting department have the highest probability of being promoted to become board members, while those in a research department have the lowest. This suggests that top managers need a balanced skill set, in which allocative skill is relatively important.

Trinh Le, University of Melbourne
Decomposing differences in labour force attachment between Indigenous and non-Indigenous Australians

Despite several policy efforts to promote economic participation by Indigenous Australians, they continue to have low participation rates compared to non-Indigenous Australians. This study decomposes the gap in labour market attachment between Indigenous and non-Indigenous Australians. It shows that among women most of the gap can be attributed to differences in the characteristics between the two populations. Indeed, if Indigenous women were to have the same returns to characteristics as non-Indigenous women, their labour market attachment would not be much higher, and sometimes even lower, than their current outcome. However, for men, the differences in observable characteristics of the two populations can only account for 18 to 51 percent of the gap. A detailed decomposition shows that lower education, worse health, greater difficulty with English and larger families (particularly for women) explain the lower labour market attachment of Indigenous Australians to a substantial extent. Compared with previous studies, this study is able to explain a larger proportion of the gap in labour market participation between Indigenous and non-Indigenous people due to being able to include a larger set of explanatory variables. This leaves a smaller proportion of the gap to be attributed to the effects of unobserved factors, including discrimination.

Wednesday 4 July - 11.00am - 12.30pm - Cognitive Skills

Sven Neelsen, Erasmus University
Early-Life Exposure to an Indonesian Midwife Program and Adolescent Cognitive Skill

This paper investigates links between early-life exposure to a large-scale community midwife program in Indonesia and the formation of cognitive skills. My empirical ap-proach exploits both the program's timing and geographical variation to identify mid-wife effects. Using data from the 1993, 1997, 2000, and 2007 waves of the Indonesian Family Life Survey, I find statistically significant positive correlations of cognitive skill test scores at age 11-14 and early-life midwife exposure. The increases in cognitive skill scores that are associated with early-life midwife exposure range up to 8.8 percent and are robust to controlling for different sets of later-life household- and community-level characteristics. The results from different sample splits indicate that the program low-ered both geographical and financial access barriers to better early-life living conditions and that it was effective in improving early-life living conditions for underprivileged children in villages, but not in towns.

Agne Suziedelyte, The University of New South Wales
Can video games affect children's cognitive and non-cognitive skills?

The aim of this study is to investigate whether there is a plausibly causal relationship between video game playing and child cognitive and non-cognitive skills. One of its key findings is that video game playing has a positive statistically significant effect on children's cognitive skills. More specifically, I find that an increase in video game time improves children's ability to apply their mathematics knowledge in solving real life problems. There is no statistically significant ceteris paribus effect of video game playing on children's reading skills. Additionally, the findings of this study do not support the hypothesis that video game is detrimental to child non-cognitive development. There is no evidence that video game playing causes behavior problems in children. I also find that it is important to account for the unobserved heterogeneity of children, as it is correlated with their video game time.

Dana Hanna, ANU
Determining the Effect of Family Size, Birth Order and Sibling Separation on the Cognitive Development of Children in the Millennium Cohort Study

This paper explores the effects of family size, birth order and spacing between siblings on the cognitive development of children at the ages of three and five using data from the Millennium Cohort Study. To account for problems resulting from endogeneity in the model, an instrumental variable approach is used with twins at last birth instrumenting for family size. Results from the paper indicate that family size has no causal impact on the cognitive development of young children. Rather, there is some evidence that birth order drives the differences in cognitive development, with greater gaps between siblings providing some ameliorating effects.

Wednesday 4 July - 11.00am - 12.30pm - Long-Run Growth

Pengfei Zhang, Peking University
Hicks Meets Kuznets: Sector Biased Technical Change and Persistence of Structural Change

In this paper, we construct a two-sector semi-endogenous growth model to investigate the mechanism of sector biased technical change as well as the relationship among sector biased technical change, non-balanced sectoral growth and persistence of structural change. The model shows that the fundamental driving force of both perpetual structural change and non-balanced sectoral growth comes only from the sector biased technical change. Whether technical change is biased to the particular sector or not depends on the sectoral difference in the degrees of R&D spillover effects and capital intensities. Moreover, when technical change is sector biased, high growth of the R&D expenditures could not necessarily result in high growth of GDP in the present economy. Finally, owing to the sparsity of Jacobian in the case of sector biased technical change, we also show that local equilibrium indeterminacy could arise even there are neither increasing returns nor a small wedge between private and social returns.

Minoo Farhadi, Monash University
Genetic Distance and Long-run Diffusion of Technology

This paper provides an empirical study to examine the effects of knowledge spillovers on the labour productivity growth through the channel of genetic distance and explore whether countries which are genetically closer face less barriers in their mutual flow of knowledge. The applied historical dataset covers the OECD countries from 1870 to 2009. The results illustrate that holding the geographic barriers fixed, genetic distance has a positive and statistically significant effects on labour productivity growth of the studied countries. Furthermore, comparing three different channels through which knowledge is transmitted internationally including trade, geographic distance and genetic distance, it is shown that although lower levels of genetic distance are likely to act as a barrier to flow of knowledge, but transition of innovative activity, measured by both patent and research intensity occurs more through the trade channel rather than nearby factor or genetic relatedness.

Markus Brueckner, National University of Singapore
Distortions to Agriculture and Economic Growth in Sub-Saharan Africa

To what extent has Sub-Saharan Africa's slow economic growth over the past five decades been due to price and trade policies that discouraged production of agricultural relative to non-agricultural tradables? This paper uses a new set of estimates of policy induced distortions to relative agricultural prices to address this question econometrically. We first test if these policy distortions respond to economic growth, using rainfall and international commodity price shocks as instrumental variables. We find that on impact there is no significant response of relative agricultural price distortions to changes in real GDP per capita growth. We then test the reverse proposition and find a statistically significant and sizable negative effect of relative agricultural price distortions on the growth rate of Sub-Saharan African countries. Our fixed effects estimates yield that, during the 1960-2005 period, a ten percentage points increase in distortions to relative agricultural prices decreased the region's real GDP per capita growth rate by about half a percentage point per annum.

Wednesday 4 July - 11.00am - 12.30pm - Determinants of Exchange Rates

Qingyuan Du, Monash University
A Darwinian Perspective on "Exchange Rate Undervaluation

Though the real exchange rate is a key price for most economies, our understanding of its determinants is still incomplete. This paper studies the implications of status competition in the marriage market for the real exchange rate. In theory, a rise in the sex ratio (increasing relative surplus of men) can generate a decline in the real exchange rate (RER) through both a savings channel and an effective labor supply channel. The effects can be quantitatively large if the biological desire for a marriage partner is strong. Empirically, we show that within China, those regions with a faster increase in the sex ratio also exhibit a faster decline in the RER (the relative price of nontradables). Furthermore, across countries, those with a high sex ratio tend to have a low real exchange rate, beyond what can be explained by the Balassa-Samuelson effect, financial underdevelopment, dependence ratio, and exchange rate regime classifications. As an application, the estimation suggests that these structural factors can account for the Chinese exchange rate almost completely.

Taya Dumrongrittikul, Monash University
Do Policy-Related Shocks Affect Real Exchange Rates? An Empirical Analysis Using Sign Restrictions and a Penalty-Function Approach

We examine the response of real exchange rates to shocks in real exchange rate determinants, a monetary policy shock, and a fiscal policy shock in 30 countries over the period 1970-2008. The country set is divided into 4 groups - European, other developed-country, Asian developing-country, and non Asian developing-country groups. We propose and apply a new approach, i.e. we employ a panel Bayesian structural vector error correction model, and we impose sign restrictions with a penalty-function approach to identify the shocks. We find that most of our impulse response analysis is in line with economic theories. Specifically, there is strong evidence that trade liberalization generates a real depreciation and an increase in government spending leads to a real appreciation over the long run. We also find that a contractionary monetary policy shock has only short-run impacts on real exchange rates, corresponding to the long-run neutrality of monetary policy. The responses to a productivity shock are interesting, i.e. productivity growth in traded sectors has no effect on the real exchange rate of the Asian developing-country group, and it leads to a long-run real appreciation in the non Asian developing-country group. In contrast, this shock causes a real depreciation in the European country group over the long run. Variance decomposition suggests that international trade policy contributes the most to real exchange rate movements in most country groups, with the exception of the non Asian developing-country group, for which fiscal policy via government spending seems to be the most important.

Wednesday 4 July - 11.00am - 12.30pm - Determinants of Exchange Rates (continued)

Dooyeon Cho, Korea Institute for International Economic Policy (KIEP)
Trade Intensity, Carry Trades and Exchange Rate Volatility

While exchange rates remain mostly unpredictable, researchers have been able to link currency fluctuations to some fundamentals such as interest rates, Taylor rule fundamentals, and relative PPP. In an effort to add to this literature, in this paper we present evidence of a link between trade intensity and exchange rate dynamics. We first establish a negative effect of trade intensity on exchange rate volatility via panel regressions using distance as an instrument to correct for endogeneity. We also run a nonlinear model of mean reversion to compute half-lives of deviations of bilateral exchange rates from relative PPP, and find these half-lives to be significantly lower for high trade intensity currency pairs. This finding does not appear to be driven by Central Bank intervention. In an application, we show that our findings can be used to improve the performance of currency trading strategies, by allowing the thresholds beyond which a currency is considered overvalued to depend on trade intensity.

Wednesday 4 July - 11.00am - 12.30pm - VAR: Methods & Applications

Xuxin Mao, University of Glasgow
Currency Intervention vs. Speculative Sentiment - Analysis of Japanese and US FOREX Markets

This paper analyses of the effects of currency intervention and speculative sentiment on the Japanese and US FOREX markets. Japanese Yen's appreciation against USD is a puzzle in international finance even with interventions in April 1991 - August 2008 period. No previous research addresses the Yen speculation sentiment effects on the interventions and the movements of USD/JPY exchange rate. The paper utilizes a Cointegrated VAR framework (Juselius, 2006) to incorporate suitable international parity conditions and two theoretical influence channels, i.e. the signalling channel and the portfolio balance channel, and to analyze the short- and long-term intervention effects respectively. A speculative sentiment variable is included into the framework to incorporate the empirical speculative effects on different channels.The main findings are: (i) The two theoretical models fail to explain the intervention effects. Currency interventions have both short- and long-run significant counterproductive effects on exchange rate movements through the signalling channel and the portfolio balance channel respectively. (ii) The failure of the theoretical models can be explained by introducing the effects of speculative sentiment, which also suggest a short-term trading strategy. In the short-run, when Japan intervenes with buying 1 billion USD or selling equivalent Yen, the long to short to yen futures will increase by 6.1%, with the result of more than 1 Unit of Yen appreciation against one USD within one month. In the long-run, the Overall Yen selling or USD buying interventions increase Japanese and US interest rate differential, i.e. the risk premium of holding Yen, and make more Yen appreciation through more Yen-buying speculations. There is need for new theoretical models that investigate the effects of interventions by central banks, which also incorporate speculative effects. What is more, to "fade" the spike of a Yen-related intervention is a highly-profitable FOREX trading strategy.

Hung Do, Monash University
Generalized Impulse Response Analysis in a fractionally integrated Vector Autoregressive model

We develop a generalized impulse response function for the fractionally integrated vector autoregressive (FIVAR) model using the Pesaran and Shin (1998) approach. Our method is different from the methodology shown in Chung (2001) since it does not require us to orthogonalize the error vector and, therefore, is independent with the ordering of the variables in the FIVAR. Consistent with Chung (2001) and the long memory behaviour, we show that generalized and orthogonalized impulse responses of FIVAR evolve slowly at the same hyperbolic rates. However, we also note that they are different in number of aspects. For the purpose of statistical inference in empirical studies, we derive asymptotic theories for both functions. We summarize the results for two scenarios associated with one- and two-step estimation methods, respectively. However, our simulations' results support an application of the two-step estimation procedure in generating the generalized and orthogonalized impulse responses of a FIVAR model.

Abraham Akra, The University of Sydney
Competition in the Bill Payment Market

This paper models the demand for merchant acceptance and consumer usage of a four-party payment scheme in the bill payment market. Within a cointegrating framework, demand equations are estimated using vector error correction models. Results illustrate the importance of network effects in determining consumer usage and merchant demand. Additionally, price elasticities suggest the market for payments in Australia is competitive.

Wednesday 4 July - 11.00am - 12.30pm - Forecasting Theory

Sunoong Hwang, KIET
Testing for Predictive Ability in the Presence of Level Breaks

Using Monte Carlo simulations we demonstrate that when the breaks in level of the series are neglected, the standard tests of in-sample and out-of-sample predictive ability suffer from large size distortions. The problem becomes extremely severe if the predicted and predictor variable experience a level break nearly at the same time. We find that a simple alternative procedure using a pretest for the presence of the breaks greatly helps solve the problem. We provide an empirical illustration using wage growth and inflation to highlight the importance of careful treatment of the level breaks in studies of predictive ability.

Chris Heaton, Macquarie University
Within-sample tests of multiple-period predictability

A within-sample test of multiple-period predictability is proposed. The test is based on an extension of the covariance matrix estimator of Hodrick (1992) to the case of an autoregressive null model. Large sample properties of the proposed estimator and the corresponding test statistic are established. Monte Carlo simulations suggest that the test statistic has good size properties, even for quite high prediction horizons, and that the corresponding test based on the Newey-West estimator has poor size properties. The procedure is used to test the null hypothesis that consumer expectations of inflation predict the actual inflation rate.

Wednesday 4 July - 11.00am - 12.30pm - Forecasting Theory (continued)

Mark Doolan, QUT
On the efficacy of techniques for evaluating multivariate volatility forecasts

The performance of techniques for evaluating multivariate volatility forecasts are not yet as well understood as their univariate counterparts. This paper aims to evaluate the efficacy of a range of traditional statistical-based methods for multivariate forecast evaluation together with methods based on underlying considerations of economic theory. It is found that a statistical-based method based on likelihood theory and an economic loss function based on portfolio variance are the most effective means of identifying optimal forecasts of conditional covariance matrices.

Wednesday 4 July - 11.00am - 12.30pm - Pricing

Hongyu Chen, Nanyang Technological University, Singapore
Exploiting Externalities: Facebook versus Users, Advertisers and Application Developers

Social networking sites (SNS) like Facebook are fast becoming part of our daily lives. Increasingly, businesses and organizations are getting on this bandwagon as SNS have the ability to reach a large mass of the population and influence consumer behavior. Facebook reported an annual revenue of US$3.71 billion in 2011 and boosts an active user population of more than 845 million active users in 2012. The emergence of the SNS industry has large influence on every aspect of our society. Thus, it has attracted much academic attention, especially in social sciences. The business strategy aspect of SNS has yet been theoretically analyzed. This paper aims to study the market structure of the SNS industry and discuss the appropriate pricing strategies for the SNS firm.

The market structure of the SNS industry is multi-sided; the service is provided by the SNS firm and three distinct user groups provide each other with network externalities. The three groups are the SNS users, application developers and advertisers. These externalities may be complementary or conflicting. Analysis of the network externalities among these entities and the compromise adopted by the SNS Companies are presented in our study. Users do not pay to participate in the SNS but application developers and advertisers are charged a fee. Constructing a micro-founded model, we set up the utility functions of each entity by using heterogeneity assumptions and examine how the SNS firm can maximize profits within these constraints. We show that the SNS firm may allow too few advertisers and application developers into the market. This result is due to the interplay of externalities between and within each group.

Hsien-Hung Chiu , National Chi Nan University
When Group Buying Facilitates the Monopolist's Power

Consider that a monopolist firm sells a good to a continuum of consumers who have heterogeneous tastes for the good and differ in the transaction costs incurred when making group purchases. Both of individual’s taste and the transaction cost are not observable by the monopolist firm. We characterize the optimal menu of bundles offered by the firm in this setting. We show that offering a group buying option might be profitable as it facilitates the monopolist's power to price discriminate between different types of consumers. With offering a group buying option, the firm’s expected profit is more likely to increase if consumers are more heterogeneous in tastes, the fraction of the high-valuation consumer is larger, or the transaction cost for the low-valuation consumer is lower.

Gregor Pfeifer, Saarland University
The Incidence of Cash for Clunkers - An Analysis of the 2009 Car Scrappage Scheme in Germany

Governments all over the world have invested tens of billions of dollars in car scrappage programs to fuel the economy in 2009. We investigate the German case using a unique micro transaction dataset covering the years 2007 to 2010. Our focus is on the incidence of the subsidy, i.e., we ask how much of the €2,500 buyer subsidy is captured by the supply-side through an increase in selling prices. Using regression analysis, we find that average prices in fact decreased for subsidized buyers in comparison to non-subsidized ones, suggesting that eventually subsidized customers benefitted by more than the subsidy amount. However, the incidence was heterogeneous across price segments. Subsidized buyers of cheap cars paid more than comparable buyers who did not receive the subsidy, e.g. for cars of €12,000 car dealers reaped about 8% of the scrappage prime. The opposite was true for more expensive cars, e.g. subsidized buyers of cars of €32,000 were granted an extra discount of about €1,100. For cars priced about €18,000, we find no price discrimination, i.e., in this price segment consumers fully captured the transfer. Our results can be explained by optimizing behavior on the supply-side both in the lower and upper price segments. The results are extremely robust to extensive sensitivity checks.

Wednesday 4 July - 11.00am - 12.30pm - Energy Economics

Karel Janda, Institute of Economic Studies
Correlations Between Biofuels and Related Commodities Before and During the Food Crisis: A Taxonomy Perspective

In this paper, we analyze the relationships between the prices of biodiesel, ethanol and related fuels and agricultural commodities with a use of minimal spanning trees and hierarchical trees. To distinguish between short-term and medium-term effects, we construct these trees for different frequencies (weekly and monthly). We find that in short-term, both ethanol and biodiesel are very weakly connected with the other commodities. In medium-term, the bio- fuels network becomes more structured. The system splits into two well separated branches { a fuels part and a food part. Biodiesel tends to the fuels branch and ethanol to the food branch. When the periods before and after the food crisis of 2007/2008 are compared, the connections are much stronger for the post-crisis period. This is the first application of this methodology on the biofuels systems. The follow-up detailed analysis of price dependencies is based on wavelet coherence in both time and frequency domain.

Wednesday 4 July - 11.00am - 12.30pm - Energy Economics (continued)

Soo Keong Yong, University of Queensland
Clean Technology R&D: The Impact of One-Way Endogenous Spillovers

This paper introduces competition and directed technical change towards environmental technology through policy regulation in an oligopolistic market structure. We consider a non-commitment emission tax on firms, where the cost of taxation can be reduced via R&D investment in clean technology. We characterize the competition in clean technology R&D in a leader-follower framework with spillovers and the competitive pressure forces the leader to invest more to maintain a technological distance with its follower. The main theme here is to endogenize technological distance in clean technology with one-way spillovers from leader to follower firm and showed that such set-up can sometimes lead to substantial advantage for follower over the leader. Hence, no firm will choose to be the technological leader and no subgame perfect Nash equilibrium can be derived. We then propose a simple targeted subsidy awarded to the technology leader to resolve such predicament.

David Ryan, University of Alberta
Catching on the Rebound: Economic Modelling of Energy Services and Determining Rebound Effects resulting from Energy Efficiency Improvements

By deriving consumer demands for energy sources from a consumer utility maximization model that is defined over energy services, the relationship between these energy source demands and demands for various energy services is recognized and modelled explicitly. This modelling approach facilitates identification of appropriate strategies for empirically determining the so-called rebound effect where, due to the behavioural response by consumers to the resulting fall in the implicit price of energy services, energy efficiency improvements result in energy savings that are often less than those suggested by engineering calculations. The analysis is illustrated using UK time-series energy expenditure and price data.

Wednesday 4 July - 3.30pm - 5.15pm - Econometric Theory 1

Gholamreza Hajargasht, University of Melbourne
Estimation of Income Distributions from Grouped Data Using a Mixture of Lognormals

We show how the GMM framework developed in Hajargasht et al. (2012) for estimating single distributions from grouped data can be adapted for estimating mixtures, focusing particularly on a mixture of lognormal distributions. The moment conditions and weight matrix, and their required quantities – moments and moment distribution functions – are specified. Using data from China rural, China urban, India rural, India urban, Pakistan, Russia, Brazil and Indonesia, we estimate 2- and 3-component lognormal mixtures and compare their performance, in terms of goodness-of-fit and validity of moment conditions, with that of a single GB2 distribution. We find that the 3-component lognormal mixture always outperforms the GB2 distribution, but that with only 2 components does not. For Brazil and Indonesia, we have single observations, making it possible to compare maximum likelihood estimation of the mixtures from a complete set of single observations with GMM estimates obtained after grouping the data. Estimates from both procedures are found to be comparable, lending support to the usefulness of the GMM approach.

Wenying Yao, Monash University
VAR Modeling and Business Cycle Analysis: A Taxonomy of Errors

In this article we investigate the theoretical behavior of finite lag VAR(n) models fitted to time series that in truth come from an infinite order VAR data generating mechanism. We show that overall error can be broken down into two basic components, an estimation error that stems from the difference between the parameter estimates and their population ensemble VAR(n) counterparts, and an approximation error that stems from the difference between the VAR(n) and the true infinite order VAR. The two sources of error are shown to be present in other performance indicators previously employed in the literature to characterize, so called, truncation effects. Our theoretical analysis indicates that the magnitude of the estimation error exceeds that of the approximation error, but experimental results based upon a prototypical real business cycle model indicate that in practice the approximation error approaches its asymptotic position far more slowly than does the estimation error, their relative orders of magnitude notwithstanding. The experimental results suggest that with sample sizes and lag lengths like those commonly employed in practice VAR(n) models are likely to exhibit serious errors of both types when attempting to replicate the dynamics of the true underlying process and that inferences based on VAR(n) models can be very untrustworthy.

Wednesday 4 July - 3.30pm - 5.15pm - Econometric Theory 1 (continued)

Liang Chen, U. Carlos III de Madrid
Identifying observed factors in approximate factor models: estimation and hypothesis testing

Despite their popularities in recent years, factor models have long been criticized for the lack of identification. Even when a large number of variables are available, the factors can only be consistently estimated up to a rotation. In this paper, we try to identify the underlying factors by associating them to a set of observed variables, and thus give interpretations to the orthogonal factors estimated by the method of Principal Components. We first propose a estimation procedure to select a set of observed variables, and then test the hypothesis that true factors are exact linear combinations of the selected variables. Our estimation method is shown to able to correctly identity the true observed factor even in the presence of mild measurement errors, and our test statistics are shown to be more general than those of Bai and Ng (2006). The applicability of our methods in finite samples and the advantages of our tests are confirmed by simulations. Our methods are also applied to the returns of portfolios to identify the underlying risk factors.

Joakim Westerlund, Deakin University
Cross-Sectional Averages or Principal Components?

In spite of the increased use of factor-augmented regressions in recent years, little is known regarding the relative merits of the two main approaches to estimation and inference, namely, the cross-sectional average and principal components estimators. As a response to this, the current paper offers an in-dept theoretical analysis of the issue.

Wednesday 4 July - 3.30pm - 5.15pm - Experimental Economics 1

Philip Grossman, Monash University
Loving the Long Shot: Risk Taking with Skewed Gambles

We adapt the Eckel and Grossman (2002, 2008) risk measure (with six gamble choices) to incorporate skewness, while holding expected earnings and risk constant and use this instrument, in a controlled laboratory experiment, to address two questions: 1) do people prefer positive skewness, and 2) does skewness encourage greater risk taking? Our answer to both questions is yes. We find that people prefer positive skewness in their gamble choices; the long shot outcome makes a gamble more attractive than a gamble with the same expected earnings and risk (i.e. variance) but lacking such an option. More importantly, we find that increased skewness in the payoff structure entices our subjects to take greater risks in their choice of gambles, as well as increasing the number of subjects willing to gamble. If our laboratory results are predictive of real gambling behavior, the introduction of state and multi-state lotteries has both increased the number of gamblers and gamblers' exposure to risk. Persons who previously eschewed gambling are more likely now to gamble and previous gamblers are now exposing themselves to greater levels of risk hopelessly pursuing the longshot jackpot.

Xiaojian Zhao, Hong Kong University of Science and Technology
Selective Memory and Motivated Delusion: Theory and Experiment

We develop an economic model to study the relation between memory and attitude towards risky decision making across time. Building on the works of Carrillo and Marrioti (2000) and Benabou and Tirole (2002), we formulate an intra-person, multiple-self model of how motivated memory including amnesia and delusion may relate to the individual's degree of present bias. We posit the notion of semi-conscious choice in which the individual habituates into being "strategically" forgetful or delusional to enhance the motivation for one's future selves. In equilibrium, the model endogenizes the individual's habituated state of memory error proneness with delusion resulting from a high level of present bias. We tested our model in a controlled incentivized experiment and find general support for its implications except for the significance incidence of positive confabulation. This leads us to formulate an extended model to capture this possibility in equilibrium.

Bogachan Celen, Columbia University
On Blame and Reciprocity

The theory of reciprocity is predicated on the assumption that people are willing to reward kind acts and to punish unkind ones. This assumption raises the question as to how to define “kindness.” In this paper we offer a novel definition of kindness based on a notion of blame. This notion states that in judging whether player i is kind or unkind to player j, player j has to put himself in the position of player i and ask if he would act in a manner that is worse than i does. If player j would act in a worse manner than player i acted, then we say that player j does not blame player i. If, however, player j would have been nicer than player i was, then we say that player j blames player i. We consider this notion a natural, intuitive and empirically functional way to explain the motives of people engaged in reciprocal behavior. After developing the conceptual framework, we test this concept by using data from two laboratory experiments and find significant support for the theory.

Nicholas Feltovich, Monash University
Directed search, coordination failure and seller profit: an experimental comparison of posted pricing with single and multiple prices

We use a human-subjects experiment to examine market outcomes in two related settings involving posted pricing by firms and and directed search by consumers. Sellers simultaneously post asking prices for a single indivisible good; buyers observe the prices and simultaneously choose which firm to visit. In a one-price model, each firm posts a single asking price; in a two-price model, each posts a menu of prices: a "single-buyer" price (applicable when exactly one buyer visits), and a "multi-buyer" price (applicable when both buyers visit). Under reasonable equilibrium selection criteria, the one-price model yields a unique prediction. The two-price model allows a continuum of equilibrium multi-buyer prices, but a unique single-buyer price equal to that in the one-price model. While the multi-buyer price allows sellers the possibility of taking advantage of local market power, our experimental results -- using a 2x2 (2 buyers, 2 sellers) market -- imply that multi-buyer prices are actually lower than either single-buyer prices or prices in the one-price treatment. We also find that allowing a separate multi-buyer price has no apparent effect on seller profits, and leads to a small increase in frictions. Finally, price dispersion is higher in the two-price treatment than in the one-price treatment. A follow-up experiment, using asymmetric 3x2 and 2x3 markets, shows that our main results are robust to giving either buyers or sellers market power.

Wednesday 4 July - 3.30pm - 5.15pm - Labour Economics 2

Daniel Schnitzlein , DIW Berlin
Wage Mobility in East and West Germany

This article studies long run patterns and explanations of wage mobility as a characteristic of regional labor markets. Using German administrative data we describe wage mobility since 1975 in West and since 1992 in East Germany. Wage mobility declined substantially in East Germany in the 1990s and moderately in East and West Germany since the late 1990s. Therefore, wage mobility does not balance recent increases in cross-sectional wage inequality. We apply RIF regression based decompositions to measure the role of factors associated with these mobility changes. Increasing job stability plays an important role in the East German mobility decline.

Christine Ho, Singapore Management University
Welfare-to-Work Reform and Intergenerational Resource Allocation

The 1996 PRWORA aimed at encouraging work among low income young mothers. This paper estimates the potential indirect impacts of the reform on elderly women related to those young mothers. We find that the reform decreased time transfers but increased money transfers from grandmothers. Our results are consistent with an intergenerational family resource sharing network where higher child care subsidies motivate the family to shift away from grandmother provided child care, and where grandmothers increase money transfers to either help cover the remaining cost of formal care or to partly compensate for the loss in benefits of young welfare leavers.

Alfons Palangkaraya, University of Melbourne
Are more able inventors more mobile?

We estimate grouped-time (discrete) duration models to study the determinants of Australian inventor institutional mobility using U.S. patent data. We find that the institutional mobility of Australian inventors is consistent with the prediction of standard labour mobility model: (i) it increases with the expected marginal productivity from the move (measured by past performance) and (2) it decreases with reservation wage or moving cost (measured by the extent of current job match). However, while there is robust evidence that more able inventors are more mobile, we find the relationship to be sensitive to how the sample is drawn when cross-sectional analysis is used.

Buly Cardak, La Trobe University
Intergenerational Earnings Mobility and the Role of Inherited Endowments

A model of intergenerational earnings mobility incorporating inherited endowments is derived and estimated using US data. Inherited endowments are treated as a latent factor yielding a model characterized by a composite disturbance term containing labour market and endowment shocks. Identcation of these two shocks is achieved by parametric distributional assumptions similar to recent intergenerational models of schooling which rely on identcation through heteroskedasticity and similar also to the approach adopted in stochastic frontier models. This results in a likelihood function that is nonlinear in the unknown parameters which are estimated using an iterative maximum likelihood estimator. An important feature of the model is that it distinguishes between an investment e¤ect and an endowment e¤ect on earnings. The empirical results show higher levels of mobility at low incomes with an elasticity of 0:34 and greater persistence at high incomes with an elasticity of 0:66. Decomposing the elasticity into its investment and endowment components, the endowment effect accounts for 40% of the elasticity for relatively low levels of father's income, increasing to just under 70% at high levels, with the investment effect making up the balance of the transmission mechanism.

Wednesday 4 July - 3.30pm - 5.15pm - Bounded Rationality and Contracting

Jeffrey Kline, University of Queensland
A matter of interpretation: ambiguous contracts and liquidated damages

We focus on syntactic aspects of differential awareness that give rise to contractual disputes. Boundedly rational parties use a common language, but do not share a common understanding of the world, leading to ambiguity in both syntactic and semantic forms. In contractual relationships, ambiguity leads to disagreement and disputes. We show that the agents may prefer simpler less ambiguous contracts when facing potential disputes. In particular, parties may prefer liquidated damages provisions to contractual terms that specify a more complex risk allocation.

Shurojit Chatterji, Singapore Management University
Contracting over Prices

We define a solution concept, perfectly contracted equilibrium, for an intertemporal exchange economy where agents are simultaneously price-takers in spot commodity markets while engaging in efficient, non-Walrasian contracting over future prices. Without requiring that agents have perfect foresight, we show that perfectly contracted equilibrium outcomes are a subset of Pareto optimal allocations called attainable allocations. It is a robust possibility for perfectly contracted equilibrium outcomes to differ from Arrow-Debreu equilibrium outcomes. We show that bilateral contracting will generate efficient, individually rational contracts and moreover, contracts that support attainable allocations are stable; other examples of contracting procedures that lead to such contracts are also provided.

John Quiggin, University of Queensland
Inductive reasoning about awareness

We develop a model of games with awareness that allows for differential levels of awareness. We show that, for the standard modal logical interpretations of belief and awareness, a player cannot believe there exist propositions of which he is unaware. Nevertheless, we argue that a boundedly rational individual may regard the possibility that there exist propositions of which she is unaware as being supported by inductive reasoning, based on past experience and consideration of the limited awareness of others. In this paper, we provide a formal representation of inductive reasoning in the context of a dynamic game with awareness. We show that, given differential awareness over time and between players, individuals can derive inductive support for propositions expressing their own unawareness. We consider the ecological rationality of heuristics to guide decisions in problems involving differential awareness.

Wednesday 4 July - 3.30pm - 5.15pm - Bounded Rationality and Contracting (continued)

Gaetano Antinolfi, Washington University and Federal Reserve Board
Costly Monitoring, Dynamic Incentives, and Default

We study dynamic contracts between a lender and a borrower in the presence of costly state verification and hidden effort. The optimal contract minimizes social losses by mediating dynamic incentives and monitoring. Along the efficiency frontier, the threat of early termination is unavoidable for low levels of the borrower's promised utility; as the level increases, preventive monitoring is used to avoid future inefficient termination of the contractual relationship due to asymmetric information; for high level of promised utility, the threat of termination of the contractual relationship is no longer a useful tool to align dynamic incentives, preventive monitoring loses its role, and termination never occurs. Thus, the efficient contract optimizes the tradeoff between dynamic incentives and static incentives. Following the interpretation of the costly state verification literature, we can distinguish two levels of bankruptcy: one that leads to monitoring and the other that leads to liquidation.

Wednesday 4 July - 3.30pm - 5.15pm - Government Benefits and Taxation

Satoshi Tanaka, University of Queensland
Men's Rush to Marriage: Implications of Child Support Enforcement for Marriage, Fertility, and Long-Term Inequality

The child support enforcement (CSE) policies, aimed at protecting out-of-wedlock children from financial disadvantages, brought unexpected changes in individuals' marriage and fertility behaviors during the 1980s and the 1990s. Our estimates from state-year panel data show that in states with strict CSE there has been a significant decrease in non-marital births and a significant increase in marital births. Taking into account all these changes, what are the effects of CSE on children's welfare? To answer this question, we build a heterogeneous-agent model that features endogenous marriage and child-investment decisions. Exploiting the state-level variation in enforcement, we estimate it using the National Vital Statistics Report data. We find that men's increased willingness to marry is the driving force behind the shift from non-marital births to marital births. As evidence for the mechanism, we show that the number of marriages has risen in the states with strict CSE during the same period, consistent with the model's implication. Our model predicts that a large increase in child investment comes through a secondary effect of CSE: the shift from non-marital births to marital births increases child investment through its income effect.

Cagri Kumru, Australian National University
Optimal Capital Income Taxation with Means-tested Benefits

This paper studies the interaction between capital income taxation and a means tested age pension in the context of an overlapping generations model, calibrated to the UK economy. Recent literature has suggested a rehabilitation of capital income taxation (Conesa et al. (2009)), predicated on the idea that capital is a complement with retirement leisure. This leads naturally to the conjecture that a publicly funded age pension contingent upon holdings of capital or capital income may have a similar effect. We formalize this using a stochastic OLG model with multiple individuals differentiated by labour productivity and pension entitlement. Our preliminary findings suggest that a means tested pension has effects similar to personal income taxation in a life-cycle context.

Leslie Reinhorn, University of Durham
A theory of optimal government waste

When the government must use distortionary taxes to achieve a second best optimum, it may be desirable for supply to exceed demand in some markets. The excess supply is purchased by the government and dumped in a stockpile. This seems wasteful, and clearly it would be sub-optimal if the government had access to discretionary lump sum transfers. But when redistribution must be achieved by using taxes that distort the price system, then it can indeed be optimal. This analysis may help to rationalize the existence of government stockpiles of agricultural products. The result is based on the assumption that, for some production processes, input decisions must be made before uncertainty is resolved. In this case, many state contingent outputs are produced from the same inputs. For instance, suppose production possibilities are represented by $y_{s}\leq F_{s}(\ell)$ for $s=1,\ldots,S$ where y_{s} is output (a scalar) in state s, and ℓ is labor input (same for all s). In this case, the production frontier is a topological manifold of dimension S. However, if profit maximizing firms are faced with strictly positive (state contingent) prices, they will only choose points where $y_{s}=F_{s}(\ell)$ for all s, and this is a manifold of dimension 1. When there is uncertainty ($S\geq 2$), this set is a negligible part of the production frontier. The Diamond--Mirrlees production efficiency theorem tells us that any second best aggregate demand vector must be a point on the production frontier. But there is no reason to expect this point to be contained in the much smaller manifold where firms actually produce, and when it is not contained there, (state contingent) excess supply prevails. Various assumptions are required to tighten this argument. In particular, the set of all possible second best optima should be sufficiently large so that the "zero excess supply" subset will be small by comparison. This condition will typically be satisfied if the number of heterogeneous households is large.

Minchung Hsu, GRIPS
Health Insurance Reform: The impact of a Medicare Buy-In

Current U.S. policy provides medical insurance in the form of Medicare to individuals aged 65 and over. Younger individuals who do not qualify for special assistance may have group health insurance through their employer, purchase individual health insurance, or go without. This paper evaluates the general equilibrium and welfare consequences of health insurance reform in a calibrated life-cycle economy with incomplete markets and endogenous labor supply. Individuals face uncertainty each period about their future health status, medical expenditures, labor productivity, access to employer provided group health insurance, and the length of their life. In this environment, incomplete markets and adverse selection, which restricts the type of insurance contracts available in equilibrium, creates a potential role for health insurance reform. In particular, we consider a policy reform that would allow older workers (aged 55-64) to purchase insurance similar toMedicare coverage. We find that adverse selection eliminates any market for a Medicare buy-in if it is offered as an unsubsidized option to individual private health insurance. Hence, we compare the equilibrium properties of the current insurance system with those that obtain when the buy-in is optional, but subsidized by the government.

Wednesday 4 July - 3.30pm - 5.15pm - State Fragility and Political Choice

Natasa Bilkic, University of Paderborn
When to Attack an Oppressive Government?

Initiating a conflict is an investment in social, political or economic change. The decision to attack is sequential in time, irreversible and, even more important, includes highly uncertain and erratic threats and opportunities. In this formal dynamic model of decision making we focus on the time dimension of an escalating conflict. In order to cover the effects of such high uncertainties we extend real option theory by introducing a discontinuous Ito-Levy Jump Diffusion processes. We analytically derive a threshold that triggers the attack and determine the expected time of action. Hence, this paper is the first approach modeling the effects of major uncertain events on conflict decision as well as the first that derives an expected time of conflict. We show that an increasing number and intensity of oppressive government actions may lead to an earlier outbreak of conflict. However, even if latent conflicts are not immediately solved policies can prolong the peace period to find a long term solution to the conflict.

Pablo Jimenez-Ayora, Deakin University
What Underlies Weak States? The Role of Ethnic Fractionalization and Terrain Ruggedness

This article explores ethnic fractionalization and terrain ruggedness as the underlying causes of state fragility. It is hypothesized that ethnically fragmented countries and those with rugged terrain face significant obstacles to establish cooperation in collective action among the constituent groups of the State, a problem which is then translated into inability to commit and underprovision of public goods, leading to outcomes such as macroeconomic instability, weaker protection of rule of law, limited tax revenue, fewer constraints on the executive, and ultimately, weak states. This research, first, pins down the connections between ethnic fractionalization, terrain ruggedness and the said outcomes, and then econometrically tests these links using a latent variable model in a sample of 190 independent countries. Robust evidence is found in favor of the reasoning. After establishing the foundations of state fragility, the paper next studies some mechanisms through which these effects are likely to work. This analysis contributes to the empirics of state capacity.

Muhammad Rahman, Deakin University
The Shocking Origins of Political Transitions: Earthquakes

Do earthquakes trigger political transitions? Using a unique panel dataset of 188 countries over 1950 to 2007 and estimating a system of equations utilizing ground-motion amplitude derived from the Richter scale magnitude as an instrumental variable, we seek an answer to this question. Our results indicate that earthquake shocks, measured in terms of ground-motion amplitude and death tolls, have two contradicting effects on political change. On the one hand, earthquakes drive transitions into democracy due to a direct effect, possibly because the direct shocks affect the voters to show their wrath against the incumbent government by condemning them for the failure to save many human lives. On the other hand, earthquakes indirectly accelerate transitions into autocracy through increasing the income level, which may happen if the post-disaster expenditure on reconstruction and rehabilitation activities increases economic incentives in the economy that ultimately lead to an increase in the opportunity cost of contesting the incumbent government. Our results suggest that earthquake shocks open a new democratic window of opportunity, but this window is narrowed by improved economic conditions. This result is consistent with Acemoglu and Robinson’s theory suggesting that creative destruction (as opposed to Bastiat’s broken window fallacy) drive the political transitions in the case of earthquakes.

Daniel Mueller, Queensland University of Technology
Political Selection and the Relative Age Effect

In this paper we present substantial evidence for the existence of a bias in the distribution of births of leading US politicians in favor of those that have been the oldest in their cohort at school. This “relative age effect” has been proven to influence performance at school and in sports, but evidence on its impact on people’s vocational success has been rare. We find a marked break in the density of birthdate of politicians using a maximum likelihood test and McCrary’s (2008) nonparametric test. We conjecture that being relatively old in a peer group may create long term advantages which can create a significant role in the ability to succeed in a highly competitive environment like the race for top political offices in the USA. The magnitude of the effect we estimate is larger than what most other studies on the relative age effect for a broader (adult) population find, but is in general in line with studies that look at populations in high-competition environments.

Wednesday 4 July - 3.30pm - 5.15pm - Risk and Return

Akhmad Kramadibrata, Edith Cowan University
A Quantile Analysis of Default Risk for Speculative and Emerging Companies

Using quantile regression, this article examines default risk of emerging and speculative companies in Australia and the United States as compared to established and investment entities. We use two datasets for each of the two countries, one speculative and one established. In the US we compare companies from the S&P 500 to those on the Speculative Grade Liquidity Ratings list (Moody's Investor Services, 2010). For Australia, we compare entities from the S&P/ASX 200 to those on the S&P/ASX Emerging Companies Index (EMCOX). We also divide the datasets into GFC and Pre-GFC periods to examine default risk over different economic circumstances. Quantile Regression splits the data into parts or quantiles, thus allowing default risk to be examined at different risk levels. This is especially useful in measuring extreme risk quantiles, when corporate failures are most likely. We apply Monte Carlo simulation to asset returns to calculate Distance to Default using a Merton structural credit model approach. In both countries, the analysis finds substantially higher default risk for speculative as compared to established companies. The spread between speculative company and established company default risk is found to remain constant in Australia through different economic circumstances, but to increase in the US during the GFC as compared to pre-GFC. These findings are important to lenders in understanding, and providing for, default risk for companies of different grades through varying economic cycles.

Wednesday 4 July - 3.30pm - 5.15pm - Risk and Return (continued)

James Hansen, Reserve Bank of Australia
Does Equity Mispricing Influence Household and Firm Decisions?

Qualitative literature on equity price bubbles has often emphasised the effects of mispriced equity on economic decisions. This paper investigates this issue quantitatively using two ideas. The first is that equity mispricing is transitory, and has no long-run effects on economic outcomes. The second is that there exist observables that are correlated with mispricing, but uncorrelated with changes in fundamentals. Estimates of mispricing appear to accord well with periods described as bubble episodes for the US. The effects of these shocks on household decisions are found to be statistically significant.

Iqbal Syed, University of New South Wales
Hedonic Price-Rent Ratios for Housing: Implications for the Detection of Departures from Equilibrium

In equilibrium the quality-adjusted price-rent ratio for housing should equal its user cost. Actual median price-rent ratios may be misleading since purchased dwellings on average tend to be of better quality than rented dwellings. Combining house sales and rents data for Sydney, Australia over the period 2001 to 2009 we construct a data set consisting of in excess of 700,000 observations. We then use an innovative hedonic approach to impute a rent for each dwelling sold and a purchase price for each dwelling rented, thus allowing us to compute price-rent ratios at the level of individual dwellings. Using these price-rent ratios, which by construction are quality adjusted, we and that the actual median price-rent ratio is systematically about 18 percent larger than its quality-adjusted counterpart. We also and that for most of our sample the quality adjusted median price-rent ratio exceeds its equilibrium level derived from the user cost formula. The equilibrium price-rent ratio is itself highly sensitive to the assumed rate of expected capital gains. Our estimate of 21 for the equilibrium price-rent ratio is obtained using the average real capital gain during our sample of 3.4 percent per year. This is high by historical standards, thus suggesting that our equilibrium price-rent ratio may also be too high. An alternative approach is to assume that the housing market is in equilibrium and then use the user-cost formula to impute the expected capital gain. Using this approach we generate an imputed expected real capital gain of about 4.5 percent per year, which is even more implausible. This again indicates that, for at least most of our sample, the price-rent ratio in Sydney was at an unsustainable level.

Mardi Dungey, University of Tasmania
Ranking Systemically Important Institutions

Based on the definition of systemic risk given by Jean–Claude Trichet at Clare College in Cambridge (Dec. 2009), we propose a simple methodology for ranking systemically important institutions. We view firm's risks as a network with vertices equal to the volatility shocks and edges their correlations. Dynamic centrality measures allow us to rank the firms in terms of risk connectedness and firm characteristics. An application to all firms in S&P500 reveals that i) the Fed unconventional monetary policies did have a significant effect in reducing the systemic risk of most financial firms after the collapse of Lehman Brothers, ii) the connections between the real economy and the financial sector are fundamental, iii) firms from the real economy are often more systemic than financials, suggesting that the next systemic crisis may come from the non–financial sector, iv) medium and small–size firms can be as systemic as the largest corporations, indicating that the too–big–to–fail dogma may actually fail.

Wednesday 4 July - 3.30pm - 5.15pm - R&D and Innovation

Shuai Niu, UNSW
Spillovers Licensing and Welfare

In this paper, we introduce two methods of technology transfer between asymmetric competitors, knowledge spillovers and licensing. In the previous studies, these two methods are usually considered as either-or alternatives and the links between them are rarely of concern to researchers. We contribute to the literature by including both knowledge spillovers and the possibility of licensing in an asymmetric duopoly model, analyzing the interactions between them, and incorporating this aspect into the policy making process.

Changtao Wang, UNSW
Estimating the value of patent rights in Australia

The patent value is an important economic and policy indicator, and the patent renewal framework is considered to be the best approach for achieving the value of patent rights, which has been employed frequently by researchers to estimate the patent values for many developed countries. Despite the importance of patent value and popularity of patent renewal model, no work has been done in Australia, mainly due to the data unavailability. In this study, the patent renewal data in Australia is consolidated at disaggregated levels by nationality of ownership and technology sector. In order to suit the dimensionality of the data, ensure large sample size and be capable of capturing the unique property of patent value distribution for each cohort-group pair, the original patent renewal model initiated by Pakes and Schankerman has been modified by pooling across different groups and incorporating with cohort specific and group specific dummies. This study successfully estimated the value of patent rights in Australia for patents in every cohort-group pair and found the evidences of inter-cohort, international and inter-sector differences in patent values as well as structural changes in the patterns of patent values over time among sectors. As a byproduct, this study demonstrates a way of achieving the depreciation rate for intangibles in Australia; the estimates of the decay rates for patent values range 11.0-11.4%.

Wednesday 4 July - 3.30pm - 5.15pm - R&D and Innovation (continued)

Frederique Goy, University of New South Wales
Intellectual Property Rights and Market Size

How does an increase in market size affect the strength of intellectual property rights (IPR) protection? We address this question in a simple three-stage model, where government chooses IPR policy following which firms compete in R&D and subsequently in quantities. Firms benefit from their own R&D as well as spillovers from their rival's R&D investments through costless leakages of information. The intensity of spillovers is interpreted as an indicator of the strength of IPR protection. More specifically, high spillovers imply that IPR protection is weak and vice versa. Strengthening IPR protection reduces knowledge diffusion but at the same time it increases the incentive to innovate. Optimal degree of IPR balances the marginal benefit from increased innovation and the marginal cost from reduced diffusion. This trade-off involves subtle effects once we explicitly consider the strategic interaction among firms. We find that some protection of IPR is always optimal irrespective of the market size. For a given degree of IPR, an increase in market size directly increases the incentives to innovate which might suggest that less IPR protection is necessary in a larger market. However, larger markets also imply increased free-riding incentive which suggests that stronger protection of IPR is required. In our framework, the latter effect dominates and thus optimal IPR protection is strengthened as market size increases. We also find that apart from its direct positive effect on innovation, an increase in market size indirectly boosts innovation, by strengthening the optimal IPR protection. First, we illustrate the mechanics behind our results in a Cournot duopoly model. Subsequently, we show that the main findings hold in the oligopoly both with and without entry. Our findings lend support to the current directions of strengthening IPR protection in an environment where the potential market size is growing as a result of increased population and trade.

Rosemary Humberstone, University of Melbourne
Absorptive capacity investment in new product innovation

This paper asks how much firms will choose to invest in in-house research and accessing external research when competing in a patent race for a new product. When the amount of publicly available research or the spillover rate increases, firms invest more in absorptive capacity and less in in-house research. Compared to the social optimum, firms always over-invest in absorptive capacity and may over- or under-invest in in-house research When an incumbent is already operating in the market and there is a market for a superior replacement product, the incumbent will never invest more in both in-house research and absorptive capacity relative to an entrant when the two firms compete in a patent race.

Wednesday 4 July - 3.30pm - 5.15pm - Trade and Gravity

Shawn Tan, University of Melbourne
Gravity Model Without CES Preferences

The gravity model captures the negative impact of trade costs on bilateral trade, an effect summarized by the trade cost elasticity. The theoretical foundations for the gravity model is strongly tied to the constant elasticity of substitution (CES) assumption for the consumption preferences. In fact, Arkolakis et al. (2009) show that assumptions on preferences and technology are irrelevant to the question of welfare in many trade models as long as the CES import demand system is present. This paper ask the question what happens when the CES assumption is not used. I consider the implications of a gravity model without CES preferences and explore the translog unit-expenditure function as an alternative. I derive the trade cost elasticity that is asymmetric and specific to each bilateral pair. This breaks the link between the trade cost elasticity and the elasticity of substitution in the CES models. The trade cost elasticity depends on a parameter that describes the market share in the importing country. The larger the market share a country has, the more inelastic the trade cost elasticity. I estimate the gravity equation for the OECD and BRICS countries and calculate the trade cost elasticities for each country pair. I also conduct two counterfactual simulations. I consider a scenario where China retreats from the world and becomes a hermit state. Next, I examine the effects to a country when the costs of trading with it increases.

Juyoung Cheong, University of Queensland
Can trade agreements curtail trade creation and prevent trade diversion? Evidence on cross trade agreement effects

In spite of the recent theoretical literature on the interactive effects between preferential trade agreements (PTAs) such as the “domino effect” and “competitive liberalization” theory, little has been done to investigate how these effects impact on bilateral trade flows. In this paper we study two cross PTA effects: how pre-existing PTAs will dilute (shield) the trade creation (diversion) effect of new PTAs. We find strong evidence of both the dilution and shielding effects from various models that control for biases due to unobserved omitted variables, sample selection and firm heterogeneity. It is found that, although the dilution effect is sizable, the net trade creation effect remain substantial and positive, while both the shielding and net trade diversion effects are small. As a result, the positive inter-bloc trade effect of PTAs completely dominates the negative extra-bloc trade effect. These findings do not support the recent theoretical studies which explain the recent surge of PTAs on the ground that they could be used as a defensive device against trade diversion.

Kam Tang , University of Queensland
Heterogeneous effects of preferential trade agreements: To what extent do distance, and size and income differences matter?

This paper empirically examines how the heterogeneity of the pair countries affect changes in trade flows under a preferential trade agreement (PTA). It demonstrates that accounting for PTA heterogeneity such as size, income, and geographical distance of the pair countries are important in obtaining unbiased estimates of the PTA effect on trade volume. We estimate the heterogeneouos PTA effect using two different methods: stratification and interaction term approaches. The weights are based on the size difference, income difference or geographical distance between the countries in concern. Our results show that the PTA effect on intra-bloc trade is heterogeneous and depends on the pair countries' characteristics. In particular, we find that if the member countries are of more similar size, more similiar income and geographically closer, the effect becomes larger.

Wednesday 4 July - 3.30pm - 5.15pm - Trade and Gravity (continued)

Pushan Dutt, INSEAD
The Effect of WTO on the Extensive and the Intensive Margins of Trade

We use 6-digit bilateral trade data to document the effect of WTO/GATT membership on the extensive and intensive product margins of trade.We construct gravity equations for the two product margins. The empirical results show that standard gravity variables provide good explanatory power for bilateral trade on both margins. Importantly, we show that the impact of the WTO is concentrated almost exclusively on the extensive product margin of trade, i.e. trade in goods that were not previously traded. In our preferred specification, WTO membership increases the extensive margin of exports by 31%. At the same time, WTO membership has a negligible or even a negative impact on the intensive margin (the volume of already-traded goods).

Wednesday 4 July - 3.30pm - 5.15pm - Limited Dependent Variables 1

Tadao Hoshino, Tokyo Institute of Technology
Estimation of Semiparametric Binary Choice Models with Missing Response Data

This study investigates identification of parameters in the semiparametric binary choice models when there are non-ignorable non-responses. We propose an estimation procedure for the identified set of the parameters based on the special regressor approach of Lewbel (2000). We show that the estimator for the identified set is consistent in Hausdorff metric. In order to demonstrate availability of the proposed methodology, we present an empirical case study, conducting an economic valuation of a landscape with dichotomous choice contingent valuation.

Yu Zhou, University of Michigan
Identification and Estimation of Simultaneous Discrete Response Models

This paper considers the identification and estimation in a semiparametric simultaneous discrete response model. The discrete response follows the standard linear threshold-crossing structure. This paper presents a mild set of conditions under which parameters in the model can be point or set identified. Neither a parametric distributional assumption nor an exclusion assumption is needed for identification. The identification strategy is based on pairwise difference of switchers in the data and can be applied for both cross-sectional data and panel data models. The identification result is constructive and the estimation procedure can be directly obtained from the identification. The proposed estimator is easy to compute and does not require simulation procedures. A Monte-Carlo study shows the performance of the estimator in finite samples.

Valentin Zelenyuk, University of Queensland
To Smooth or Not to Smooth? The Case of Discrete Variables in Nonparametric Regressions

In a seminal paper, Racine and Li, (Journal of Econometrics, 2004) introduce a tool which admits discrete and categorical variables as regressors in nonparametric regressions. The method is similar to the smoothing techniques for continuous regressors but uses discrete kernels. In the literature, it is generally admitted that it is always better to smooth the discrete variables. In this paper we investigate the potential problem linked to the bandwidths selection for the continuous variable due to the presence of the discrete variables. We find that in some cases, the performance of the resulting regression estimates may be deteriorated by smoothing the discrete variables in the way addressed so far in the literature, and that a fully separate estimation (without any smoothing of the discrete variable) may provide significantly better results, and we explain why this may happen. The problem being posed, we then suggest how to use the Racine and Li approach to overcome these difficulties and to provide estimates with better performances. We investigate through some simulated data sets and by more extensive Monte-Carlo experiments the performances of all the proposed approaches and we find that, as expected, our suggested approach has the best performances. We also briefly illustrate the consequences of these issues on the estimation of the derivatives of the regression. Finally, we exemplify the phenomenon with an empirical illustration. Our main objective is to warn the practitioners of the potential problems posed by smoothing discrete variables by using the so far available softwares and to suggest a safer approach to implement the procedure.

Thursday 5 July - 8.45am - 10.30am - Asset Pricing

David Feldman, University of New South Wales
Linear Beta Pricing with Inefficient Benchmarks

Current asset pricing models require mean variance efficient benchmarks which are generally unavailable because of partial securitization and free float restrictions. We provide a pricing model that uses inefficient benchmarks, a two beta model, one induced by the benchmark, one adjusting for its inefficiency. While efficient benchmarks induce zero beta portfolios of the same expected return, any inefficient benchmark induces infinitely many zero beta portfolios at all expected returns. These make market risk premiums empirically unidentifiable and explain empirically found dead betas and negative market risk premiums. We characterize other misspecifications that arise when using inefficient benchmarks with models that require efficient ones.

Qi Zeng, University of Melbourne
Momentum Effect in a Noisy Rational Expectation Model with Higher Order Beliefs

In this paper I study the momentum effect in a noisy rational expectation model with higher-order beliefs. Consistent with Banerjee, Kaniel and Kremer (2009), the expected price change display reversal across time. However, contrary to their work, I show that with multiple risky assets, it is possible to generate momentum effect across assets under very general conditions. In other words, even though every asset is expected to lose money over the next period if it currently gains positive returns, it is possible for the higher gainers to be expected to lose less. The results are obtained by detailed analysis of the order-preserving and order-reversing matrices, introduced here in the paper.

Thursday 5 July - 8.45am - 10.30am - Asset Pricing (continued)

Shino Takayama, The University of Queensland
Price Manipulation, Dynamic Informed Trading and Uniqueness of Equilibrium in a Sequential Trade Model

This paper extends the Glosten and Milgrom (1985) model of asset pricing with asymmetric information into a dynamic setting and presents a model of market price manipulation. The paper shows that there is a unique equilibrium and characterizes the equilibrium. It is shown that the next period value function of the informed trader, who knows the terminal value of the asset, is strictly monotone in terms of the market maker's prior belief. Moreover, it is shown that bid/ask price is also a monotonically increasing of the market maker's prior belief. The dynamic model of the informed trader is well-known to be intractable. This paper tackles this technically challenging problem and establishes the unique existence of equilibrium. Finally the paper provides a necessary and sufficient condition for manipulation to arise in equilibrium.

Simon Grant, The University of Queensland
A two-parameter model of dispersion aversion

The idea of representing choice under uncertainty as a trade-off between mean returns and some measure of risk or uncertainty is fundamental to the analysis of investment decisions. In this paper, we show that preferences can be characterized in this way, even in the absence of objective probabilities. We develop a model of uncertainty averse preferences that is based on a mean and a measure of the dispersion of the state-wise utility of an act. The dispersion measure exhibits positive linear homogeneity, sub-additivity, translation invariance and complementary symmetry. Since preferences are only weakly separable in terms of these two summary statistics, the uncertainty premium need not be constant. We show that the standard results originally derived in the context of mean-variance analysis and expected utility theory apply in this more generally setting. In particular, we generalize the concept of decreasing absolute risk aversion and show that the usual comparative static results from EU theory remain valid. Further we derive two-fund separation and asset pricing results analogous to those that hold for the standard CAPM.

Thursday 5 July - 8.45am - 10.30am - Experimental Economics 2

Hong il Yoo, UNSW
The use of alternative preference elicitation methods in complex discrete choice experiments

We analyse stated preference data over nursing jobs collected from two leading types of best-worst discrete choice experiments (DCEs): a traditional DCE involving choice over alternative jobs (BWL) and a newly-developed DCE where respondents choose best and worst job attributes (BWT). The latter allows identification of additional utility parameters and is believed to be cognitively easier. Results suggest that respondents place greater value on pecuniary over non-pecuniary gains in traditional DCE. Rather than caused by the use of heuristics in BWL, we find that respondents find it difficult and/or are reluctant to directly compare money with other attributes in BWT.

Shyamal Chowdhury, University of Sydney
Using elicitation mechanisms to elicit the demand for nutritious maize: Evidence from experiments in rural Ghana

In this paper we assess (a) consumers' willingness to pay (WTP) for a recently-developed variety of maize that is high in provitamin A, in the context of a public health intervention, and (b) the performance of three elicitation mechanisms in estimating WTP, in a field experiment in Ghana. The mechanisms that we used for elicitation are: the Becker-DeGroot-Marschak (BDM) mechanism, kth price auction, and choice experiment. The basic design of the experiment involved random allocation of consumers to one of three elicitation methods. The design was augmented in two ways to include treatment arms to address the effect of participation fees on WTP, and of nutrition information on WTP. Estimation of BDM and kth price auction models that account for censoring of bids at the market price for maize (kenkey), and estimation of a conditional multinomial logit (MNL) model for the choice experiment that accounts for lexicographic preferences, yield estimates of average WTP that are similar in magnitude across the three elicitation mechanisms; the standard deviations of the estimated WTP distributions are also similar. The auction models assuming censoring of bids at the market price do significantly better in likelihood than models that ignore censoring; and the MNL with lexicographic preferences is similarly statistically chosen over a standard MNL model. Variation in participation fee has no effect on estimated WTP in the two mechanisms that varied participation fee, suggesting that people did not have a higher propensity to spend out of windfall income. Thus estimates of WTP are robust to the choice of elicitation mechanism. In the absence of information on the nutrient density of the new maize variety, subjects are willing to pay less for it than the existing varieties; however, nutrition information transforms this discount into a substantial premium.

David Savage, QUT
Variation in risk seeking behavior in a natural experiment following a large negative resource shock induced by a natural disaster

An ongoing challenge in the field of behavioral decision sciences is to understand the variation of human risk attitudes as a function of their environmental context. This study explores with a natural experiment, peoples risk attitudes after suffering large real world losses from a natural disaster, using the willingness of residents to accept a risky gamble on the margins of the 2011 Australian floods (Brisbane). Decision theory suggests that after a recent gain, people are likely to adopt more risk adverse behavior and after a recent loss become more risk seeking (S-shaped value function) attempting to avoid losing resources. The steepness around the reference point helps to prevent and localize decision errors in highly frequent situations where small variations in outcome are at stake. However, infrequent high cost situations (survival in disasters) are also highly dependent on risk decisions, although being made well away from the reference point and cannot be studied in laboratory experiments due to practical and ethical constraints. We show after a large negative wealth shock, those directly affected display very different risk behaviors to those who just escaped a direct effect, by being much more willing to adopt riskier options in their decision-making process. Flood victims were 50% more likely to accept a risky gamble than their immediate unaffected neighbors, who were in many cases only meters away from themselves being affected. This finding clearly supports the predictions of prospect theory with the adoption of risk seeking behavior after a large wealth shock.

Thursday 5 July - 8.45am - 10.30am - Experimental Economics 2 (continued)

Denzil Fiebig, UNSW
Consideration sets and their role in modelling doctor recommendations about contraceptives

A discrete choice experiment is utilized to ask doctors about what contraceptive options they would discuss with different types of women. These data demonstrate that in many cases only a subset of options forms the consideration set from which the ultimate choice is made. Given the existence of consideration sets we address the issue of how to model appropriately the ultimate recommendations. The estimated models enable us to characterize doctor recommendations and how they vary with patient attributes and to highlight where recommendations are clear and when they are uncertain. The results also indicate that some doctors are reluctant to embrace new products and instead recommend those that are more familiar.

Thursday 5 July - 8.45am - 10.30am - Labour Economics 3

Sonja Kassenboehmer, University of Melbourne
Prediction Errors: Comparing Objective and Subjective Re-employment Probabilities

We investigate several misconceptions of people with respect to their re-employment probability which might alter their job search behaviour or their reservation wages in a sub-optimal way. The biggest misconception was found for male professionals who significantly underestimate their re-employment probability. Men with many years of tenure are more likely to overestimate their re-employment probability indicating that people overestimate the value of the acquired firm specific human capital while they underestimate the value of the acquired qualifications and job titles.

David Black, The University of Melbourne
Over-education: Is it voluntary for some individuals?

Over-education research considers the returns to investments in education. But, to date, the literature has examined only one such return: wages. Based on estimated wage penalties, it then infers instances of over-education represent labour market failures. However, given a broader assessment of returns, this may not be true. This paper recognises that many job attributes can affect individuals' utility levels (e.g., hours, job security and required effort) and so some over-educated individuals may have actually obtained jobs that maximise their (expected) utility and, therefore, achieved their preferred outcome. Such voluntary over-education is estimated. Then, to validate the resultant estimates, the hypothesis that the voluntarily over-educated, but not involuntarily over-educated, trade wages for improvements in other job attributes is empirically tested. To do so, linear fixed effects, fixed effects ordered logit and random effects probit estimators are used to model the relationship between voluntary over-education and job attributes. Australian panel data for period 2001 to 2008 are used, where around 19 per cent of males and 23 per cent of females are identified as over-educated. This paper finds roughly 17 per cent of over-educated males and 21 per cent of over-educated females are voluntarily over-educated. It then finds these individuals trade wages for improvements such as greater job security, working preferred hours, greater job flexibility and reduced stress. Overall, they are also more satisfied with their achieved work-life balance.

John Haisken-DeNew, University of Melbourne
Dead Man Walking: The Impact of Over-Education on Life Satisfaction

The negative effects of unemployment on wellbeing have been clearly documented in the economics literature. However some current employees may move directly into a new job, never experiencing an unemployment spell, yet find themsleves in a new job underutilising their skills or education ("downchanges"). We assess empirically, whether downchanges are similar to unemployment spells, in that they both decrease measures of wellbeing, controlling for observables and time-invariant unobservables. Theoretically persons should only make job moves that are pareto optimal. However, we find significant negative impacts of downchanges on wellbeing amounting to about a quarter of the magnitude of being unemployed, and consider this to be a form of as "hidden unemployment". This suggests that labour market participants prefer a poorer match at their new job than remaining at their old job entering into unemployment, suggesting some kind of forcing out of the old job.

Garry Barrett, University of Sydney
Changes in Subjective Well-being with Retirement

Does retirement represent a state of relative prosperity or a time of unanticipated economic hardship? To assess whether individuals are successful in smoothing their well-being across the transition to retirement we analyse measures of subjective wellbeing (SWB) in the HILDA Survey. Specifically, this research analyses individual's self-reported changes in standard of living, financial security, and overall happiness over the transition to retirement. It is found SWB either improves or remains constant for the large majority of individuals as they retire from the labour force. However, there are significant disparities in changes in well-being with retirement. In particular, the subset of individuals who are forced to retire early due to job loss or their own health, and who find their income in retirement is much less than expected, report marked declines in their well-being in retirement.

Thursday 5 July - 8.45am - 10.30am - Mechanism Design and Implementation

Peter Bardsley, Melbourne University
Duality in Contracting

In a linear contracting environment the Fenchel transform provides a complete duality between the contract and the information rent. Through an appropriate generalised convexity this can be extended to provide a complete duality in the supermodular quasilinear contracting environment that covers the majority of applications. Using this framework, we provide a complete characterization of the allocation correspondences that can be implemented by a principal in this environment. We also address the question of when an allocation can be implemented by a menu of simple contracts. Along the way, a supermodular envelope theorem is proved, somewhat different in nature to the Milgrom Segal result.

Thursday 5 July - 8.45am - 10.30am - Mechanism Design and Implementation (continued)

Akira Yokotani, Maastricht University
Knowledge-Belief Space Approach to Robust Implementation

In this paper, we extend the notion of the universal type space (Mertens and Zamir, 1985) by explicitly considering what the agents know a la Aumann's knowledge-belief spaces (Aumann, 1999) in order to generalize the existing results in robust implementation (Bergemann and Morris, 2011). Our finding is that robust implementation is equivalent to Bayesian implementation on this extended particular belief structure. This result makes it possible to directly apply the existing Bayesian implementation literature, such as Jackson (1991), to obtain a characterization result of robust implementation in a more general class of environments.

Alexander Karaivanov, Simon Fraser University
Dynamic Financial Constraints: Distinguishing Mechanism Design from Exogenously Incomplete Regimes

We formulate and solve a range of dynamic models of constrained credit/insurance that allow for moral hazard and limited commitment (and in some runs include hidden output and unobserved capital and investment). We compare them to full insurance and exogenously incomplete financial regimes (autarky, saving only, and borrowing and lending in a single asset). We develop computational methods based on mechanism design, linear programming, and maximum likelihood to estimate, compare, and statistically test these alternative dynamic models with financial/ information constraints. Our methods can use both cross-sectional and panel data and allow for measurement error and unobserved heterogeneity. We estimate the models using data on Thai households running small businesses in two separate samples. We find that for the rural sample, the saving only and borrowing regimes provide the best fit using data on consumption, business assets, investment, and income from rural Thailand. Family and other networks are helpful in consumption smoothing there, as in a moral hazard constrained regime. In contrast, in urban areas, we find financial/information regime that is decidedly less constrained, with the moral hazard model fitting best even in combined business and consumption data. We run numerous robustness check in the Thai data, and in Monte Carlo simulations, and compare our maximum likelihood criterion with results from other metrics.

Claudio Mezzetti, University of Melbourne
Repeated Nash Implementation

This paper studies the problem of repeated implementation of social choice functions in environments with complete information and changing preferences. We introduce the condition of dynamic monotonicity and show that it is ne- cessary and almost sufficient for repeated implementation in finite as well as infinite horizon problems. In infinite horizon problems with high enough dis- count factors, dynamic monotonicity implies efficiency on the range (Lee and Sabourian, 2011), while Maskin monotonicity implies dynamic monotonicity in finite horizon problems.

Thursday 5 July - 8.45am - 10.30am - Financial Econometrics

Jing Cynthia Wu , The University of Chicago
Risk Premia in Crude Oil Futures Prices

If commercial producers or financial investors use futures contracts to hedge against commodity price risk, the arbitrageurs who take the other side of the contracts may receive compensation for their assumption of nondiversifiable risk in the form of positive expected returns from their positions. We show that this interaction can produce an affine factor structure to commodity futures prices, and develop new algorithms for estimation of such models using unbalanced data sets in which the duration of observed contracts changes with each observation. We document significant changes in oil futures risk premia since 2005, with the compensation to the long position smaller on average but more volatile in more recent data. This observation is consistent with the claim that index-fund investing has become more important relative to commerical hedging in determining the structure of crude oil futures risk premia over time.

Vijay Murik, Vanguard Investments Australia Ltd
Conditional tests of monotonicity in term premia

We design conditional tests for the liquidity preference hypothesis, which predicts monotonicity in term premia. Drawing on the excess return forecasting literature (Cochrane and Piazzesi, 2005; Ludvigson and Ng, 2009), the tests are conditioned on information from macroeconomic variables and the current yield curve. Specifically, a filter is constructed to use this conditioning information set in new versions of the Wolak test (Boudoukh, Richardson, Smith, and Whitelaw, 1999a) and Monotonicity Relation test (Patton and Timmermann, 2010) for the liquidity preference hypothesis. Consistent with the literature, our tests conclude that raw, unconditional term premia in U.S. Treasury bills between 1965 and 2001 do not increase monotonically. However, we find that the tests indicate term premia in Treasury bills do increase monotonically when the sample term premia are conditioned on the excess return forecasting factors. This confirms the explanatory power of the excess return forecasting factors, and also suggests that conditioning information should be used in applying inequality constraints tests to determine whether the liquidity preference hypothesis holds empirically.

Wanling Huang, McGill University and CIRANO
A modified regularized goodness-of-fit test for copulas

Copulas are widely applied in many fields such as finance, risk management, health economics, labor economics, insurance, etc. A common problem in the existing goodness-of-fit tests for copulas is that they cannot detect all deviations from the null hypothesis in the finite setting, and, in some cases, the power is even smaller than the nominal level (see, e.g., the tables in Genest, Remillard, and Beaudoin, 2009). Since the parametric bootstrap procedure is very time-consuming, Kojadinovic, Yan, and Holmes (2011), among others, adopted the multiplier central limit theorem (CLT). Their results indicated that, the power of the test is good when the semiparametric estimation method is used, however, the empirical level is somehow distorted. We propose a regularized goodness-of-fit test for copulas and derive its asymptotic theory. A power study using the multiplier CLT procedure shows that this new test is able to detect all deviations from the null, and, while maintaining good power, it can control empirical level as well. Finally, applications to financial data are presented.

Thursday 5 July - 8.45am - 10.30am - Financial Econometrics (continued)

Joshua Chan, Australian National University
A New Model of Trend Inflation

This paper introduces a new model of trend (or underlying) inflation. In contrast to many earlier approaches, which allow for trend inflation to evolve according to a random walk, ours is a bounded model which ensures that trend inflation is constrained to lie in an interval. The bounds of this interval can either be fixed or estimated from the data. Our model also allows for a time-varying degree of persistence in the transitory component of inflation. The bounds placed on trend inflation mean that standard econometric methods for estimating linear Gaussian state space models cannot be used and we develop a posterior simulation algorithm for estimating the bounded trend inflation model. In an empirical exercise with CPI inflation we find the model to work well, yielding more sensible measures of trend inflation and forecasting better than popular alternatives such as the unobserved components stochastic volatility model.

Thursday 5 July - 8.45am - 10.30am - Immigration

Chau Nguyen, Monash University
Skilled Immigration, Innovation and Wages of Native-born American

The paper examines the effects of skilled immigration on wages in the US that are due to innovation. We extend the studies by Hunt and Gauthier -Loiselle (2010), and Hunt (2011) to explore the immigration-innovation-wages nexus. Using the National Survey of College Graduates (NSCG) and the US Census datasets we find a significant positive effect of immigration on wages that are attributable to immigrants' contribution to innovation. Our findings suggest that as the share of immigrants increases in a particular group, the wages of both the natives and the immigrants also get a positive boost. In particular, the effects are more pronounced through immigrants' impact on patent granted and patent commercialized, where the results remain robust regardless of the use of different controls. The results also show that the immigrants are more likely to present a paper at a conference or publish in professional journals, primarily because they are more educated or concentrated in the related occupation compared to the natives. Our findings indicate that the immigrants make substantial contribution to the host economy's innovation which is a major driver of economic growth. The results have important implication for immigration policy and economic growth.

Hoa-Thi-Minh Nguyen, The Australian National University
Language, Discrimination and Infrastructure: Sources of Inequality and Ethnic Minorities in Vietnam

This paper re-examines the sources of inequality in Vietnam, a transitional econ- omy with large reductions in poverty from recent and dramatic economic growth, but vastly unequal gains across ethnic groups. Using an instrumental variable ap- proach to provide consistent estimators of explanatory variables at household and commune levels for differences in real household expenditure per person, we draw four key conclusions. First, removing language barriers would significantly reduce inequality among ethnic groups, or narrow the ethnic gap, and especially so through enhancing the gains earned by minorities from education. Second, preferential treat- ment is likely to exist in favour of the majority in an environment where both the majority and minority groups are found to live, suggesting the possibility of some form of discrimination. Third, although basic infrastructure such as power, clean water and hard-surfaced roads benefits minorities, with no or limited effects on the majority population, there is little difference between ethnic groups in terms of the benefits drawn from enhanced infrastructure at the commune level. The exception is the returns to roads, which differentially benefits minorities. Finally, contrary to established views, we find that as much as 50 to 70 percent of the ethnic gap is attributed to differences in endowments, and not to differences in the returns to endowments.

Dipanwita Sarkar, Queensland University of Technology
A Distributional Analysis of the Native-Immigrant Wage Gap: The Importance of Employment Discrimination

Is the earnings gap between natives and immigrants affected by discrimination during the hiring process? If so, can its impact be effectively evaluated when mean wages are used to assess the nature and extent of the wage gap? This study attempts to address these questions by utilizing recently developed non-parametric tests that compare distributions of wages. In order to assess the presence of wage discrimination and productivity-driven wage gap, we first isolate the underlying effects of occupational segregation attributable to employment discrimination. Additionally, the distributional decomposition methodology enables us to differentiate between two sources that potentially contribute to the 'wage discrimination differential' – the return to "observed" and "unobserved" skills. Through cohort analysis based on years in the U.S, citizenship status, and English-speaking skills, we check for the robustness of our results. The overall results find statistically significant effects of segregation emerging from discriminatory hiring. However discrimination in favorably rewarding the observed or unobserved skills of natives is not found for all occupations; in fact the opposite holds too. An interesting outcome of the study finds the results for Professionals in stark contrast on several grounds. First, their wages dominate those of natives for the most part, and sometimes uniformly across the distribution. Second, cohorts that have assimilated the most in terms of most years in the U.S, acquiring naturalized citizenship, or speak English only, are found to enjoy higher unconditional wages and even higher returns to observed skills.

Barbara Hanel, The University of Melbourne
Are Repeated Cross Section or Longitudinal Estimates of Migrant Assimilation Better? A Tale of Two Biases

We test the immigrant assimilation hypothesis for Australia using HILDA Survey data for 2001-2009. We present repeated cross-section and fixed effects estimates, exploring the extent to which the former suffer from bias resulting from selective out-migration, and the latter suffer from bias resulting from period effects in returns to country-specific human capital. Both biases are shown to be empirically important. Our preferred estimator is a fixed effects estimator for the period 2001-2007 – excluding post-GFC years where we cannot rule out period effects – and this estimator shows that immigrant employment assimilation in Australia occurs more slowly than suggested by previous studies.

Thursday 5 July - 8.45am - 10.30am - Nonparametric Economics

Xibin Zhang, Monash University
Bandwidth estimation for a nonparametric regression model with mixed types of regressors: A Bayesian approach

This paper investigates a Bayesian bandwidth estimation procedure for a nonparametric regression model with mixed types of data. In practice, the bandwidth parameters are chosen by least-squares cross-validation for estimating the regression mean. When the signal-to-noise ratio is low, the accuracy of bandwidth estimation deteriorates in some cases. To address this problem, we introduce a Bayesian procedure that incorporates the information of error density into the estimation of bandwidths for both the regression mean and regression error. Through a Monte Carlo simulation study, we find that our proposed Bayesian approach leads to better accuracy, especially in estimating the error density. We also apply the proposed sampling approach to bandwidth estimation for nonparametric regression of two data sets involving stock returns and GDP growth rates. Our objective is to demonstrate the benefit of this Bayesian approach in simultaneously estimating the regression function and error density.

Sai Man Simon Kwok, The University of Sydney
A Nonparametric Granger Causality Test in Continuous Time

This paper develops a nonparametric Granger causality test for continuous time point process data. Unlike popular Granger causality tests with strong parametric assumptions on discrete time series, the test applies directly to strictly increasing raw event time sequences sampled from a bivariate temporal point process satisfying mild stationarity and moment conditions. This eliminates the sensitivity of the test to model assumptions and data sampling frequency. Taking the form of an L2-norm, the test statistic delivers a consistent test against all alternatives with pairwise causal feedback from one component process to another, and can simultaneously detect multiple causal relationships over variable time spans up to the sample length. The test enjoys asymptotic normality under the null of no Granger causality and exhibits reasonable empirical size and power performance. Its usefulness is illustrated in three applications: tests of trade-to-quote causal dynamics in market microstructure study, credit contagion of U.S. corporate bankruptcies over different industrial sectors, and financial contagion across international stock exchanges.

Julia Polak, Monash University
Improving Conditional Density Estimation to Make it More Useable for Econometricians

To make the kernel estimator of the conditional density, a very popular statistical tool, more practical we derive a reference rule for bandwidth selection. The proposed bandwidths result from the minimization of an approximated weighted integrated mean square error function. In contrast to a usual simple assumption of normally or uniformly distributed data, we assume that the y given x and the x are both skew t distributed (including the normal, the skew normal and the Student's t distributions as a special cases). Moreover, we allow distribution parameters to change as a linear function of the conditional values. This very flexible framework allows us to capture any variation in the skewness and kurtosis of the conditional density as well as the change in the conditional density's location and scale as a function of the conditioning variables. We illustrate the improvement in the conditional density estimator accuracy when we choose the bandwidths under the skew t distribution assumption instead of the normality assumption on the simulated data.

George Tauchen, Duke University
Inverse Realized Laplace Transforms for Nonparametric Volatility Density Estimation in Jump-Diffusions

We develop a nonparametric estimator of the stochastic volatility density of a discretely-observed \Ito semimartingale in the setting of an increasing time span and finer mesh of the observation grid. There are two steps. The first is aggregating the high-frequency increments into the realized Laplace transform, which is a robust nonparametric estimate of the underlying volatility Laplace transform. The second step is using a regularized kernel to invert the realized Laplace transform. The two steps are relatively quick and easy to compute, so the nonparametric estimator is practicable. We derive bounds for the mean squared error of the estimator. The regularity conditions are sufficiently general to cover empirically important cases such as level jumps and possible dependencies between volatility moves and either diffusive or jump moves in the semimartingale. Monte Carlo work indicates that the nonparametric estimator is reliable and reasonably accurate in realistic estimation contexts. An empirical application to 5-minute data for three large-cap stocks, 1997-2010, reveals the importance of big short-term volatility spikes in generating high levels of stock price variability over and above that induced by price jumps. The application also shows how to trace out the dynamic response of the volatility density to both positive and negative jumps in the stock price.

Thursday 5 July - 8.45am - 10.30am - Econometric Theory 2

Firmin Sabro Doko Tchatoka, University of Tasmania
Testing for Partial Exogeneity with Weak Identification

We consider the following problem. There is a structural equation of interest that contains two sets of explanatory variables which economic theory predicts may be endogenous. The researcher is interesting in testing the exogeneity of only one of them. Standard exogeneity tests are in general unreliable from the view point of size control to assess such a problem. We develop four alternative tests to address this issue in a convenient way. We provide a characterization of their distributions under both the null hypothesis (level) and the alternative hypothesis (power), with or without identification. We show that the usual chi-square critical values are still applicable even when identification is weak. So, all proposed tests can be described as robust to weak instruments. We also show that test consistency may still hold even if the overall identification fails, provided partial identification is satisfied. We present a Monte Carlo experiment which confirms our theory. We illustrate our theory with the widely considered returns to education example. The results underscore: (1) how the use of standard tests to assess partial exogeneity hypotheses may be misleading, and (2) the relevance of using our procedures when checking for partial exogeneity.

Thursday 5 July - 8.45am - 10.30am - Econometric Theory 2 (continued)

Sivagowry Sriananthakumar, RMIT University
Point Optimal Testing in the Presence of Unavoidable Nuisance Parameters

We know very little about the performance of point optimal (PO) and approximate point optimal (APO) tests in the presence of unavoidable nuisance parameters. Because marginal likelihood based tests are said to perform well in the presence of unavoidable nuisance parameters, this paper compares the performance of marginal likelihood based APO tests and classical tests using a testing problem which has been largely overlooked by econometric practitioners, namely testing for a static linear regression model with AR(1) errors against a dynamic linear regression model with white noise errors.

A testing procedure is proposed, where the size and power comparisons used are based on near-exact non-similar critical values of tests obtained using the Simulated Annealing (SA) algorithm, as the near exact non-similar critical values control the sizes of the tests well overall. Among marginal likelihood based classical tests, the likelihood ratio (LR) test and Lagrange multiplier (LM) test seem to perform well under the alternative hypothesis, particularly when the dynamic parameter is large and the sample size is reasonably big. The Wald (W) test is the worst performer overall. This concurs with previous observations that the W test can perform poorly in small samples. Compared to the classic approach, APO tests appear to have good power properties, particularly in the neighborhood of the chosen parameter point under the alternative hypothesis. This finding may advance the use of PO and APO tests.

Dao Li, Dalarna University
Testing Common Nonlinear Features in Nonlinear Vector Autoregressive Models

This paper studies a special class of vector smooth-transition autoregressive (VS- TAR) models containing common nonlinear features (CNFs). To test the existence of CNFs in a VSTAR model, a triangular representation for such a system containing CNFs is proposed. A procedure of testing CNFs in a VSTAR model is consisting of two steps: rst, test unit root in a STAR model against a stable STAR process for each individual time series; secondly, examine if nonlinear features are common in the system by a La- grange Multiplier (LM) test when the null of unit root is rejected in the rst step. The asymptotic distribution of the LM test is derived. Simulation studies of both unit root test and LM test have been carried out to investigate the nite sample properties. In the empirical application, the procedure of testing CNFs is illustrated by analyzing the monthly growth of consumption and income data of United States (1985:1 to 2011:11). The consumption and income system contains CNFs, and an estimated common nonlin- ear factor in VSTAR model is suggested.

Joe Hirschberg, University of Melbourne
Inverse Test Confidence Intervals for Turning-points: A Demonstration with Higher Order Polynomials

In this paper we demonstrate the construction of inverse test confidence intervals for the turning points in estimated nonlinear relationships by the use of the marginal or first derivative function. In particular, we examine the relationship between the traditional confidence intervals based on the Wald test for the turningpoints for a cubic, a quartic and fractional polynomials estimated via regression analysis and the inverse test intervals. We show that the marginal function can be used to define confidence intervals for the turning points that are equivalent to the inverse test for linear functions of parameters in the classic regression. We also demonstrate that the confidence intervals for the second derivative function can be used to establish the nature of the turning-point. We demonstrate this method using an example based on the estimation of a quartic and a fractional polynomial. In this example we demonstrate the use of inverse test and the marginal function. The example is supplemented with Stata routines to demonstrate the implementation of the technique for a quartic and a fractional polynomial.

Thursday 5 July - 8.45am - 10.30am - Trade, Technology and Development

Ermias Weldemicael, The University of Melbourne
Technology, Trade costs, and Export Sophistication

This paper uses a disaggregated version of the Eaton and Kortum (2002) model to analyze the relative importance of technology and trade costs for export sophistication and welfare in a general equilibrium framework. It uses a structural estimation method to identify key parameters of the model that .t the observed trade pattern. The calibrated parameters vary across commodities consistent with their expected level of sophistication. The results are robust to alternative specifications of the calibration. Using .tted data, it also show that export sophistication is highly correlated with GDP per capita. Overall, the parameters are comparable with estimates from other studies. Finally, counterfactual experiments are conducted to quantify the effects of changes in technology and trade costs for the countries in the bottom quintile. The findings imply that these countries have a huge technological disadvantage, particularly in more sophisticated commodities.

Thursday 5 July - 8.45am - 10.30am - Trade, Technology and Development

Tanida Arayavechkit, University of Pennsylvania
Technology Choice, Learning Dynamics and Financial Development

Empirical evidence suggests that as financial development improves, more firms adopt new technology and the technology diffusion process is faster. To studies the role of informa- tion acquisition and financial development in explaining how technology differences may arise and persist, this paper develops the heterogeneous firm model where the technology adoption process is characterized by decisions on an optimal choice of technology, an optimal production level and information acquisition. Financial development affects the cost of information acquisition, forc- ing the learning process to cease prematurely and precluding firms from learning the true state. Quantitative analysis using data of Chilean manufacturing firms shows that a low level of financial development results in high-potential firms producing with a sub-optimal technology choice, a slow diffusion process as well as a persistent TFP gap.

Kenmei Tsubota, Institute of Developing Economies, Japan External Trade Organization
Agglomeration and directional imbalance of transport costs: the role of density economies

This paper examines a conventional assumption of transport costs; any bilateral transport costs are symmetric. Using a comprehensive dataset on transportation transactions in Japan, we first describe a directional imbalance of transportation costs by transport mode and examine its potential sources such as density economies, long-haul economies, and a directional imbalance of transport demand. Based on the method of instrumental variables, we find that the density economies drive a deviation of symmetric transport costs between prefectures. We then develop a theoretical model of economic geography in which asymmetric transport costs occur for density economies. Analyzing a spatial distribution of firms in the presence of the transport sector with density economies, we show that as the transport sector become more competitive, agglomeration is more likely to emerge in equilibrium.

Tomohiro Ara, UNSW
Institutions as a Source of Comparative Advantage

Why does the fraction of firms that export vary with country's comparative advantage? Why do some firms still export even in a comparative disadvantage sector? To address these questions, I develop a general-equilibrium Ricardian model of North-South trade in which both institutional quality and firm heterogeneity play a key role in determination of comparative advantage. By adopting the concept of "partial contractibility" (Acemoglu, Antr`as, and Helpman, 2007), the current paper assumes that each country is different in terms of contracting institutions, and each sector within a country is different in terms of contract intensity. Furthermore, each firm within a sector is different in terms of its productivity `a la Melitz (2003). These three-dimensional differences endogenously pin down the international pattern of specialization and trade in general equilibrium. I show that a country with relatively better institutions (North) has comparative advantage in more contract-dependent sectors and is a net exporter of customized products, thereby leading on average to the higher aggregate industry productivity in North. The model also demonstrates that, relative to a comparative disadvantage sector, the ratio of exporters to domestic firms is higher in a stronger comparative advantage sector.

Thursday 5 July - 8.45am - 10.30am - Health Economics 1

Peter Sivey, University of Melbourne
The effects of competition on prices and quality chosen by Australian GPs

General Practitioners (GPs) in Australia are free to set prices for consultations. Under the national tax funded Medicare insurance scheme patients pay the difference between the price set by the GP and a fixed reimbursement. In 79% of consultations, GPs 'bulk bill' the patient ie the patient makes no out of pocket payment and the GP is paid the fixed Medicare reimbursement. We construct a Vickrey-Salop model of GP pricing, bulk billing, and quality (consultation length). We test its predictions using a dataset which with provides individual GP-level data on prices, the proportion of patients who are bulk billed, average consultation length, and a range of characteristics of the GPs, their practices and patients. We use area fixed effects control for endogeneity of GP location decisions. We find that within areas, GPs with more distant competitors charge higher average prices, mainly by reducing the proportion of patients who are not bulk billed, rather than increasing the price for patients who are not bulk billed. Less competition also leads to shorter average consultation times.

Chun Lok Li, The University of Melbourne
Estimating the cost of improving hospital performance using quality measures with statistical error

Reducing incidence rates is one of several common measures to improve hospital quality. Existing studies in the medical literature is heavily focused on comprehensive measurements of patient well-being, while the overwhelming emphasis of the health economics literature is accurate estimation of the cost structure without due consideration towards hospital-specific issues. This study will focus on two quality issues: the stochastic nature of quality measurements and the multi-faceted nature of the concept itself. The first issue is tackled using weighted least squares (WLS) regression to estimate the cost function, placing more weight towards hospitals that produce quality estimates with lower dispersion as measured by the Standardised Incidence Ratios (SIR). The second issue is addressed by incorporating both mortality and unplanned readmissions as two separate measures. Additionally, the expected incidents part of the SIR is estimated separately for each illness, an improvement over using a large set of fixed effects and for mortality only. Using a subset of Victorian public hospitals in 2002-04, when unplanned readmissions is included into the quality measure, the estimated cost of improving hospital quality becomes greater than if only mortality is considered, and with higher statistical significance. This effect is not captured by estimation methods from other studies when the stochastic nature of estimated quality measures is not directly addressed.

Thursday 5 July - 8.45am - 10.30am - Health Economics 1 (continued)

Daniel Miller, Clemson University
The Consequences of a Public Health Insurance Option: Evidence from Medicare Part D Prescription Drug Markets

Policy makers in the US have debated the merits of including a government sponsored public health insurance option as a part of health care reform. Under the proposed legislation, the government would offer a basic coverage plan with premiums set at cost that competes against plans offered by private insurers. The government's ability to negotiate favorable prices with health care providers and lack of profit taking could increase competition and perhaps crowd out a significant amount of private competition. We consider the existing Medicare Part D prescription drug market which resembles the new health insurance exchanges that will be coming online in 2014. We use data from the 2006-2009 Part D market to estimate a random coefficient discrete choice demand system and a supply side model for Part D plans. Using our estimates, we conduct policy counterfactuals that include a public option as proposed by legislators in the 2009 "Medicare Prescription Drug Coverage Improvement Act." Our results indicate a small increase in competition if the government plan operates with a cost structure similar to private plans. But, if the government has up to a 25% cost advantage over private plans, perhaps achieved through a strong bargaining position with drug manufacturers, the government plan dominates the market and crowds out a significant fraction (25%) of private plans' market share. There are consumer surplus gains; they increase in the size of the public option's cost advantage. But, no matter the cost advantage, all total surplus gains are eliminated after factoring in the decline in insurer profits and the implicit subsidies in the Part D program.

Jongsay Yong, University of Melbourne
On the hospital volume and outcome relationship: Do methods of risk adjustment and measures of volume matter?

The literature on hospital volume and outcome suggests higher volume is associated with better outcome, although the validity of this conclusion has been questioned in recent studies. This study proposes to evaluate the relationship by focusing on two as yet under-explored aspects: (i) different methods of risk adjustment, and (ii) alternative measures of volume. Using hospital administrative data of ischemic heart disease patients from the state of Victoria, Australia, this study estimates the volume-outcome relationship using common two-step and single-step estimation methods. The estimation also makes use of different sets of volume measures. The findings suggest that the methods of risk adjustment matter in so far as statistical significance is concerned---the efficiency loss associated with two-step methods tend to produce fewer statistical significant results. On the other hand, measures of volume matter in a substantive way. Different measures of volume could lead to vastly different conclusion about the volume-outcome relationship. This study suggests that hospital throughput be included as a measure of volume, as it not only provides a measure of hospital size but may also reflect the effect of congestion, an aspect that is largely unexplored in the volume-outcome literature.

Thursday 5 July - 1.15pm - 2.45pm - Bangladesh

Lutfunnahar Begum, Monash University
Girls' Education, Stipend Programs and the Effects on Younger Siblings' Education in Bangladesh

This paper examines the link between the female secondary school stipend program, its effects on girls' education and the consequent impact on younger siblings' schooling in Bangladesh. The stipend program, introduced nationwide in 1994, affects girls in rural areas who were in high school (grade 6-10) in 1994, but not boys in the same classes as well as cohorts who dropped out just before 1994. We show that the stipend program causes exogenous variation in the schooling level of girls in rural Bangladesh. We exploit this variation and examine its indirect effects on younger siblings that are due to the schooling of older siblings. Using an extensive household survey data from Bangladesh, the study reveals that the education of older siblings plays a vital role in the schooling of younger siblings, and that older sisters receive higher education relative to older brothers.The results also indicate that the schooling of younger siblings increases significantly if the older sibling is male, once we control for older siblings' education.

Ivan Cherkashin, Australian National University
Firm Heterogeneity and Costly Trade: A New Estimation Strategy and Policy Experiments

This paper builds a tractable partial equilibrium model in the spirit of Melitz (2003), which incorporates two dimensions of heterogeneity: firms specific productivity shocks and firm-market specific demand shocks. The structural parameters of interest are estimated using only cross-sectional data, and counterfactual experiments regarding the effects of reducing costs, both fixed and marginal, or of trade preferences (with distortionary Rules of Origin) offered by an importing country are performed. Our counterfactuals make a case for "trade as aid," as such polices can create a win-win scenario and are less subject to the usual worries regarding the efficacy of direct foreign aid.

Seiro Ito, Institute of Developing Economies
Ramadan School Holidays as a Natural Experiment: Impacts of Seasonality on School Enrollment in Bangladesh

School academic calendar not accommodating the agricultural cycles may hamper the educational outcomes and may leads to dropouts for agrarian economies. In Bangladesh, the Aman paddy harvesting season typically coincides with the annual final exam schedules of schools in December. However, in the year 1999, Ramadan school vacation was in December which forced schools to pre-pone their final exam schedules in November, which was the month before the harvest begins. "Ramadan in the year 1999" is a natural experiment that reduced the labour demand for children during the exam period. Using household level panel data of 1999 and 2002, and after controlling for various unobservable variations including individual fixed effects, aggregate year effects, and subdistrict-level year effects, this paper finds evidence of statistically significant impacts of seasonal labour demand on school dropout in Bangladesh among the children from agricultural households. The results shown in this paper can provide foundation for reconsidering the school calendar that is consistent with agrarian calendar and seasonal local labor market conditions.

Thursday 5 July - 1.15pm - 2.45pm - Family Economics

Hayley Fisher, University of Sydney
Fertility, Consumption and Household Bargaining

This paper presents a model of fertility that accounts for a couple's individual preferences for children. Couples have independent fertility preferences and bargain over fertility and individual consumptions levels, where fertility decisions are sunk and consumption cannot be committed to at the same time as the fertility choice is made. The model incorporates the effects of child custody law. I show that being unable to commit to consumption levels at the same time as fertility results in an inefficiently low fertility choice, and the relative preferences of each parent for children is crucial in determining the effects of changes in child custody. If, as is commonly implicitly assumed, women have a stronger preference for children than men, giving default maternal custody rights is likely to result in low fertility. Failure to acknowledge the differing child preferences of each parent can lead to incorrect conclusions about the effects of changes in child custody.

Katrien Stevens, University of Sydney
The Career Costs of Children

This paper analyzes the life-cycle career costs associated with child rearing and decomposes their effects into unearned wages (as women drop out of the labor market), loss of human capital, and selection into more child-friendly occupations. We estimate a dynamic life-cycle model of fertility, occupational choice, and labor supply using detailed survey and administrative data for Germany for numerous birth cohorts across different regions. We use this model to analyze both the male-female wage gap as it evolves from labor market entry onward and the effect of pro-fertility policies. We show that a substantial portion of the gender wage gap is explainable by realized and expected fertility and that the long -run effect of policies encouraging fertility are considerably lower than the short-run effects typically estimated in the literature.

Michael Coelli, The University of Melbourne
Family Friendly Occupations and the US Gender Wage Gap

A consistent finding in US labor market research is that the wages of men and women are lower in predominantly female occupations. The roles of a number of specific occupational characteristics that may be of benefit to individuals juggling labor market and child-rearing responsibilities in explaining this relationship are investigated. These occupation average characteristics include the proportion of employees working part-time, the average hours of work among full-time workers and the average commuting time to work. The relationship between average occupation commuting time and wages is examined in detail.

Thursday 5 July - 1.15pm - 2.45pm - International Financial Issues 1

Junji Yamada, University of Toyama
The Japanese Current Account: Why Does It Still Remain High?

In this paper, we investigate the effects of demographic change and productivity growth on the current account of Japan after 1980. We construct an open-economy overlapping-generations (OLG) model, where the demographic structure and productivity growth rate are exogenously given. Our calibrated model can capture the lower-frequency movement of the Japanese current account. We find that the population structure and growth rate of productivity played an important role in determining its level. The high productivity growth rate relative to other countries resulted in capital inflows to Japan during the 1980s. However, the saving rate was higher than the investment rate because the aged-dependency rate was low. This led to a rise in Japan’s current account surplus. After the 1980s, this relation reversed; although the aging of the population decreased the saving rate, the decline in the relative total factor productivity (TFP) growth rate of Japan due to the economic slump and China’s high growth resulted in a greater decrease in the investment rate. Thus, the Japanese current account continued to remain high even during the 1990s and the 2000s.

Tim Hazledine, University of Auckland
Unravelling Financial Sector Rents: the Competition Puzzle

The paper explores the phenomenon of financial sector rents (profits and remuneration of highly paid employees) increasing despite the increase in competition that the sector should have experienced as it was deregulated and globalized. A literature motivates a theoretical model in which the increase in rent extraction occurs because globalization has predominantly meant more upstream competition by firms for these employees, rather than more downstream competition for customers. The model also explains why rents increased even more in finance than in “real economy” industries, with the use of the concept of finance as an “essential but useless-at-the-margin” activity. Econometric analysis of OECD countries over the period – 1970-2009 reveals some striking regularities. The output of “external finance” is in each year closely related to the size of a country’s financial services sector, but the link gets quantitatively small over time. The relationship between external finance and GDP per worker is quite strong and, if anything, seems to be getting quantitatively larger. Accordingly, it is not surprising that the link between the (size of) the financial services sector and GDP per worker has weakened over time and by now may even have disappeared.

Jonathan Ostry, International Monetary Fund
Shifting Motives: Explaining the Buildup in Official Reserves in Emerging Markets since the 1980s

Why have emerging market economies (EMEs) been stockpiling international reserves? We find that motives have varied over time—vulnerability to current account shocks was relatively important in the 1980s but, as EMEs have become more financially integrated, factors related to the magnitude of potential capital outflows have gained in importance. Reserve accumulation as a by-product of undervalued currencies has also become more important since the Asian crisis. Correspondingly, using quantile regressions, we find that the reason for holding reserves varies according to the country’s position in the global reserves distribution. High reserve holders, who tend to be more financially integrated, are motivated by insurance against capital account rather than current account shocks, and are more sensitive to the cost of holding reserves than are low-reserve holders. Currency undervaluation is a significant determinant across the reserves distribution, albeit for different reasons.

Thursday 5 July - 1.15pm - 2.45pm - Trade and Labour

Nicholas Sly, University of Oregon
Strategic Sourcing, Markups and Labor Demand Elasticities

We examine how multinational firms strategically source production to mitigate the consequences of wage bargaining with workers. When production in one country requires negotiating with workers over wages, firms allocate production of goods with high markups toward countries with relatively competitive labor markets. This strategy allows multinationals to raise the derived elasticity of labor demand for bargaining workers, reducing negotiated wages with little net change in the total volume of offshore production. Evidence from the automotive industry provides strong support that multinationals locate production of vehicles with higher markups more intensively in Mexico, away from UAW collective bargaining pressure. We use product-level data from the universe of production facilities in North America between 1988 and 2009 to estimate variable price elasticities of demand for different vehicles within the fleets of auto manufacturers. We then use exogenous fluctuations in real exchange rates to distinguish the impact of bargaining pressure from other sourcing motives.

Gabriel Felbermayr, Ifo Institut for Economic Research at the University of Munich
Unemployment in an Interdependent World

How do changes in labor market institutions like more generous unemployment benefits in one country affect labor market outcomes in other countries? We set up a two-country Armingtonian trade model with frictions on the goods and labor markets. Contrary to the literature, higher labor market frictions increase unemployment at home and abroad. The strength of the spillover depends on the relative size of countries and on trade costs. It is exacerbated when real wages are rigid. Using panel data for 20 rich OECD countries, and controlling for institutions as well as for business cycle comovement, we confirm our theoretical predictions.

Arghya Ghosh, University of New South Wales
Trade and Unionization

How does trade liberalization affect union wages and the extent of unionization? We address this question in a general equilibrium trade framework where a labor union exists in the import-competing sector. Union leaders set the union wage to maximize the weighted combination of their rents and the workers' wage bill. Each firm either accepts the union wage or it busts the union and offers its workers a lower wage. Union busting is costly and firms differ in abilities to bust unions. While the distribution of abilities is common knowledge, an individual firm's ability is private information. In equilibrium, some firms engage in union busting while other firms accept the announced union wage. Workers in the unionized firms (i.e., the firms which accept union wage) as a fraction of total workers represent the extent of unionization in the industry. A notable feature of our framework is that the extent of unionization is endogenously determined. We find that, in the short run where labor is immobile across sectors, trade liberalization reduces the extent of unionization but increases the union wage. In the long run with labor mobility across sectors, the effect of trade liberalization on union wages and extent of unionization is ambiguous. In particular, all other possibilities remain, except for the following combination: lower union wage and higher unionization. We attempt to empirically resolve this ambiguity.

Thursday 5 July - 1.15pm - 2.45pm - Governance and Delegation

Daniel Chen, Duke University
A Market for Justice

The alienability of legal claims holds the promise of increasing access to justice and fostering development of law. While theory suggests the possibility, no empirical work has investigated these claims, largely due to the rarity of trading of legal claims in modern systems of law. This paper uses a unique data set detailing financial activities of the world's largest litigation funding firm and two sources of variation -- de jure status of third party litigation funding in different jurisdictions and amount of third party litigation funding -- to analyze the economics of litigation funding. On average, court backlog, court expenditures, and a slowing in average time to completion is associated with third party funding. In additon, cases with third party funding are more cited on substantive law and reversed less often than comparable cases iwthout such arrangements. Moreover, the stock price of hte litigation funding firm increases with the profits of the funded cases and has increased 117-fold since it began funding litigation. Increased profits, litigation, and development of law are inconsistent with existing models of litigation funding. I explain these patterns with a principal-agent model of litigation funding where the social surplus is correlated with legal uncertainty of cases in equilibrium. In application, this may mean that litigation funders will prefer new and novel issues for funding. Moreover, litigation funding allows positive surplus cases to proceed and increases efficiency of law firms in litigation funding arrangements.

Jing Wang, Nanyang Technological University
Board structure, product market competition and incentive compensation

This paper examines the interactions among three corporate-governance mechanisms; board structure, product market competition, and incentive compensation. While the inter- action between product market competition and incentive compensation has been evaluated in the literature before, little is known about the extent of how the relationship between these two corporate-governance mechanisms be a¤ected by a change in the board structure, which in itself is also a corporate-governance mechanism. Board structure and product market competition serve as monitoring devices that provide a disciplinary stickto man- agers to ensure that they serve the best interests of the owners. The former is an internal monitoring device, while the latter is an external monitoring device. In contrast, incentive compensation provides a carrotto align the incentive of managers with that of the owners. Existing studies have shown that product market competition may either be substitute for- or complement to incentive compensation. This paper focuses on how a change in board structure inuences the existing relationship between product market competition and in- centive compensation. In particular, we evaluate the change in the board structure following the enactment of the Sarbanes-Oxley (SOX) law on the strength of incentive compensation provision. Our results show that the direction of inuence of the SOX law on the incentive compensation provision crucially depends on the intensity of product market competition.

Thursday 5 July - 1.15pm - 2.45pm - Governance and Delegation (continued)

Indranil Chakraborty, National University of Singapore
Partial Delegation

We follow a natural direction in the delegation vs. communication to consider multi-dimensional actions over which the principal has authority and whose optimal values depend on the state of nature known privately to the agent. We define the partial delegation game as one where the agent has been asked to take an action and after observing the agent's action the principal takes his action. We compare this game with the complete communication and complete delegation to examine the extent of control that the principal should exercise in the simple quadratic-loss-function set-up under various situations.

Thursday 5 July - 1.15pm - 2.45pm - Education Economics 1

Guochang Zhao, Australian National University
Joint determinations of household schooling expenditure and student's achievement

This paper aims to investigate the interactive causal effects between household schooling expenditure and student's achievement. Three methods are employed: OLS, fixed effect model and a new GMM estimation developed by Lewbel (2010) which is based on the heteroscedasticity. The OLS estimates show that there exists weak and negative relation between schooling expenditure and test score. The fixed effect estimates are more negative and more significant. However, the significant adverse effect of schooling expenditure on test score looks unreasonable and I reckon the common factors in the error terms which correlated to the schooling expenditure and test scores are time-varying and therefore the fixed effect model cannot eliminate the endogeneity. Lewbel's GMM estimates show that the test score has very modest but significant negative effect on schooling expenditure, while reverse causality become less negative compared to the OLS estimate but still insignificant. These result are robust to a very large extent.

Hideo Akabayashi, Keio University
Can Small Class Policy Close the Gap? An Empirical Analysis of Class Size Effects in Japan

Can a smaller class at school lead to a better educational outcome and more equality in achievement? We estimate the causal effects of class size on achievement tests by using discontinuous changes in class-size under the Japanese public education system, which has an upper class-size limit of 40 students. We employ a value-added model using achievement test data conducted at two different times during the same school year in the city of Yokohama. Our results show that a reduction in class size has significant positive effects on Japanese language test scores in the sixth grade especially at schools in wealthy areas. That is, we find no evidence that a universal small-class policy closes the achievement gap among schools in compulsory education.

Juliana Silva Goncalves, Queensland University of Technology
The effect of alcohol and drug consumption on academic performance: a treatment effect evaluation

It is often argued that consumption of alcohol, tobacco and drugs is detrimental to the cognitive abilities of teenagers. In order to disentangle a possible causal effect of these substances use from a self-selection bias, we control for pupils previous performance and for their previous rate of progression applying a DiDiD strategy. Using the NELS 1988 panel dataset, we find that the effects of alcohol and tobacco on test scores disappear once the selection bias is controlled for (this does not preclude long term detrimental effects). However, we find reliable evidence that heavy use of drugs (marijuana and cocaine) has direct detrimental effects on educational achievements. Hence, our results may have significant policy implications.

Thursday 5 July - 1.15pm - 2.45pm - Matching, Search and Equilibrium

Yuichiro Waki, University of Queensland
Some unpleasant properties of log-linearized solutions when the nominal rate is zero

A growing body of recent research examines the nonlinearity created by a zero lower bound on the nominal interest rate. It is common practice in the literature to loglinearize the other equilibrium restrictions around a deterministic steady state with a stable price level. This paper shows that the resulting loglinearized equilibria can have some very unpleasant properties. We make this point using a tractable stochastic New Keynesian model that admits an exact solution. We characterize the loglinearized equilibrium. This characterization is highly misleading. Using the log-linearized equilibrium conditions gives incorrect results about existence and uniqueness of equilibrium and provides an incorrect classification of the types of zero bound equilibria that can arise in the true economy. These problems are severe. For instance, using empirically relevant parameterizations of the model labor falls in response to a tax cut in the loglinearized economy but rises in the true nonlinear economy.

Suren Basov, La Trobe University
The equilibrium skill distribution when search is directed

In this paper we endogenise the distribution of worker productivities in a directed search model. Workers are endowed with a distribution of abilities, and choose their education and, hence, productivity levels. When deciding on educational attainment the worker takes into account the characteristics of labor markets, which determine her probability of employment and expected wage, which are in turn determined by the distribution of workers productivities. The equilibrium distribution of productivities is a fixed point of a composite map from the workers productivities into characteristics of labor market and back into workers productivities. We prove that such a fixed point exists and study the properties of worker's productivity distributions and the effects of the government's educational policies.

Thursday 5 July - 1.15pm - 2.45pm - Matching, Search and Equilibrium (continued)

Benoit Julien, Australian Graduate School of Management
Island Matching and Coordination

An island is a location where traders interact. We develop a model of the coordination of buyers and sellers across a number of distinct islands. In this economy, if there are too many islands, trade will fail to be coordinated because the local market on each island is too thin such that there is a strong possibility that a buyer will fail to find a suitable seller and vice-versa. We consider how island trade can be coordinated by either islands with and without price commitments under the assumption that each island has only a limited capacity to serve the entire market. We find that a simple auction generally fails to coordinate trade because there is then an incentive for excessive island entry (equivalently insufficient buyer-seller entry). However, we also find that owners of islands can coordinate trade efficiently with auctions provided they also offer commitments to ammendities (i.e. engage in quality competition). Alternatively, we also find that island sellers can coordinate trade efficiently by an ex ante comitment to price without quality commitments.

Thursday 5 July - 1.15pm - 2.45pm - GMM

Jan Kiviet, University of Amsterdam/Nanyang Tech. University
Exploiting strong instruments unduly neglected by standard GMM

While coping with non-sphericity of the disturbances, GMM suffers from a blind spot for exploiting the strongest possible instruments. In this study it is demonstrated that its established optimality is achieved over a too inflexible interpretation of the adopted moment restrictions. In particular, GMM does not automatically respect the golden rule that exogenous regressors establish their own strongest possible instruments. For some typical cross-section and dynamic panel data models it is shown by simulation that under moderate heteroskedasticity straight-forward modifications of the exploited set of instruments, which respect just the very same moment conditions, can achieve very substantial reductions in both bias and variance in finite samples. That adapting GMM as proposed here has profound positive effects on the significance of inference in models with non-spherical disturbances is illustrated by estimating a micro employment equation for a panel of UK companies.

Jungick Lee, The Bank of Korea
Robust GMM-type Estimation with Misspecified Moment

We propose a nonstandard criterion function to obtain a robust GMM-type estimator in the presence of misspecified moment conditions. The criterion function is formulated as a squared weighted L2-norm of a given moment vector minimized over the space of moment selection vectors. Our robust estimator is then defined by the minimizer of the objective function. Since the same criterion function is used to select moment conditions and to estimate parameters, as opposed to the earlier literature on moment selection such as Andrews (1999), Andrews and Lu (2001), and Hong, Preston and Shum (2003), our approach does not require any pre-selection procedures for choosing correct moment conditions. We establish that the resulting estimator is root-n-consistent and the limit distribution is characterized by the argmin of a certain random limit function that is free of any incorrect moment conditions. Our robust estimation framework is illustrated with an example of a simple linear IV model and its performance is evaluated via a simulation study.

Ruipeng Liu, Deakin University
Higher Dimensional Multifractal Processes: A GMM Approach

Multifractal processes have recently been introduced as a new tool for modeling the stylized facts in financial time series. In this paper, we extend it to a multivariate multifractal model with parsimonious settings. Since there are restrictions when applying likelihood approaches due to the extreme large state spaces, we implement its estimation via Generalized Methods of Moment (GMM). Our Monte Carlo studies demonstrate convincing performances of the GMM estimator; we also present its empirical applications in terms of volatility forecasting and portfolio management.

Thursday 5 July - 1.15pm - 2.45pm - Social Networks

Yuhei Miyauchi, University of Tokyo
Structural Estimation of a Pairwise Stable Network Formation of Friendships

This paper develops a framework to structurally estimate pairwise stable network formation under nonnegative externality. We first characterize the equilibrium by a fixed point of a certain mapping. By applying Tarski's fixed point theorem, we show that the set of pairwise stable equilibria under nonnegative externality always exists, and is complete lattice. This equilibrium characterization is then extended to an econometric framework for structural estimation based on the moment inequality model. We further propose a new method of computing confidence set which attains semiparametric efficiency bound under the moment inequalities. We apply our methodology to the friendship network of students in the United States, using the data from Add-Health. We find significant effect of preference toward racial homophily and the preference toward clustering.

Dinko Dimitrov, Saarland University
How to connect under incomplete information

We study how players' incomplete information about neighbors affects the structure of a network. We suppose that players enter into coalitional contracts either at the ex ante or at the interim stage, and show that the ex ante incentive compatible core and the interim incentive compatible coarse core are both non-empty in the presence of link-specific costs and benefits.

Thursday 5 July - 3.05pm - 4.35pm - Program Evaluation

Diana Contreras Suarez, Monash University
Health Spillover Effects of a Conditional Cash Transfer Program: the Case of Familias en Accion Program in Colombia

Conditional Cash Transfer (or CCT) programs are increasingly becoming policy makers' favourite anti-poverty device. While the stated aims of most CCT programs is to increase the level of human capital of children in poor households, we argue that there can be potentially large spillover effects associated with such programs. We illustrate this using the Familias en Accion (FA) program that has been in operation in rural Colombia for almost a decade. The health and nutrition component of the program was targeted at households with at least one child aged between 0 and 5. Receipt of the cash transfer was conditional upon fulfilling certain health care requirements: vaccinations and growth and development check-ups for children, and attendance at courses on nutrition, hygiene and contraception by the children's mothers. We find significant improvement in the health of adults in treatment households who were not directly targeted by the program. The program therefore has had significant within household externalities and simply by looking at the direct effects, one would significantly underestimate the effects of the program.

Kumar Aniket, University of Cambridge
Beyond Microcredit: Giving the Poor a Way to Save Their Way out of Poverty

The implicit assumption in microfinance literature has been that offering the poor credit is the most efficient way to alleviate poverty. This paper examines the optimal design of group-lending microfinance institutions that offers both saving and borrowing opportunities. Offering saving opportunities requires restricting credit within the group. This leads to negative assortative matching within the group along wealth lines, i.e., there is significant wealth heterogeneity within the endogenously formed groups. Further, the paper shows that under some reasonable assumptions, the microfinance institutions that offer both borrowing and saving opportunities are able to reach poorer individuals than institutions that only offer borrowing opportunities.

Alessandro Tarozzi, Universitat Pompeu Fabra
Micro-loans, bednets and malaria: Evidence from a randomized controlled trial in Orissa (India)

We describe findings from the first large-scale cluster randomized controlled trial in a developing country that evaluates the uptake of a health-protecting technology, insecticide-treated bednets (ITNs), through micro-consumer loans, as compared to free distribution and control conditions. Despite a relatively high price, 52% of sample households purchased ITNs, although coverage remained significantly lower than what achieved with free distribution. Most strikingly, neither micro-loans nor free distribution led to improvements in malaria and anemia prevalence. We examine several plausible explanations, and argue that insufficient ITN coverage was the most likely cause.

Thursday 5 July - 3.05pm - 4.35pm - Experimental Economics 3

Vai-Lam Mui, Monash University
Rich Communication and Coordinated Resistance against Divide-and-Conquer

This paper presents a laboratory experiment to investigate how computer-mediated free form communication (Rich Communication) can facilitate coordinated resistance against leader misbehavior. In the Coordinated Resistance game, a leader first decides whether to practice divide -and-conquer, in which he extracts surplus from a victim and shares it with a beneficiary to gain the latter’s support. Using content analysis, we provide direct evidence that the beneficiaries and the victims of divide-and-conquer transgressions communicate and behave differently. Victims more quickly and vigorously engage in communication, urging the beneficiary to “be fair,” while beneficiaries propose to acquiesce more frequently. The successful joint resistance rate increases almost four-fold (from 15 to 58 percent) when moving from the more restrictive communication treatments to Rich Communication. Comparisons across the communication treatments further suggest that the significant impacts of rich communication are driven more by the responders’ ability to engage in rich discussion rather than the multiple and iterative opportunities to indicate intentions.

Alex Possajennikov, University of Nottingham
Belief Formation in a Signalling Game without Common Prior: An Experiment

Using belief elicitation, the paper investigates the formation and the evolution of beliefs in a signalling game in which a common prior on Sender's type is not induced. Beliefs are elicited about the type of the Sender and about the strategies of the players. The experimental subjects often start with diffuse uniform beliefs and update them in view of observations. However, the speed of updating is influenced by the strength of the initial beliefs. An interesting result is that beliefs about strategies are updated faster than beliefs about types. In the medium run, for some specifications of game parameters, this leads to outcomes being significantly different from the outcomes of the game in which a common prior is induced. It is also shown that elicitation of beliefs does not considerably change the pattern of play.

John Wooders, University of Technology Sydney
Blind Stealing: Experience and Expertise in a Mixed-Strategy Poker Experiment

We explore the role of experience in mixed-strategy games by comparing the behavior of novice poker players to the behavior of expert players who have extensive experience playing poker online. Our experimental game is a simplified representation of heads-up play in Texas Hold-em, where one player (the "small blind") has an incentive to steal the ante/blind of the other player (the "big blind"). We find significant differences in their play. The initial frequencies with which experts bet and call are closer to the equilibrium frequencies than are those of novice players. And, while the betting and calling frequencies of both novices and experts exhibit too much heterogeneity to be consistent with minimax play, the frequencies of experts exhibit less heterogeneity. There is no tendency for the play of experts to change across halves of the experiment; in contrast, the betting and calling frequencies of novices move substantially closer to the equilibrium frequencies by the second half of the experiment.

Thursday 5 July - 3.05pm - 4.35pm - Econometric Theory 3

Claudia Schwarz, Goethe University Frankfurt
Estimation of Linear Dynamic Panel Data Models with Time-Invariant Regressors

This paper considers estimation methods and inference for linear dynamic panel data models with unit-specific heterogeneity and a short time dimension. In particular, we focus on the identification of the coefficients of time-invariant variables in a dynamic version of the Hausman and Taylor (1981) model. We propose a two-stage estimation procedure to identify the effects of time-invariant regressors. We first estimate the coefficients of the time-varying regressors and subsequently regress the first-stage residuals on the time-invariant regressors to recover the coefficients of the latter. Standard errors are adjusted to take into account the first-stage estimation uncertainty. As potential first-stage estimators we discuss generalized method of moments estimators and the transformed likelihood approach of Hsiao, Pesaran, and Tahmiscioglu (2002). We carry out Monte Carlo experiments to compare the performance of the two-stage approach to various system GMM estimators that obtain all parameter estimates simultaneously. The results are in favor of the two-stage approach. We provide further simulation evidence that GMM estimators with a large number of instruments can be severely biased in finite samples. Reducing the instrument count by collapsing the instrument matrices strongly improves the results while restricting the lag depth does not.

Bin Peng, Monash University
Consistent Estimation of Panel Data Models with a Multifactor Error Structure

This paper considers the panel data model with a multifactor structure in both the errors and the regressors which was studied by Pesaran ("Estimation and Inference in Large Heterogeneous Panels with a Multifactor Error Structure", Econometrica, 2006). Estimators are proposed that are consistent for fixed T as N tends to infinity. By allowing T to be fixed some of the assumptions imposed by Pesaran are relaxed and, at the same time, some of the complexities of the large N and T asymptotics are bypassed. A small Monte Carlo simulation shows that these new estimators are very accurate for very small values of T .

Maurice Bun, University of Amsterdam
Identification in linear dynamic panel data models

Neither the Dif(ference) moment conditions, see Arellano and Bond (1991), nor the Lev(el) moment conditions, see Arellano and Bover (1995) and Blundell and Bond (1998), identify the parameters of linear dynamic panel data models for all data generating processes for the initial observations that accord with them when the data is persistent. The combined Dif-Lev (Sys) moment conditions do not always identify the parameters either when there are three time series observations but do so for larger numbers of time series observations. Thus the Sys moment conditions always identify the parameters when there are more than three time series observations. To determine the optimal GMM procedure for analyzing the parameters in linear dynamic panel data models, we construct the power envelope and find that the KLM statistic from Kleibergen (2005) maximizes the rejection frequency under the worst case alternative hypothesis whilst always being size correct under the null hypothesis.

Thursday 5 July - 3.05pm - 4.35pm - Monetary Policy and Inflation 1

Nikolay Hristov, ifo Institute for Economic Research
Financial Frictions and Inflation Differentials in a Monetary Union

This paper employs a stylized New Keynesian DSGE model for a monetary union to analyze whether cyclical inflation differentials can be explained by cross-country differences concerning the characteristics of financial markets. Our results suggest that empirically plausible degrees of heterogeneity with respect to two important credit market characteristics, the fraction of borrowers and the loan-to-value ratio, are a relevant source of inflation dispersion across EMU countries.

Kim-Heng Tan, Nanyang Technological University
A Reconsideration of the Tobin Effect

The Tobin (1965) effect is that an increase in inflation raises capital formation in the long run. Stockman (1981) shows that an anti-Tobin effect is possible, while Sidrauski (1967) shows that money is superneutral. The shortcoming of the literature on the Tobin/anti-Tobin effect is that this literature does not model money in an essential way. The two major ways of modeling money is to put money into the utility function or to incorporate it as a cash-in-advance constraint. The objective of this paper is to recognize that money is liquid, earns no interest and is used to acquire consumption in the short-term, whereas capital is illiquid, has a positive rate of return and is used to acquire consumption in the long term. I extend the pure-exchange model of Freeman (1985) that recognizes these features to incorporate production and provide a unified treatment of the Tobin/anti-Tobin effects within a dynamic general-equilibrium model.

Suppose the government uses money seigniorage to finance a lump-sum transfer. By changing the rate of monetary growth and seigniorage, it can affect the amount of transfers. The effect of monetary growth and inflation on savings and, hence, on capital formation is then the outcome of two effects: the direct effect of inflation on savings and the indirect effect of inflation on savings via changes in transfers. This paper shows that the long-run effects of monetary policy depend on whether (initial) inflation is low or high, and to whom seigniorage is transferred. If seigniorage is transferred to the young, the Tobin effect is obtained in a low-inflation regime whereas the Tobin or anti-Tobin effect is obtained in a high-inflation regime. However, if seigniorage is transferred to the old, the anti-Tobin or Tobin effect is obtained in a low-inflation regime whereas the Tobin effect is obtained in a high-inflation regime.

Thursday 5 July - 3.05pm - 4.35pm - Monetary Policy and Inflation 1 (continued)

Antonio Mele, University of Oxford and Nuffield College
The suboptimality of commitment equilibrium when agents are learning

Empirical research emphasizes that the impact of monetary policy on inflation expectations of private agents is sluggish. We explore the consequences of sluggish reaction of private expectations on the design of optimal monetary policy. We adopt a setup where the optimal monetary policy under commitment is always Pareto superior to the one under discretion if agents have rational expectations; moreover, if agents' beliefs slightly deviate from rational expectations, the central bank can still drive them to learn the rational expectations commitment equilibrium. In this paper, we show that when private agents are learning a benevolent rational central bank does not implement the allocations consistent with rational expectation and commitment, not even asymptotically. The best policy is to make people learn the discretionary equilibrium instead.

Thursday 5 July - 3.05pm - 4.35pm - Jump and Break

Jonathan Dark, University of Melbourne
Modeling the joint dynamics of spot and futures markets with a regime switching long memory volatility process

The methods used to model the dynamics of spot and futures markets ignore the effects of changes in the cost of carry (COC) on the dynamics of the basis and its rate of convergence. This is of particular importance given the historically low short term interest rates currently experienced in many countries. This paper proposes a bivariate model that exhibits long memory in volatility, basis convergence and regime switches that occur via a latent markov process. Monte carlo simulation reveals that the model parameters can be well estimated via maximum likelihood. The proposed model is supported by applications to equity and currency markets. It is found that regime switches in basis dynamics occur between high and low volatility states associated with high and low absolute values of the COC. In and out of sample forecasts generally support the proposed model, however minimum variance hedge ratio estimation provides mixed support

Kam Fong Chan, University of Queensland
Currency Jumps and Crises: Do Developed and Emerging Market Currencies Jump Together?

Emerging market currencies tend to jump together, thus intensifying short-term risk, as revealed by their “cojump betas”, whereas developed market currency jumps are essentially idiosyncratic. Emerging market currency jumps are considerably more severe, especially during crisis periods. Jumps represent a majority of emerging market currency volatility, in stark contrast to the much lower jump contribution previously documented for developed currency markets.

Bonsoo Koo, Monash University
Structural breaks in inhomogeneous diffusion models

This paper proposes a model of inhomogeneous diffusion processes with structural breaks in the drift or diffusion function. The standard diffusion process is not consistent with either regime shifts or jumps in many financial time series. By incorporating structural breaks, our model is more consistent with actual stylized facts of financial data. We propose estimators of the location and size of structural breaks in the drift or the diffusion function of a class of locally stationary diffusion processes, where the structural breaks are located at given periods of time. We establish asymptotic theory for the proposed estimators under the long span assumption on the time horizon; we do not require infill asymptotics. We investigate the impacts of major economic events such as Black Wednesday on the magnitude of the change in level and volatility of daily US dollar/UK sterling exchange rates. In addition, we analyze daily short-term interest rates where we focus on the implications of such events for derivatives pricing. Finally, we evaluate the finite-sample performance of our estimators via Monte Carlo experiments.

Thursday 5 July - 3.05pm - 4.35pm - Search, Matching and Learning

Guillaume Roger, The University of New South Wales
Search and Moral Hazard

This paper combines moral hazard with search frictions to bring the study of the moral hazard problem one step closer to the market. We let principals post contracts and agents search for principals. There is a unique Nash equilibrium in menus of contracts. In this model, principal's exert an externality (competition) on each other only at the search and participation stage. Still, in any contract, agents receive ex ante rents and their optimal eort is distorted away from the standard second-best.

Jonathan Newton, University of Sydney
Stochastic stability on uncountable state spaces

This paper studies stochastic stability methods applied to a process with an uncountable state space, corresponding to a setting where agents repeatedly interact and choose from an uncountable set of strategies. When there are a finite number of rest points of the unperturbed dynamic, sufficient conditions for results from the finite state space literature are derived and studied. Illustrative examples are given for both a finite and infinite number of rest points, the latter including an analysis of the non-discretized Nash demand game.

George Mailath, University of Pennsylvania
Premuneration Values and Investments in Matching Markets

Match into pairs, creating surpluses that depend on their investments and that can be split between the matched agents. In general, each of the matched agents would \own"part of the surplus in the absence of interagent transfers. Most of the work in the large bargaining-andmatching literature ignores this initial ownership of the surplus. We show that when investments are not observable to potential partners, initial ownership aects the eciency of equilibrium investments and aects the agents' payos. In particular, it is possible that reallocating initial ownership could increase welfare on both sides of the match.

Thursday 5 July - 3.05pm - 4.35pm - Banking and Productivity

Chuan Wang, Monash University
Profitability and Productivity: A Comparison between US and European Large Commercial Banks

This paper provides a comparison between U.S. and European large banks in terms of profitability and productivity over the period from 1997 to 2005. We, for the first time in this literature, propose a pro tability index based on the output distance function and decompose this index into fi ve components: price change, the contribution of scale economies, technical change, technical efficiency change, and an approximation error. We then construct the pro tability index for both U.S. and European large banks, by estimating an translog output distance function subject to theoretical regularity within a Bayesian framework. Our results show that U.S. large banks are more efficient relative to its best practice frontier than their European counterparts and that both U.S. and European large banks exhibit constant returns to scale. Our results also show that the pro tability in the U.S. large banks are more volatile and the analysis of the five components shows that price change is the driving force behind this larger volatility.

Patrick Brämer, University of Magdeburg
Domestic Systemically Important Banks: An Indicator-Based Measurement Approach for the Australian Banking System

This paper serves as a response to the assessment methodology of the Basel Committee on Banking Supervision to identify systemically important banks. Based on the official technique, which requires an extensive collection of bank data, our paper develops a practicable modification. Utilising readily available indicators, we determine the domestic systemic risk of each licensed bank in Australia in the period 2002-2011 on a monthly basis. Our quantitative results do not only uncover high levels of systemic risk for the four major banks, but their rising dominance during the global financial crisis. Consequently, we introduce a regulatory proposal that enables authorities to reduce the systemic risk of individual institutions.

Guohua Feng, University of North Texas
Productivity and efficiency at large and community banks in the U.S.: A Bayesian true random effects stochastic distance frontier analysis

This paper compares the productivity and efficiency of large banks and community banks in the United States over the period 1997-2006. This comparison is performed by estimating a true random effects stochastic distance frontier model — a model that is capable of disentangling unobserved heterogeneity from inefficiency — within a Bayesian framework. We find that failure to consider unobserved heterogeneity results in a misleading ranking of banks and mismeasured technical efficiency, productivity growth, and returns to scale. Our results show that, compared with community banks, large banks have experienced much higher productivity growth and higher levels of returns to scale. Our estimates of total factor productivity growth show a clear downward trend for both large and community banks, and our decomposition of the output-distance-functionbased Divisia productivity index indicates that technical change is the driving force behind this trend.

Thursday 5 July - 3.05pm - 4.35pm - Education Economics 2

Mike Helal, University of Melbourne
Measuring Education Effectiveness: Differential School Effects and Heterogeneity in Value-Added

Measuring quality of education and the role of schools in the education production process is an issue of substantial concern for policy-makers and researchers. Mixed evidence exists in the literature with early research finding little or no school effects on student achievement. Using a unique administrative dataset, we estimate school value-added effects, highlighting shortcomings in existing models. Allowing for heterogeneity, we find evidence of differential school effects by student ability. These effects are found to be larger in primary schools than in secondary schools. We additionally adjust for measurement and sampling error. Our preferred measurement-error corrected model finds effective schools can achieve as much as one-quarter of a year's progress more in a single year compared to ineffective schools. We present evidence of the impact of alternative measures of education effectiveness on accountability decisions.

Wei-Kang Wong, NUS
Does An Additional Year of Schooling Improve Skills in Reading, Mathematics and Science? Regression Discontinuity due to Imprecise Control over Birthdates

This paper estimates how much an additional year of schooling affects skill and knowledge accumulation. We exploit exogenous variation in student birthdates around the school entry cut-off date, causing students of similar age but different grade to take the same international standardized test. The evidence suggests that schooling is not just about signalling. One more year of schooling leads to gains of 0.08 standard deviations for reading, 0.11 standard deviations for mathematics, and 0.18 standard deviations for science in Singapore. Students with more educated parents gain more from schooling, suggesting complementarity between human capital accumulation at home and in school.

Mabel Andalon Lopez, University of Melbourne
The Effects of Schooling on Labor Outcomes in a Developing Country

This paper measures the causal eect of schooling on labor market outcomes. The Mexican Government extended compulsory education from 6 to 9 grades in 1993 and built 6,159 junior high public schools at dierential rates across states and time between 1993 and 1998. Exploiting within state variations in schools openings across cohorts, it is shown that the education reform in- creased school attainment by 0.17 grades. Instrumental variable estimates based on this exogenous source of variation suggest that an additional year of schooling increases the earnings of women by 9.9 percent and the earnings of men by 7.5 percent. For women, schooling is associated with a higher proba- bility of holding a white-collar, non-agricultural, salaried job. More educated men are more likely to work in white-collar jobs and being self-employed. Schooling seems to have decreased people's vulnerability to poverty, which is consistent with the evidence of a reduction in social program's participation found in this paper.

Thursday 5 July - 3.05pm - 4.35pm - Macro Dynamics

Joao Madeira, University of Exeter
Evaluating the role of firm-specific capital in New Keynesian models

In this paper I make use of Bayesian methods to estimate a firm-specific capital DSGE model with Calvo price and wage setting. This approach allows me to firmly conclude that firm-specific capital is highly relevant in improving the fit of New Keynesian models to the data as shown by a large increase in the value of the log marginal data density relative to the more conventional rental capital model. The introduction of firm-specific capital also has important implications for business cycle dynamics leading to increased persistence of aggregate variables and helps reduce the discrepancy between macro estimates of the NKPC and the observed frequent price adjustments in the micro data.

Sebastian Giesen, Halle Institute for Economic Research
Effects of incorrect specification on the finite sample properties of full and limited information estimators in DSGE models

In this paper we analyze the small sample properties of full information and limited information estimators in a misspecified DSGE model. Therefore, we conduct a simulation study based on a standard New Keynesian model including price and wage rigidities. We then examine how omitted variable problems may spread from one equation of the system to the remaining model equations. We find that FIML performs superior when the model is correctly specified. In cases where some of the model characteristics are omitted, the performance of FIML is highly unreliable, whereas GMM estimates remain approximately unbiased.

Mariano Kulish, Reserve Bank of Australia
Estimation and Solution of Rational Expectations Models with Anticipated Structural Changes

We develop a solution for linear rational expectations models in the presence of possibly anticipated structural changes. This solution can be put in state space form and the Kalman filter used for constructing the likelihood function. An anticipated structural change induces a drift of the reduced-form coefficients; the reduced-form solution is a time-varying coefficient VAR. We apply the techniques to two examples: i) a disinflation program and ii) a transitory change in trend growth.

Thursday 5 July - 3.05pm - 4.35pm - Robust Inference

Alain Hecq, Maastricht University
A Common-Feature Approach for Testing Present-Value Restrictions with Financial Data

It is well known that cointegration between the level of two variables is a necessary condition to assess the empirical validity of a present-value model (PV and PVM, respectively, hereafter) linking them. The work on cointegration has been so prevalent that it is often overlooked that another necessary condition for the PVM to hold is that the forecast error entailed by the model is orthogonal to the past. The basis of this result is the use of rational expectations in forecasting future values of variables in the PVM. If this condition fails, the present-value equation will not be valid, since it will contain an additional term capturing the (non-zero) conditional expected value of future error terms. Our article has a few novel contributions, but two stand out. First, in testing for PVMs, we advise to split the restrictions implied by PV relationships into orthogonality conditions (or reduced rank restrictions) before additional tests on the value of parameters. We show that PV relationships entail a weak-form common feature relationship as in Hecq, Palm, and Urbain (2006) and in Athanasopoulos, Guillén, Issler and Vahid (2011) and also a polynomial serial-correlation common feature relationship as in Cubadda and Hecq (2001), which represent restrictions on dynamic models which allow several tests for the existence of PV relationships to be used. Because these relationships occur mostly with financial data, we propose tests based on generalized method of moment (GMM) estimates, where it is straightforward to propose robust tests in the presence of heteroskedasticity. We also propose a robust Wald test developed to investigate the presence of reduced rank models. Their performance is evaluated in a Monte-Carlo exercise. Second, in the context of asset pricing, we propose applying a permanent-transitory (PT) decomposition based on Beveridge and Nelson (1981), which focus on extracting the long-run component of asset prices, a key concept in modern financial theory as discussed in Alvarez and Jermann (2005), Hansen and Scheinkman (2009), and Nieuwerburgh, Lustig, Verdelhan (2010). Here again we can exploit the results developed in the common cycle literature to easily extract permament and transitory components under both long and also short-run restrictions. The techniques discussed herein are applied to long span annual data on long- and short-term interest rates and on price and dividend for the U.S. economy. In both applications we do not reject the existence of a common cyclical feature vector linking these two series. Extracting the long-run component shows the usefulness of our approach and highlights the presence of asset-pricing bubbles.

Seunghwa Rho, Michigan State University
Serial correlation robust inference with missing data

With missing observations in time series, deleting observations or imputation is often done in practice. However, deleting observations neglects the true distance between the observations and imputation often results in too smoothed series compared to the true underlying time series. We propose an alternative approach of conducting inference in the presence of missing data where the asymptotics depend on the structure of the missing data at hand. We characterize time series with missing observations as an amplitude modulated series introduced in \citet*{P1963}, and compute the test statistic. Using fixed-b approach conditional on the locations of the missing observations, the test statistic converges to a non-standard distribution where the critical values can be easily computed by bootstrap. When the missing process is stochastic, with stronger conditions such as the missing process being $\alpha\!-\!$mixing, the usual fixed-b limit is also valid and both the usual fixed-b and the fixed-b limit conditional on missing locations are valid. The Monte Carlo experiments show that the fixed-b limit conditional on the locations of missing observations works well for both random and non-random missing processes and it outperforms the usual fixed-b limit when the likelihood of missing and/or the serial correlation of the error term increase.

Thursday 5 July - 3.05pm - 4.35pm - Robust Inference (continued)

Leandro Magnusson, University of Western Australia
Bootstrap methods for inference with cluster-sample IV models

Microeconomic data often have within-cluster dependence. This dependence affects standard error estimation and inference in regression models, including the instrumental variables model. Standard corrections assume that the number of clusters is large, but when this is not the case, Wald tests can either over-reject or under-reject and weak instrument robust tests can over-reject. We examine the use of bootstrap methods to construct appropriate critical values for these tests when the number of clusters is small. We find that a variant of the wild bootstrap performs well and reduces absolute size bias significantly, even with a small number of clusters. We also provide guidance in the choice among possible weak instrument robust tests when data have cluster dependence. These results should extend to fixed effect panel data models.

Friday 6 July - 11.00am - 12.30pm - Forecasting: Applications

Natalia Tamirisa, International Monetary Fund
Information Rigidity and Herding in Economic Growth Forecasts: Stylized Facts from a Large International Panel

We provide stylized facts on the behavior of forecasts of real GDP growth using a large panel data set of individual forecasters in 31 advanced and emerging market economies during 1989–2010. We quantify (i) the degree of rigidity or forecast smoothing (Nordhaus, 1989; Mankiw and Reis, 2002, Coibion and Gorodnichenko, 2010) and (ii) the degree of herding or copycat behavior (Gallo, Granger, and Jeon, 2002). Our main findings are that (i) the degree of information rigidity estimated from pooled individual forecasts is much lower than that estimated based on the Consensus forecasts (the simple mean of individual forecasts); (ii) there is strong evidence of herding—individual forecasters adjust their forecasts to eliminate gaps between their past forecasts and the past Consensus forecast.

Anh Tuan Bui, Macquarie University
Testing the predictability of exchange rate using the shape of yield curves: Evidence from Australia

The paper carries out an empirical investigation of information implied in the term structures of interest rate on exchange rate dynamics. We incorporate the information on macroeconomic fundamentals behind the relative factors of yield curve to forecast exchange rate changes. Our results show that the relative slope and curvature factors of cross country yield curve can predict exchange rate movement and excess returns from one month to two years ahead. Moreover, our model performs better than the random walk in forecasting exchange rate at horizon longer than twelve months.

Jae Kim, La Trobe University
A Closer Look at Return Predictability of US Stock Market: Evidence from Fama-French Portfolio and Panel Variance Ratio Test

This paper examines return predictability of the US stock market using Fama-French stock portfolios. We consider a wide range of portfolios classified by risk factors such as size, book-to-market ratios, and momentum. We also consider general industry portfolios, as well as those classified into tradable vs. non-tradable; and hi-tech vs. non-hi-tech. We evaluate time-varying return predictability using a new panel variance ratio test proposed in this paper. We conduct extensive Monte Carlo experiment to find that these tests exhibit desirable small sample properties, with correct size and power that substantially increases with the number of cross-sectional units. At the aggregate level, it is found that the portfolio returns have been highly predictable from 1964 to 1997, except for the timing of 1987 stock market crash and its aftermath. After 1997, the U.S stock portfolio returns have been unpredictable overall, apart from the period of the global financial crisis. At the disaggregated level, the large-cap portfolio return and hi-tech industry portfolio returns exhibit different patterns from the general industry portfolio, showing less degree of return predictability over time. Contrary to the general belief that the U.S. stock market has been weak-form efficient, this paper finds that the weak-from efficiency is prevalent only from 1997. It is also found that large-cap and hi-tech industries stocks are found to be more efficient than the other sections of the market.

Friday 6 July - 11.00am - 12.30pm - Health Economics 2

Ilke Onur, University of South Australia
The impact of FDA regulation on innovation in the high risk medical device market

We theoretically and empirically study the effect of variation in regulatory review time on firms' decision to enter unexplored segments and their investment choice between radical and incremental innovations. Our model predicts that shorter review time for radical innovations increases entry and radical innovation, and decreases incremental innovations. We utilise a unique data set from the U.S. Food and Drug Administration that contains all product market approvals in the high-risk medical device market for the 1978-2007 period. This market experienced an unambiguous reduction in review time for radical innovations in 1997 and our empirical findings on how that affected innovation behaviour is consistent with the theoretical predictions.

Stefanie Schurer, Victoria University of Wellington
Getting stuck in the blues: Persistence of mental health problems and its associated health care utilisation

Depression and anxiety are reported to start early in life, are chronic in nature, and usually coincide with many physical co-morbidities. Some medical research suggests that episodes of anxiety and depression, once experienced, have a high likelihood to reoccur if left untreated, even if the triggers of the first depression are absent. This would be so, because the experience of a depression changes the brain chemistry towards making the individual more (risk) sensitive, resulting in withdrawal and emotional vulnerability. Individuals who suffer once a mental health problem are therefore likely to be trapped in a vicious circle of relapsing symptoms, that may impair productivity, require continuous medical attention, and decrease quality of life. This article addresses the question whether there is a large degree of persistence in mental health problems and, if yes, whether this persistence is related to elevated use of medical health care. The empirical analysis is conducted with nine waves of Australian longitudinal data and uses a system GMM-IV and variance component approach to separately identify true from spurious state dependence. As state dependence may depend on the severity of the condition, we evaluate the distribution of persistence across socioeconomic and age groups, and by the severity of the mental health problem. Our results suggest only a moderate degree of persistence in mental health problems once individual-specific factors are accounted for. However, individuals with chronic mental health problems spend on average almost 90 $ more on prescription drugs, visit twice more often a GP and are between 60 and 100 percent more likely to regularly see a doctor per annum than individuals with no chronic mental health problems.

Friday 6 July - 11.00am - 12.30pm - Health Economics 2 (continued)

Elizabeth Savage, University of Technology
Lifestyle choices and health care expenditure

It is widely accepted that lifestyle has substantial bearing on health and accordingly health care expenditure. However, providing empirical evidence on this is particularly challenging in universal public health care systems, when individuals do not know the cost of their health care consumption. In this study, we exploit the presence of linked survey and health administrative data in Australia, where all residents have public health insurance, to obtain individual health care expenditure. We then estimate a prospective model of health care expenditure and use the instrumental variable technique to deal with the potential endogeneity of lifestyle variables. Based on a sample of nearly 250,000 individuals, we find robust evidence that obesity increases both in- and out-of-hospital expenditure. Smoking increases in-hospital expenditure, whilst we find no evidence that risky drinking increases health care expenditure. Failure to account for endogeneity results in severe underestimation of the lifestyle effects on health care expenditure.

Friday 6 July - 11.00am - 12.30pm - Monetary Policy and Inflation 2

Heiko Stueber, Institute for Employment Research (IAB)
Are Real Entry Wages Rigid over the Business Cycle? Empirical Evidence for Germany from 1977 to 2009

So far little empirical evidence exists on how real wages of newly hired workers react to business cycle conditions. This paper aims at filling this gap for Germany by analyzing the cyclical behavior of real wages of newly hired workers while controlling for ‘cyclical upgrading’ and ‘cyclical downgrading’ in employee/employer matches over the cycle. The analysis is undertaken for the 1977 to 2009 period using administrative longitudinal matched employer-employee wage data. I find that an increase in the unemployment rate of one percentage point decreases the real wages of job entries within given firm-jobs by about 1.27 percent. In light of the magnitude of the entry-wage cyclicality it seems that introducing wage rigidity in the Mortensen-Pissarides model in order to amplify realistic volatility of unemployment is not supported by the data. Further I show that the procyclicality of the employment/population ratio is identical to the procyclicality of real entry wages. This counters the view of many macroeconomists that wages are much less cyclical than employment and unemployment.

Mira Farka, California State University
Monetary Policy Effects on the Relation Between Inflation and Stock Returns

This paper investigates the effect of monetary policy on the observed negative relation between inflation and stock returns for a group of industrialized countries. We use a structural VAR model to identify monetary policy shocks and covariance decomposition - a useful extension of the VAR toolkit which nests the variance decomposition as a special case. For all countries, we find that monetary policy regimes are an important determinant of the relationship between inflation and stock returns and that this relationship has declined in during the most recent regimes. Based on the covariance decomposition, we also find that in the earlier regimes monetary shocks explain between 10% - 68% of the covariance between stock returns and inflation with these values dropping substantially to 0.3-7% in recent period. We interpret the observed negative covariance between these series as proxing for the negative relation between stock returns and anticipated monetary policy and attribute recent declines in this relationship to changes in policy during recent regimes.

Michael Graff, ETH Zurich
Inflation Inequality in Europe

We analyze cross-household inflation dispersion in Europe using “fictitious” monthly inflation rates for several household categories (grouped according to income levels, household size, socio-economic status, age) for the period from 1997 to 2008. Our analysis is carried out on a panel of 23 up to 27 household-specific inflation rates per country for 15 countries. In the first part of the paper, we employ time series and related non-stationary panel approaches to shed light on cross-country differences in inflation inequality with respect to the number of driving forces in the panel. In particular, we focus on the degree of persistence of the household-specific inflation rates and their adjustment behaviour towards the inflation rate of a “representative household”. In the second part of the paper, we pool over the full sample of all countries and test if and by how much certain household categories across Europe are more prone to significant inflation differentials and significant differences in the volatility of inflation. Furthermore we search for the presence of clusters with respect to inflation susceptibility. On the national level, we find evidence for the existence of one main driving factor driving the non-stationarity of the panel and evidence for a single co-integration vector. Persistence of deviations, however, is high, and the adjustment speed towards the “representative household” is low. Even if there is no concern about a long-run stable distribution, at least in the short-to medium run deviations tend to last. On the European level, we find small but significant differences (mainly along income levels), we can separate 5 clusters and two main driving forces for the differences in the overall panel. All in all, even if differences are relatively small, they are not negligible and persistent enough to represent a serious matter of debate for economic and social policy.

Friday 6 July - 11.00am - 12.30pm - Labour Supply

Zeng-Hua Lu, University of South Australia
Child Disability, Welfare Payment, Family Structure and the Mother's Labor Supply

This paper studies the effects of child disabilities on mothers' labor market activities using Australian data. Because of importance of policy implications, the focus of our studies is to examine the differential effects of child disabilities on married mothers and non-married mothers. Our studies allow for the welfare variable to be endogenously determined with labor supply variable. Our findings reveal that non-married mothers are less likely than married mothers to participate in the labor force when they are presented with a health impaired child. Once mothers manage to enter into the labor force, the differential effects become opposite; married mothers appear to work less hours than non-married mothers if they have a disable child.

Friday 6 July - 11.00am - 12.30pm - Labour Supply (continued)

Xiaodong Gong, University of Canberra
Labour supply responses to policy changes with hours constraint

In this paper, we investigate single women's labour supply responses to a series of reforms in Australia since 2004 that affected work incentives of women with children. The responses are separately assessed for two channels: change of hours by the existing workers and participation especially of the non-workers. First of all, we examine whether and how hours of the working single mothers responded to the exogenous changes in the transfer systems. We focus on the flexibility of hours changes within and across jobs, and the impacts of underemployment and over-employment on the changes of hours. In doing so, we wish to shed some light on the possible presence of rigidity in the Australian labour market. Secondly, to give a more complete assessment of the reforms, we study how labour force participation of the single mothers, especially of the non-workers, may have responded to those policy changes. The identification strategy is the Difference-in-Differences approach where we make use of the temporal variations in the policies that do not directly affect the incentives of women without children. We find evidence that the reforms increased both hours of the workers and participation of non workers. The adjustment in working hours was largely through changing employers in an environment that working hours are often constrained within jobs. We also find that workers who are underemployed or over-employed tend to adjust their hours accordingly. The robustness of the findings is confirmed by the results of a number of sensitivity tests including nonparametric propensity score matching.

Zvi Eckstein, Tel Aviv University
Household Interaction and the Labor Supply of Married Women

The major increase in the employment rate of married women while that of men remained almost unchanged is one of the most dramatic socioeconomic changes to have taken place during the last century. In this paper, we argue that shifts in social norms regarding household interaction in determining a married couple's labor supply can provide an explanation. Specifically, we formulate and estimate a dynamic discrete -choice labor supply model, assuming that there are two types of households – Classical and Modern. The Classical household follows a Stackelberg leader game in which the wife's labor supply decision follows her husband's already-known employment outcome. The Modern family is characterized by a symmetric and simultaneous game that determines their joint labor supply and has a Nash equilibrium. The family type – Modern or Classical – is exogenously determined when the couple gets married but is not observable for estimation. The model is estimated using the Simulated Moments Method (SMM) and data from the Panel Study of Income Dynamics (PSID) survey for the years 1983-93. The estimated model accurately predicts employment rates and produces a good fit of mean wages to the data. We estimate that 38 percent of families are Modern and that the participation rate of women in those households is almost 80 percent. The employment rate of women in Classical families is 10 percent lower than that while the employment rates of men is almost identical in the two household types. These results support our hypothesis that part of the increase in labor supply of married women may be due to an increase in the share of Modern families in the population.

Friday 6 July - 11.00am - 12.30pm - Limited Dependent Variables 2

Jungwon Yeo, Singapore Management University
Estimating Dynamic Discrete Choice Models of Product Differentiation: An Application to Medicare Part D with Switching Costs

This paper estimates a dynamic discrete choice model with switching costs in the Medicare Part D market. We develop a new method that is relatively easy and straightforward for estimating models of forward-looking consumers with aggregate market share data. Our results indicate a large switching cost on the order of $1,900. This large switching cost estimate is consistent with other studies that estimate switching costs in choice of health care plans using individual-level data. The estimation results imply Part D enrollees, on average, would incur a loss of $5.3 in the intial year to avoid switching cost in future years. The average losses become $410 to $550 in later years as enrollees stick to their default plans to avoid switching costs.

Jerome Krief, LSU
An Integrated Kernel Weighted Smoothed Maximum Estimator for the Semilinear Binary Response Model

This paper considers the binary response model of the form Y = 1[Xb +g(V)+e>0] where (X,V) is observable, e is the error term, g some unknown infinite-dimensional parameter and, b is a finite-dimensional parameter of interest. A C.A.N estimator for b is proposed under the restriction Med (e/X,V)= 0 almost surely. Furthermore, the rate of convergence in probability is at least equal to n^{-4/9} (where n denotes the sample size) and close to n^{-1/2} if certain functions admit enough derivatives. This method neither restricts the form of heteroscedasticity nor suffers from "the curse of dimensionality" whenever V is multivariate.

Blair Alexander, ANU
A Monte Carlo Study of Bias Corrections for Panel Probit Models

We examine bias corrections which have been proposed for the Fixed Effects Panel Probit model with exogenous regressors, using several different data generating processes to evaluate the performance of the estimators in different situations. We find a best estimator across all cases for coefficient estimates, but when the marginal effects are the quantity of interest no analytical correction is able to outperform the uncorrected maximum likelihood estimator (MLE).

Friday 6 July - 11.00am - 12.30pm - Developing Economies

Lin Faqin, University of Adelaide
Trade, Income and the Baltic Dry Index

Does trade improve the income levels of the poor and less developed nations? Focusing on the least developed countries (LDCs) designated by the United Nations, we construct a new measure of trade cost, based on the Baltic Dry Index (BDI), as an instrument for trade. The BDI reflects the cost of utilizing dry bulk carriers, which are specially designed vessels for transporting primary goods internationally, where these goods dominate the output and export sectors of the LDCs. We find that a one percentage point expansion in trade raises GDP per capita by approximately 0.5 percentage point. This estimate is much larger than previously found in the literature and its quantitative significance emphasizes the importance of trade towards the economic development of low income countries.

Hongjia Zhu, The University of New South Wales
Can generator generate more investment? Evidence from Indian firm-level data

The electricity sector in India fails to provide the industrial firms with reliable power, to cope with this poor public infrastructure provision, many enterprises turn to install electricity generator. However, because the cost of self-generation is much higher than purchasing it from public grid, it is still a puzzle that whether the adoption of private remedial infrastructure can enhance firm's performance. This paper develops a theoretical framework to demonstrate the firm's decision in generator adoption as well as its subsequent influence on production capital investment. It then examines the theoretical implications by applying the interval propensity score matching approach on a firm level data from the World Bank Enterprise Survey Database. Our empirical results suggest that poor electricity provision significantly induces private investment in generator. Furthermore, there is a heterogeneous treatment effect of private generator adoption on investment rate, specifically, firms which are least likely to install generator however benefit most from it and have a larger impact on their investment in other production capital.

Reshad Ahsan, University of Melbourne
Structural Change in the Indian Economy

The Indian economy has grown rapidly since it undertook dramatic reforms in the early 1990's. However, unlike other growing Asian economies, the services sector has played an outsized role during this growth process. In addition, despite rapid economic growth, the informal sector still accounts for the vast majority of employment in India. The objective of this analysis is to learn more about what has driven India's unique structural change. In particular, we narrow down more precisely which sectors of the economy expanded and which sectors contracted after the liberalization period. We then identify government policies that detracted from positive structural change in various sectors of the economy. In addition to the services sector, we pay careful attention to changes in the Indian manufacturing sector over the past two decades. We examine the factors that have allowed manufacturing to be the 'slow' sector in the rapidly growing Indian economy.

Friday 6 July - 11.00am - 12.30pm - Household Consumption and Investment

Yibai Yang, University of Sydney
Endogenous time preference and households' behaviour: the case of Australia

Recently, the focus has been increasingly on the importance of endogenous time preference and its varying degrees of marginal impatience. Two types of marginal impatience can change the representative household's endogenous discount function: increasing (Koopmans-Uzawa type) and decreasing (Becker-Mulligan type), which are induced by current consumption and the investment on future-oriented capital, respectively. By modifying the endogenous discount factor in a small-open-economy RBC model, the equilibrium levels of the turnover in future-oriented capital and current consumption are obtained in a reduced form, which overcomes the non-stationarity problem. The relation between current consumption and the turnover in future- oriented capital is consistent with the empirical evidence from Australia.

Carlos Madeira, Central Bank of Chile
Explaining consumer debt risk through a micro model of income volatility and credit markets: The case of Chile

This work proposes an heterogeneous agents' model of household finances and credit risk, where families of different types suffer labor income shocks and choose from a menu of credit contracts offered by lenders to finance consumption. Households are denied credit when their current debt levels and financial risk surpass the limits tolerated by creditors. Using a variety of survey data I simulate household credit default for Chile over the last 20 years, replicating successfully the highs and lows of consumer default, as well as the dispersion of interest rates charged to consumers. Households, especially those of low income, are highly vulnerable to changes in interest rates, credit maturities and liquidity. Credit constraints are estimated to have a persistent cost of 0.55% to 0.72% in terms of overall consumption.

James Feigenbaum, Utah State University
Is It Really Good to Annuitize?

Although rational consumers without bequest motives are better off investing exclusively with annuitized instruments in partial equilibrium, we demonstrate the welfare effect of annuitization is ambiguous in general equilibrium on account of the pecuniary externality. Accidental bequests improve consumption allocations by transferring capital mostly to young people rather than to the old, for whom the present value of the transfer is much less. If households are not borrowing constrained in the rational competitive equilibrium where they annuitize, there will exist a consumption/investment rule involving nonannuitized investments that confers higher utility in general equilibrium while maintaining the same equilibrium capital stock. Thus it may be that households eschew annuitization because society has learned it is suboptimal. Regardless of the explanation for this behavior, policymakers should not take steps to encourage more annuitization by the public.

Friday 6 July - 11.00am - 12.30pm - Collusion and Mergers

Igor Muraviev, Higher School of Economics and ICEF
Overt Collusion under Competition Enforcement

The traditional economic approach does not distinguish between tacit collusion, in which firms adopt mutually beneficial strategies without explicit coordination, and overt collusion, in which firms meet to discuss prices or/and quantities. This, however, leads to a puzzle, since whilst tacit collusion is deemed generally legal, overt collusion is definitely not, and it is punished upon discovery by competition authorities. Yet, there is a strong evidence that firms do communicate which sits oddly with the traditional approach. The article seeks to fill the gap between tacit and overt collusion in a setting where firms observe only their own production levels and a common market price, which includes a stochastic component. Without communication, firms fail to discriminate between random shocks and marginal deviations, which constrains the scope for collusion. By eliminating uncertainty about what has happened, communication facilitates detection of deviations but reduces profits due to a risk of exposure to legal sanctions. With optimal collusive strategies, in this setting, firms engage in selective communication, i.e., they meet only if the market price falls somewhat below some trigger price. In such a way, communication is found to facilitate collusion, provided that the legal punishment is not too large.

Flavio Menezes, University of Queensland
Reduced intensity of competition makes mergers

Salant, Switzer and Reynolds (1983) find that in most cases, horizontal mergers between Cournot-Nash oligopolists are unprofitable. In this paper, we examine the idea, discussed but not modelled by Salant, Switzer and Reynolds, that mergers may reduce the intensity of competition. We setup a model of competitive interaction among symmetric firms producing a homogeneous good that includes both Bertrand and Cournot competition as special cases. In our model the intensity of competition is captured by a single parameter — the perceived slope of competitors' supply functions. We examine the interaction between the competitiveness parameter and the number of firms�which jointly determine equilibrium prices, quantities and profits. Next, we consider the case when the intensit of competition is determined endogenously by the actual number of firms in the market and provide a necessary and sufficient condition for mergers to be profitable.

Joanna Poyago-Theotoky, La Trobe University
Research Joint Ventures and Optimal Emissions Taxation

This paper performs a comparison of two well known approaches for modelling R&D spillovers associated with investment in E-R&D, namely d'Aspremont-Jacquemin and Kamien-Muller-Zang. We show that there is little qualitative difference between the models in terms of total surplus delivered when selecting the optimal tax regime when there is pre-commitment under cooperative regimes in which firms coordinate expenditures to maximize joint profits. However, under non-cooperative regimes there is marked difference, with the model of Kamien-Muller-Zang leading to higher taxation rates when firms share information. Furthermore, we argue that the Kamien-Muller-Zang model is of questionable validity when modelling R&D on emissions reducing technology due to counter intuitive results showing a positive relationhip between R&D spillovers and emissions taxes.

Friday 6 July - 11.00am - 12.30pm - Bayesian Econometrics

Tingting Cheng, Monash University
Bayesian Inference for Time-varying Coefficient Time Series Models

This paper proposes a Bayesian approach to bandwidth selection for local linear estimation of time-varying coefficient time series models. We investigate the construction of likelihood and posterior of bandwidth parameters when errors are independent and identically distributed as Gaussian and mixture Gaussian density, respectively. Further, we consider the case when errors are generated from an AR(1) process. A Markov chain Monte Carlo algorithm is presented for sampling bandwidths that are involved in the estimation of the time-varying coefficients and the error density. A Monte Carlo simulation study shows that: 1) the mixture Gaussian error density is not supported against its parametric counterpart under a correctly specified error density, but is supported against wrong assumptions of the error density; and 2) our proposed Bayesian method achieves better performance in estimating the bandwidths for the time-varying coefficient estimator than normal reference rule and cross-validation. Moreover, we apply the proposed Bayesian approach to the selection of bandwidths for the time-varying coefficient models involved in the capital asset pricing model and Okun's law.

Tomasz Wozniak, University of Melbourne
Bayesian Testing of Granger Causality in Makrov-Switching VARs

Recent economic developments have shown the importance of spillover and contagion effects in financial markets as well as in macroeconomic reality. Such effects are not limited to relations between the levels of variables but also impact on the volatility and the distributions. We propose a method of testing restrictions for Granger noncausality on all these levels in the framework of Markov-switching Vector Autoregressive Models. The conditions for Granger noncausality for these models were derived by Warne (2000). Due to the nonlinearity of the restrictions, classical tests have limited use. We, therefore, choose a Bayesian approach to testing. The inference consists of a novel Gibbs sampling algorithm for estimation of the restricted models, and of standard methods of computing the Posterior Odds Ratio. The analysis may be applied to financial and macroeconomic time series with complicated properties, such as changes of parameter values over time and heteroskedasticity.

Friday 6 July - 11.00am - 12.30pm - Bayesian Econometrics (continued)

Rong Zhang, The Melbourne Institute of Applied Economic & Social Research
Parameter estimation for a discrete-response model with double rules of sample selection: A Bayesian approach

We present a Bayesian sampling approach to parameter estimation in a discrete-response model with double rules of selectivity, where the dependent variables contain two layers of binary choices and one ordered response. Our investigation is motivated by an empirical study using such a double-selection rule for three labor-market outcomes, namely labor force participation, employment and occupational skill level. Full information maximum likelihood (FIML) estimation often encounters convergence problems in numerical optimization. The contribution of our investigation is to present a sampling algorithm through a new reparameterization strategy. We conduct Monte Carlo simulation studies and find that the numerical optimization of FIML fails for more than half of the simulated samples. Our Bayesian method performs as well as FIML for the simulated samples where FIML works. Moreover, for the simulated samples where FIML fails, Bayesian works as well as it does for the simulated samples where FIML works. We apply the proposed sampling algorithm to the double-selection model of labor-force participation, employment and occupational skill level. We derive the 95\% Bayesian credible intervals for marginal effects of the explanatory variables on the three labor-force outcomes. In particular, the marginal effects of mental health factors on these three outcomes are discussed.

Friday 6 July - 11.00am - 12.30pm - International Financial Issues 2

Renee Fry, Australian National University
Foreign Exchange Intervention and Volatility: Evidence from an Emerging Market

The effects of foreign exchange intervention in emerging economies are not well understood. This paper contributes to this literature understanding the effects by estimating a latent factor model of central bank intervention. Using the case study of Sri Lanka as an example, a set of trading partner daily currency returns and intervention data is decomposed into global, idiosyncratic and Sri Lankan intervention factors. The results show that the intervention practices of the Central Bank of Sri Lanka are consistent with their medium term objective of accumulating reserves, while also balancing their short run objective of containing excessive volatility such as that of the recent global financial crisis.

Botirjan Baltabaev, Monash University
FDI and Total Factor Productivity growth: New Macro Evidence

Despite the theoretical benefits of FDI to hosting countries as technology facilitator, empirical results yield mixed evidence on the effect of FDI on income growth. We argue that those different results are due to the omission of endogeneity problem and measure of dependent variable. Using system GMM estimation method in a panel of 46 countries over 1974-2008, as well as employing new external instruments for FDI, we find that FDI increases total factor productivity (TFP) growth. Moreover, we also find that the positive effect of FDI on TFP growth depends on the level of the absorptive capacity of receiving countries in terms of the distance to the technology leader (technology gap). Our results suggest that the countries with larger technology gaps seem to benefit more from FDI and, hence, support the theory of the advantage of relative backwardness.

Fabrizio Carmignani, Griffith University
Revisiting the effects of remittances on bank credit: a macro perspective

We investigate the effect of remittances on bank credit in developing countries. Understanding this link is important in view of the growing relevance of remittances as a source of external finance and of the beneficial impact that financial intermediation is likely to have on economic growth. Using a simple theoretical formalization, we predict the relationship to be U-shaped. We test this prediction using panel data for a large group of developing and emerging economies over the period 1960-2009. The empirical results suggest that at initially low levels of remittances, an increase in remittances reduces the volume of credit extended by banks. However, at sufficiently high levels of remittances, the effect becomes positive. The turning point of the relationship occurs at a level of remittances of about 2.5% of GDP.

Friday 6 July - 3.15pm - 4.45pm - Public Policy

Cain Polidano, University of Melbourne
Outcomes from workplace learning in school-based vocational education

In response to consistently high rates of youth unemployment, government have emphasised programs to engage youth in education. In countries where education systems are geared towards university preparation, this has involved incorporating vocational education and training (VET) subjects into the upper-secondary school curriculum. To improve outcomes, the OECD (2010) and others have emphasised the importance of incorporating 'real world' learning experiences into these programs. The aim of this study is to examine whether programs that incorporate a workplace learning component lead to better school and post-school outcomes. To control for selection, we use propensity score matching, together with rich data from the OECD Program for International Student Assessment (PISA) and longitudinal data from the Longitudinal Survey of Australian Youth 2003. We find that those who take VET courses with workplace learning are more likely to finish school and find a career job in their first year out from school. However, results suggest that taking VET courses with workplace learning negatively affects the chances of attaining higher education qualifications.

Hee-Seung Yang, Monash University
Do Work Decisions among Young Adults Respond to Extended Parental Coverage?

Young adults aged 19-24 are significantly less likely to have health insurance since most family insurance policies cut off dependents when they turn 19 or finish college. In recent years, several states in the United States have expanded eligibility to allow young adults to remain covered under their parents' employer-provided health insurance. For those who qualify for these benefits, the expansion of parental coverage partially reduces the value of being employed by a firm that provides health insurance or working full-time, as adult children can now obtain health insurance through another channel. In this study, we employ quasi-experimental variation in the timing and generosity of states' eligibility rules to identify the effect of the policy change on young adults' labor market choices. Our results suggest that the expansion of parental coverage increases the group dependent coverage rate and reduces labor supply among young adults, particularly in full-time employment.

Friday 6 July - 3.15pm - 4.45pm - Public Policy (continued)

Duncan McVicar, University of Melbourne
Did the 2007 Welfare Reforms for Low Income Parents in Australia Increase Welfare Exits?

This paper examines the impacts of recent Australian welfare to work reforms for low income parents of school-aged children who had been in receipt of Parenting Payment for at least one year. Specifically, the reforms introduced a requirement to engage in at least 15 hours of work-related activity per week from the youngest child's seventh birthday. We find large positive impacts on the hazard rates for exiting welfare and for switching between welfare payments. As a consequence, over the first year of the new regime the Parenting Payment caseload for the parents in this cohort with a youngest child aged 6 at the start of the year fell by 23.5%; without activation we estimate it would have fallen by 18.5%. The reforms also offer a rare opportunity to compare impacts on single and partnered parents, with partnered parents shown to be more responsive.

Friday 6 July - 3.15pm - 4.45pm - Social Capital

Domenico Tabasso, University of Melbourne
Trust: The Role of Culture, Institutions and Economic Conditions

The objective of this paper is to disentangle the role of culture, institutions and economic conditions in explaining individual levels of trust. Focusing on second generation immigrants in Australia and the United States, we use the variations in cultural backgrounds, as well as differences in the institutional and economic conditions of the two countries to identify how these components contribute to individual trust. The empirical analysis is based on data from the World Value Survey, the General Social Survey and the Household, Income and Labour Dynamics in Australia Survey. Our results indicate that the level of trust in the country of origin is important in explaining the level of trust of second generation immigrants in both countries and this relation is particularly strong in the United States. Conversely, economic conditions in the host country do not seem to play a relevant role, while religiosity and trust in the host country contribute to shaping the level of trust of women only. On the whole, while the transmission of trust through culture is extremely relevant, trust levels are only slightly altered by the socioeconomic and political environment.

Darian Naidoo, The University of Sydney
Social Networks and Wages in South Africa

Although it is a stylized fact that social networks play an important role in job search, their impact on labor market outcomes, namely wages, is still disputed, with both the "good matches" and "limited choices" hypotheses nding support in different contexts (Loury, 2006). This paper presents a simple model of the \referrer's dilemma" to sug- gest that individuals with low ability may still be referred to vacancies, in particular if they are socially close to the referrers, triggering wage penalties in some cases. Using data from the Cape Area Panel Study in South Africa, this paper investigates the eect of job search method (in particular, the use of social networks) and social distance (the use of household members and relatives versus friends) on wages for three groups, Black African, Coloured and White youth. Support for the model is found using fixed eects and random eects estimations for the log of hourly pay. For Black and Coloured youths, network use is associated with wage penalties for social proximity (finding a job through a household member or relative) but no signicant penalty for non related contacts (friends). For White youth, no signicant penalties or premiums are found.

Elisabetta Magnani, University of New South Wales
Bequest-regulating Social Norms and Intra-household Caring Activities

Do bequest-regulating social norms trigger a intra-household competition for care? We model the allocation of time resources by adult children between competing caring activities - those towards co-residing elderly and those towards co-residing children. We test the implications of our model for children's school performance by using the Indonesian Family Life Survey (IFLS) (Wave 2 to Wave 4). To assess causality we exploit the plausible exogeneity of past social norms to current co-residing decisions to find robust evidence that social norms regulating elderly bequests to adult care givers have a negative impact on children's school achievement.

Friday 6 July - 3.15pm - 4.45pm - Experimental Economics 4

Lachlan Deer, University of Adelaide
Experimental Evidence on the Response of Consumption and Asset Prices to Temporary Income Shocks

This thesis compares asset bubble and consumption behaviour in an experimental economy without income shocks to one with stochastic shocks. This design marries an asset trading problem with a consumption-savings decision. The results indicate the presence of asset price bubbles is more prevalent in the presence of stochastic income shocks, and feature longer durations, larger amplitudes, increase in turnover and an increase in speculation. Overconsumption occurs in both treatments, but is larger in treatments with variable income. Bubbles are more likely when income is variable and so too are instances of speculation.

Natsuka Tokumaru, Kyoto Sangyo University
The Flexibility of Fairness ideals: An Experimental Approach

Cappelen et al (2007) showed variety of fairness ideals with a two-person two-stage game experiment: two persons earn their incomes in the first stage, and increase and redistribute them in the second stage. By extending their experiment, we inquired whether our subjects' fairness ideals are independent of situations they are in. In contrast with previous research presupposing homogeneity of one's fairness ideal, this paper shows that our subjects' fairness ideals depend on their relative incomes: a majority of those who earned less than their opponents were egalitarians, who claimed equal redistribution, while most of those who earned more were consequentialist, who rejected redistribution. The same person changed his/her idea of fairness according to the result of the first stage, which tendency was observed whether or not the result of the first stage was independent of his/her effort or skill.

Friday 6 July - 3.15pm - 4.45pm - Experimental Economics 4 (continued)

Markus Schaffner, Queensland University of Technology
Heart beats and economic decisions: Observing mental stress in the ultimatum bargaining game

One aim of experimental economics is to try to better understand human economic decision making. Early research of the ultimatum bargaining game (Gueth et al., 1982) revealed that other motives than pure monetary reward play a role. Neuroeconomic research has introduced the recording of physiological observations as signals of emotional responses. In this study, we apply heart rate variability (HRV) measuring technology to explore the behaviour and physiological reactions of proposers and responders in the ultimatum bargaining game. Since this technology is small and non-intrusive, we are able to run the experiment in a standard experimental economic setup. We show that low offers by a proposer cause signs of mental stress in both the proposer and the responder, as both exhibit high ratios of low to high frequency activity in the HRV spectrum.

Friday 6 July - 3.15pm - 4.45pm - Growth, Inequality and Uncertainty

C.C. Yang, Academia Sinica
Optimal linear and two-bracket income taxes with idiosyncratic risk

This paper quantitativley charaterizes optimal linear and two-bracket income taxes. We consider a dynamic-stochastic-general-equilibrium model in which (i) agents face idiosyncratic earning risk that matches real-world data, (ii) tax distortion exerts its impact on both labor-leisure and consumption-saving decisions, and (iii) tax design involves both redistributing income and providing insurance. It is shown that, given the size of government consumption as of 17% of GDP, the optimal linear tax rate is 33% while the optimal two-bracket tax rates are 40% and 30% for the first and the second bracket, respectivley. Other substantive findings include: (i) similar to Slemrod et al. (1994), the welfare gain is minor if using a two-bracket tax rather than being confined to a linear tax; (ii) a significant fraction of agents supply zero labor or hold zero asset at the optimal; (iii) neglecting tax distortion imposed on either of labor-leisure and consumption-saving decisions will prescribe tax codes that deviate substantially from the optimal; (iv) the optimal two-bracket tax schedule will turn from regressive to progressive in the marginal tax rate once the volatility of idiosyncratic shocks becomes sufficiently large.

Zivanemoyo Chinzara, Queensland University of Technology
Economic Growth and Inequality Patterns in the Presence of Costly Technology Adoption and Uncertainty

We develop a stochastic endogenous growth model to explain the diversity in growth and inequality patterns and the non-convergence of incomes in transitional economies where an underdeveloped financial sector imposes an implicit, fixed cost on the diversification of idiosyncratic risk. In the model endogenous growth occurs through physical and human capital deepening, with the latter being the more dominant element. We interpret the fixed cost as a 'learning by doing' cost for entrepreneurs who undertake risk in the absence of well developed financial markets and institutions that help diversify such risk. As such, this cost may be interpreted as the implicit returns foregone due to the lack of diversification opportunities that would otherwise have been available, had such institutions been present. The analytical and numerical results of the model suggest three growth outcomes depending on the productivity differences between the projects and the fixed cost associated with the more productive project. We label these outcomes as poverty trap, dual economy and balanced growth. Further analysis of these three outcomes highlights the existence of a diversity within diversity. Specifically, within the 'poverty trap' and 'dual economy' scenarios growth and inequality patterns differ, depending on the initial conditions. This additional diversity allows the model to capture a richer range of outcomes that are consistent with the empirical experience of several transitional economies.

Francisco Azpitarte, University of Melbourne
A Dominance Criterion for Measuring Income Inequality from a Centrist View - The Case of Australia

This paper introduces a new Lorenz dominance criterion that allows ranking income distributions according to centrist measures à la Seidl and Pfingsten (1997). In doing so, it defines alfa-Lorenz curves by adapting the generalized Lorenz curves to this case. In addition, it provides an empirical illustration of these tools using Australian income data for the period 2001–2008. The results suggest that despite the reduction of relative inequality, inequality increased for most centrist value judgments.

Friday 6 July - 3.15pm - 4.45pm - Financial Crises

Jan Novotny, University of Manchester
The Identication of Price Jumps: Stock Market Indices During the Crisis

We performed an extensive simulation study to compare the relative performance of many price-jump indicators with respect to false positive and false negative probabilities. We simulated twenty different time series specifications with different intraday noise volatility patterns and price-jump specifications. The double McNemar non-parametric test (McNemar, 1947) has been applied on constructed artificial time series to compare fourteen different price-jump indicators that are widely used in the literature. The results suggest large differences in terms of performance among the indicators, but we identified the best-performing indicators. In the case of false positive probability, the best-performing price-jump indicator is based on thresholding with respect to centiles. In the case of false negative probability, the best indicator is based on bipower variation. Then, we applied all price jump indicators to estimate the price jumps for nine stock market indices using 5-minute data for years from 2007 to 2010. Results show that the price jump indicators tend to group in clusters with close numbers of estimated price jumps per month. However, the overlap of the identified price jumps inside a cluster is rather low, which confirms their different real performance.

Friday 6 July - 3.15pm - 4.45pm - Financial Crises (continued)

Yi Ling Low, The University of Melbourne
The Option-Implied Density of the S&P500: What Drives Market Uncertainty and Crisis Prediction?

This thesis focuses on the information embedded in the option-implied risk-neutral density (RND) of the S&P 500 Index. We propose a method of extraction that addresses the problem of estimating the tails of the distribution where option prices are not observed, and obtain a time-series of RNDs. Using a vector autoregressive with exogenous variables model (VARX), we analyze the interactions of the first four moments of the distributions and study the financial and economic factors affecting these moments. Early findings of significant cross-moment dynamics as well as impact from financial factors on the RNDs provide inference for a number of on-going issues in finance, including the on-going rivalry between the leverage and volatility premium explanations for asymmetric volatility. We study the RND moment dynamics over the period surrounding the 2008 subprime crisis and find evidence of both forward-looking and backward-looking changes in investors' risk perception related to the crisis, even at monthly intervals.

Gazi Hassan, The University of Waikato
Sovereign Country Rating, Growth Volatility and Financial Crisis

Using monthly data from January 1996 up to May 2010 for a panel of 76 developed and emerging economies and adopting an instrumental variable estimation technique by correcting for both heterogeneity and endogeneity (correlation between the regressors and the idiosyncratic error) using the generalized two-stage least squares (G2SLS, EC2SLS) procedure method suggested by Balestra and Varadharajan-Krishnakumar (1987) and Baltagi (1995), this paper provides empirical evidence that an alternative channel via which growth volatility is reduced is through increases in sovereign country ratings. The paper also provides a new insight on the effect of global financial crisis (GFC) that it has contributed towards increased macroeconomic volatility by weakening this volatility reducing effect of sovereign country rating. Finally acknowledging the simultaneity between rating and volatility where output volatility may be a determining factor for sovereign country rating, the paper adopts a system approach and uses three stage least square (3SLS) estimator and finds that volatility reducing effect of country credit rating is robust. Sovereign rating changes affect growth volatility via sovereign credit default swap (CDS) spread and its volatility.

Friday 6 July - 3.15pm - 4.45pm - Political Economy

Galina Zudenkova, Universitat Rovira i Virgili
A Model of Party Discipline in Congress

This paper studies the impacts of party discipline on allocation of scarce federal resources among national districts. In particular, I model the distribution of government spending within a two-party legislature as an asymmetric contest game between congress members, in which the majority party has a relative advantage in directing pork barrel into its partisan districts. The party leaders can enforce discipline in their corresponding parties to make their congress members support the party line, i.e., maximize the party's total share of pork barrel (rather than follow interests of their home districts). I show that if the relative advantage of the majority party in allocating government spending is not very high, then in equilibrium, both leaders choose to impose discipline in their corresponding parties. Under party discipline, a per district pork-barrel share of the majority party decreases, while that of the minority party increases, relative to the allocation with no party discipline. My results therefore indicate that party discipline favors the minority party and leads to less biased distribution of government spending among national districts.

Kazuya Kikuchi, Hitotsubashi University
Multidimensional political competition with non-common beliefs

This paper extends a standard probabilistic voting model with a multidimensional policy space, allowing candidates to have different beliefs about the distribution of voters' preferences. We focus on the question of whether the common assumption that candidates have the same belief is crucial for the nonexistence of equilibria which is prevalent in many multidimensional models. In the extended model, we show that the set of pairs of the candidates' beliefs for which Nash equilibria exist is almost the same as in the special case with a common belief. However, we also show that the introduction of different beliefs substantially expands the possibility of the existence of "equilibria" at which the candidates may give up infinitesimal amounts of votes (i.e., epsilon-equilibria of Radner (1980) for arbitrarily small epsilon > 0).

Uwe Dulleck, Queensland University of Technology
Politicians as Experts, Electoral Control, and Fiscal Restraints

We establish an argument for fiscal restraints which is based on the idea that politicians are experts in the meaning of the credence good literature. A budget maximizing politician is better informed than the electorate about the necessary spending to ensure the states ability to provide services for the economy. Voters, being able to observe the budget but not the necessary level of spending, attenuate the government's spending level via electoral control. A fiscal restraint limits the maximum spending a government will choose if the level of spending ensuring the politicians reelection is not sufficient to ensure the state's ability to provide services to the economy. We determine when such a fiscal restraint improves voter welfare and discuss the role of the opposition in situations where very high levels of spending are required.

Friday 6 July - 3.15pm - 4.45pm - Time & Preference

Juliane Scheffel, The University of Nottingham Ningbo China
Identifying the Effect of Temporal Work Flexibility on Parental Time With Children

Temporal work flexibility is perceived as means for a better reconciliation of family and work. By exploiting the German re-unification and the particularity of the labor market of the GDR, I identify its causal effect on parental time with children. The analysis shows that flexitime increases parental time by 6 – 7 percent. A comparison between East and West suggests an endogneity bias amounting to 2/3 of the initial estimate for mothers. Furthermore, non-child related household activities are inferior so that mothers inter-weekly substitute household activities by concentrating more on childcare time during the workweek.

Friday 6 July - 3.15pm - 4.45pm - Time & Preference (continued)

Justin van de Ven, University of Melbourne
An Empirical Investigation of Quasi-hyperbolic Discounting

In contrast to the extensive experimental evidence that supports the hypothesis that many people exhibit time-inconsistent preferences when planning for the future, relatively little work has been done to test the hypothesis on field data. This study reports estimates for a structural model of decision making calculated on survey data for a broad cross-section of the UK population. Short-run discount rates are distinguished from long-run rates by focussing upon behavioural margins over pensions and employment in context of an experience effect on wages. The results support the conjecture that allowing for quasi-hyperbolic discounting obtains a better fit of the model to survey data; the short-run discount factor, estimated at 0.825, is significantly less than the long-run discount factor, of 0.976.

Stefanie Schurer, Victoria University of Wellington
Getting stuck in the blues: Persistence of mental health problems and its associated health care utilisation

Depression and anxiety are reported to start early in life, are chronic in nature, and usually coincide with many physical co-morbidities. Some medical research suggests that episodes of anxiety and depression, once experienced, have a high likelihood to reoccur if left untreated, even if the triggers of the first depression are absent. This would be so, because the experience of a depression changes the brain chemistry towards making the individual more (risk) sensitive, resulting in withdrawal and emotional vulnerability. Individuals who suffer once a mental health problem are therefore likely to be trapped in a vicious circle of relapsing symptoms, that may impair productivity, require continuous medical attention, and decrease quality of life. This article addresses the question whether there is a large degree of persistence in mental health problems and, if yes, whether this persistence is related to elevated use of medical health care. The empirical analysis is conducted with nine waves of Australian longitudinal data and uses a system GMM-IV and variance component approach to separately identify true from spurious state dependence. As state dependence may depend on the severity of the condition, we evaluate the distribution of persistence across socioeconomic and age groups, and by the severity of the mental health problem. Our results suggest only a moderate degree of persistence in mental health problems once individual-specific factors are accounted for. However, individuals with chronic mental health problems spend on average almost 90 $ more on prescription drugs, visit twice more often a GP and are between 60 and 100 percent more likely to regularly see a doctor per annum than individuals with no chronic mental health problems.

Friday 6 July - 3.15pm - 4.45pm - Econometric Methods and Applications

Sasan Bakhtiari, University of New South Wales
Small Business Redefined: A Quasi-Linear Fuzzy Classification of Firm Size

The quasi-linear fuzzy modeling of Filev & Yager (1991) is applied to the estimation of the relationship between the number of managers and employees in a firm, then used as a basis for the discrete classification of firms into small and large businesses. The application of the fuzzy modeling to a data set of Australian firms shows that there exists an evolution episode in the growth path of firms in which firms are driven by various transitional forces. The composition of the transition region suggests that the 2011 small business tax-break cap set by Australian Taxation Office falls short of supporting growth. The implications of this paper pave the way for some improvement to the business tax code aiming at growth and job creation.

Derya Uysal, Institute for Advanced Studies
Doubly Robust Estimation of Causal Effects with Multivalued Treatments

In this paper, I lay out a relatively simple approach for multivalued treatments and apply it to an interesting data set. The approach is basically a generalization of the doubly robust estimation methods for different treatment parameters, which are defined in multivalued treatment effect estimation problem. Doubly robust methods combine weighting and regression methods and stay consistent even if one of the methods uses a misspecified model. Based on the proposed doubly robust method for multivalued treatment, I estimate the returns to schooling using the rich data set of British Cohort Study (BCS). Schooling is used as (ordered) multivalued treatment variable. Average returns are estimated for entire population, as well as conditional on having a specific educational achievement. The analysis is carried out for female and male samples separately to capture possible gender differences. On average males earn more than females for all educational achievement, however, the percentage wage gain due to higher education versus any other lower educational attainment is higher for highly educated females than highly educated males.

Sezim Dzhumasheva, Australian Bureau of Statistics
Propensity Score Matching: An Application Using the ABS Business Characteristics Survey

This study investigates the usefulness of propensity score matching (PSM), as suggested in Rosenbaum and Rubin (1983), in the context of the Australian Bureau of Statistics (ABS) Business Characteristics Survey (BCS). In particular, the study examines the use of PSM to match the firms which received government assistance to those which did not receive government assistance. In studying outcomes, such matching is important in order to account for the systematic differences between the treated (assisted) and control (non-assisted) firms. If not accounted for, there will be uncertainty about whether the difference in the outcome of interest between the two groups is caused by the effect of the treatment (government assistance) or because of the pre-treatment differences between the two groups. One could not simply assume that the government assistance is the only factor that differentiates the outcomes of the businesses.

The study examines different matching algorithms, conducts tests to evaluate the quality of matching, and applies a selected algorithm to a specific case study – analysing the effect of government assistance on the firm propensity to innovate. In order to address the correlation within matched pairs, a random effects model for binary matched pairs is tested following the approach outlined in Agresti (2002) – that is, a probit generalised linear mixed model (probit GLMM). The results are then compared to those of an ordinary probit model in order to observe the impact of the correlation within matched pairs, and to those of a probit model on a non-matched sample, so as to examine the impact of the PSM on the regression results.

Friday 6 July - 3.15pm - 4.45pm - Promotions & Career

Kwanghui Lim, Melbourne Business School
The Deteriorating Career Prospects of Scientists

Junior scientists face much gloomier prospects than they have in past decades: worse prospects of success in grants, more time in post-doctoral fellowships, and less chance of achieving independence as the head of their own laboratory. This paper develops a model of the career cycle of scientists, that attempts to incorporate some of the explanations in the empirical literature in a fully specified model. It also offers some alternative explanations within the same framework.

Alexandru Nichifor, University of St. Andrews
Intellectual Influence: Quality versus Quantity

The evaluation of scientific output has a key role in the allocation of research funds and academic positions. Decisions are often based on quality indicators for academic journals and over the years a handful of scoring methods have been proposed for this purpose. Discussing the most prominent methods (de facto standards) we show that they do not distinguish quality from quantity at article level. The systematic bias we find is analytically tractable and implies that the methods are manipulable. We introduce modified methods that correct for this bias, and use them to provide rankings of economic journals and of economists. We also provide rankings of researchers in the subfield of economic theory.

Suraj Prasad, University of New South Wales
Promotions, Multiskilling and Incentives for Skills

We study a worker's incentive to acquire costly skills when skills cannot be verified by a third party and thus cannot be contracted on. A firm's promise to reward the worker for skills is split into two parts: a promise to promote the worker for skills (promotion promise) and a promise to pay higher wages for a promotion (wage promise). Promoting a worker based on general skills, conveys information to a less informed labor market, bidding up wages. So the general skill helps the rm keep its wage promise. Promoting a worker based on firm specfic skills, increases output without increasing wages offered by a labor market. So the firm specific skill helps the firm keep its promotion promise. To keep both promises, workers are promoted only when they acquire both types of skills, which in turn leads to multiskilling. Because promotions selectively reveal information about the general skill to the labor market, firms also earn a return on general training. This helps explain why many companies pay for training to develop general skills that workers need in higher level jobs.

Friday 6 July - 3.15pm - 4.45pm - Game Theory Applications

David Malueg, University of California Riverside
Private Provision of Public Goods: the Case of the "Best Shot" Production Function

This paper investigates private provision of a public good whose level is determined as the maximum contribution made by a donor. Donors' costs of effort are envisioned as either commonly known or privately known. With perfect information, equilibrium is in mixed strategies. For symmetric games, the unique semi-symmetric equilibrium strategy is characterized, and any number of players may be active. When information is private, equilibrium is in pure strategies and all players are active. In both scenarios, equilibria are inefficient--we discuss mechanisms to improve efficiency.

Eric Chou, National Tsing Hua University
Partnership Dissolution when Efficiency Warrants Multiple Owners

We extend the traditional partnership dissolution models by considering the possibility that partners may only desire a fraction of a partnership (such as a block of shares of a company) so that an efficient dissolution entails multiple owners. We find that the problem can be viewed as the composition of a trade element and an auction element, and if one initial ownership structure entails a higher auction elements than abother initial ownership, the former will be more likely to be dissolved efficiently or generate more profit for a broker who is trying to facilitate the dissolution. As a less evenly distributed ownership structure usuallly entails a higher auction element and hence has a better efficiency and profitability property, our results stand in contrast with the traditional view that a equally distributed initial ownership is usually prefered. By extending our result to consider the whether to sell a company with an auction or by engaging in negotiation, we find that the traditional view that auction is always better fails to hold in general and surely fails when the existing number of buyer is large.

Abhijit Sengupta, University of Sydney
On the Optimality of Auctions with Secret Reserve Prices

The overwhelming majority of traditional auctions conducted by auction houses has a reserve price but it is kept secret but the seller retains a right of refusal in that she may choose to sell at the auction price or retain the object. We consider an environment in which the seller has private information about an object that affects her own valuation as well as the valuations of bidders but lacks a technology for costless and credible revelation. For such an environment, we provide a sufficient condition that ensures that a seller’s ex ante expected profit is higher under an auction with a secret reserve and a right of refusal than under a disclosed reserve price. We also construct a class of examples in which the seller’s interim expected payoff is higher under secrecy than under disclosure no matter what her realized signal is.