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ECONOMICS

REPORT OF THE 2009 PHD CONFERENCE IN ECONOMICS AND BUSINESS

by

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Business School
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DISCUSSION PAPER 10.07

BUSINESS SCHOOL

The University of Western Australia

and

CENTRE FOR ECONOMIC POLICY RESEARCH

Research School of Social Sciences

The Australian National University

REPORT OF THE

2009 PhD CONFERENCE IN ECONOMICS AND BUSINESS

4th November – 6th November 2009

Perth, Western Australia

Conference Convenors: Ken Clements and Izan

Conference Coordinator: Sandra Pollock

CONTENTS

CONFERENCE REPORT

The PhD Conference in Economics and Business is an annual event that brings together students and academics from most Australian universities, as well as some overseas institutions. It was first initiated in 1987 as a joint venture between the Business School of the University of Western Australia and the Centre for Economic Policy Research at the Australian National University, as well as Queensland Institute of Technology in some recent years. The location of the conference alternates between Canberra (in even years) and Perth (in odd years).

The basic objective of the conference is to help with the training of promising doctoral students by giving them the opportunity to gain feedback on and exposure for their research. It also enables PhD students to meet with their peers and to make contact with senior academics and researchers with similar interests, as well as acting as an informal job market whereby students can demonstrate their abilities and attract attention to their prospects.

The format of the conference has remained true to the original concept whereby each student is assigned a discussant to comment on their research paper. The discussants are usually senior academics with extensive experience in supervision who are specially chosen to match the subject matter of the papers. This highlights an important feature of the conference which is the outstanding quality of the feedback given to the students by the discussants.

Additionally the conference is a productive combination of research in both economics and finance. The conferences have now been taking place for more than two decades and Tables 1 and 2 provide some information on past conferences.[1]

The twenty-second PhD Conference was held at the new premises of the UWA Business School in November 2009 and involved 35 students and 35 discussants, who came from around Australia, New Zealand and the US. There were a number of extremely interesting papers and it was clear from the quality of the students (and discussants!) that the future of research in economics and finance is indeed exciting. Paul Frijters of Queensland University of Technology presented a stimulating Invited Lecture on “The Cult of Theoi: Economic Uncertainty and Sacrifices”.

Three prizes were determined by a secret ballot of all participants and the winners were:

- **Best Student Presentation – Economics:** Shared between:
  Shane Evans (Australian National University)
  Grace Gao (University of Western Australia)
  Stéphane Verani (University of California Santa Barbara)

- **Best Student Presentation – Finance**:
  Winner - Dane Etheridge (University of Western Australia)
  Runner up - André Levy (University of NSW)

- **Best Discussant**:
  Winner - Doug Foster (Australian National University)
  Runner up - Renee Adams (University of Queensland)

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[1] For more details on the conference series, see Ye Qiang and K.W. Clements “Ten Years of the PhD Conference”, Economic Record 75 (1999): 301-12, K. W. Clements and P. Wang “Who Cites What?” Economic Record 79 (2003): 229-44, and K. W. Clements “The PhD Conference Reaches Adulthood” Economics Discussion Paper No 09.17, Business School (http://www.business.uwa.edu.au/__data/assets/pdf_file/0005/606488/09_17_Clements.pdf).

Sandra Pollock was the Conference Coordinator and she did an outstanding job in dealing with all aspects of the arrangements and ensuring that the conference participants were well catered for. Sandra was assisted by Annie Walker, and Adham Al Said, Mei Hsiu Chen, Grace Gao and Ian Li ensured that the smart boards worked smartly and the sessions ran smoothly. We would like to extend our sincere thanks to all members of the conference team for their hard work.

The conference would not have been possible without the generous financial support of a number of sponsors to whom we are most grateful. On behalf of the organisers, we would like to acknowledge the assistance of the following institutions:

- ACIL Tasman
- ANZ Bank
- Australian Finance Conference & AELA
- Australian Government: Department of Finance & Deregulation
- Australian Government: Department of Innovation, Industry, Science & Research
- Australian Government: Department of Prime Minister & Cabinet
- Australian Government: Productivity Commission
- Australian Government: The Treasury
- Australian National University
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- Department of Treasury and Finance Victoria
- Department of Treasury and Finance (WA)
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- Sherwood Overseas Company
- Tasmanian Department of Treasury and Finance
- The University of Western Australia
- Wesfarmers
- Western Australian Office of the Auditor General

Izan
Ken Clements
Conference Convenors

PROGRAM

Wednesday 4th November

6.30 pm	*Registration & Reception BBQ*	
	Opening Address Tracey Horton Dean, Business School UWA	

Thursday 5th November

8.30 - 9.00 am	*Late Registration*	
9.00 – 10.30 am	Session 1:	Macroeconomics, Housing and Credit
	Session 2:	Demand Analysis
	Session 3:	Regulation and Capital Markets
10.30 – 11.00 am	*Morning Tea*	
11.00 – 12.30 pm	Session 4:	Resources and Economics
	Session 5:	Exchange Rates and the FX Market
	Session 6:	Market Rationality
12.30 – 2.00 pm	*Lunch*	
2.00 – 3.00 pm	Invited Lecture - Ernst & Young Lecture Theatre G89	
	Paul Frijters, Queensland University of Technology	
3.00 – 3.30 pm	*Afternoon Tea*	
3.30 – 5.30 pm	Session 7:	Public Goods, Infrastructure and Altruism
	Session 8:	Scientists & Productivity

Friday 6th November

9.00 – 10.30 am	Session 9:	Ground Water & Leakages
	Session 10:	Corporate Finance
	Session 11:	Innovation & Education
10.30 – 11.00 am	*Morning Tea*	
11.00 – 12.30 pm	Session 12:	Labour Economics
	Session 13:	Executive Compensation and Ownership
12.30 -2.00 pm	*Lunch*	
2.00 – 3.30 pm	Session 14:	Choice Modelling
	Session 15:	Bubbles, Crises and Crashes
3.30 – 4.00 pm	*Afternoon Tea*	
4.00 – 5.30 pm	Session 16:	Efficiency & Tourism
	Session 17:	Capital Markets and Currency Crises
6.30 for 7.00 pm	*Conference Dinner at The University Club* *Author and Discussant prizes awarded.*	

SESSIONS

SESSION 1: Macroeconomics, Housing and Credit

Chairperson: Sam Tang, UWA

Stéphane Verani, University of California, Santa Barbara

Macroeconomic Implications of Endogenous Borrowing Constraints

Sarah Carrington, Monash University

House Prices, Credit and Willingness to Lend

Discussants: Adam Cagliarini, RBA
Glenn Otto, University of New South Wales

SESSION 2: Demand Analysis

Chairperson: Paul Crompton, UWA

Grace Gao, The University of Western Australia

World Food Demand

Nam-Hyun Kim, University of Adelaide

A Semi-parametric Model and Method in an Empirical Demand Study

Discussants: Keith McLaren, Monash University
Xiaodong Gong, The Treasury

SESSION 3: Regulation and Capital Markets

Chairperson: Ray da Silva Rosa, UWA

Fernando Camacho, University of Queensland

Price Regulation and the Cost of Capital

Manish Agarwal, University of South Australia

Do Merger Regulation Regimes Impede Cross-Border Mergers and Acquisitions

Discussants: Bob Officer, Acorn Capital
Harry Bloch, Curtin University of Technology

SESSION 4: Resources and Economics

Chairperson: Peter Robertson, UWA

Vipin Arora, Australian National University

Investment Returns and the Price of Oil

Yiyong Cai, Australian National University

Resources, Revolution and Repression: The Paradox of Plenty

Discussants: Mark Horridge, Monash University
Jeff Sheen, Macquarie University

SESSION 5: Exchange Rates and the FX Market

Chairperson: Andrew Williams, UWA

Tran Phuc Nguyen, Griffith University

Implications of Exchange Rate Policy for Foreign Exchange Market Development: Vietnam, 1986-2008

AFM Kamrul Hassan, Curtin University

Population Structure and Real Exchange Rate: Evidence from OECD Countries

Discussants: Yihui Lan, University of Western Australia
Graeme Wells, University of Tasmania

SESSION 6: Market Rationality

Chairperson: Marvin Wee, UWA

Keith Godfrey, The University of Western Australia

Does the Law of One Price Apply to the Twin ADRs of BHP Billiton? Evidence from arbitrage trades (working paper 9 September 2009)

Lei Shi, University of Technology, Sydney

Boundedly Rational Equilibrium and Risk Premium

Discussants: Terry Walter, University of Technology Sydney
Paul Kofman, University of Melbourne

Invited Lecture **Ernst & Young Lecture Theatre**

Chairperson: Ken Clements, Business School, The University of Western Australia

Paul Frijters, School of Economics and Finance, Queensland University of Technology.

'The Cult of Theoi: Economic Uncertainty and Sacrifices'

SESSION 7: Public Goods, Infrastructure and Altruism

Chairperson: Alison Anlezark, NCVER

Tirnud Paichayontvijit, University of Auckland

Does Strategic Play Explain the Decay in Contributions in a Public Goods Game? Experimental Evidence.

Youhua Shu, University of Sydney

Does an Appointed Leader have Incentive to Provide Infrastructure with Immediate Return?

Aaron Nicholas, Monash University

Trust and the Transmission of Trust: Do Other-Regarding Preferences Make a Difference

Discussants: Geoff Brennan, Australian National University
Brian Dollery, University of New England
Ralph Bayer, University of Adelaide

SESSION 8: Scientists & Productivity

Chairperson: Rod Tyers, UWA

Rosemary Humberstone, University of Melbourne

The Impact of University Licensing Behaviour on Scientist Disclosure

Sheng Liu, University of Newcastle

An Investigation of the Productivity Spillover Effects of Inward FDI on the Chinese Electronic Industry

Discussants: Jonathan Pincus, University of Adelaide
Russell Smyth, Monash University

SESSION 9: Ground Water & Leakages

Chairperson: Michael McLure, UWA

Wasantha Athukorala, Queensland University of Technology

Accounting for Groundwater Quantity Depletion and Quality Deterioration Externalities Simultaneously: Theory and Empirical Evidence.

Shane Evans, Australian National University

Innovation Contracts with Leakage Through Licencing

Discussants: David Pannell, University of Western Australia
Stephen King, Monash University

SESSION 10: Corporate Finance

Chairperson: Millie Chang, UWA

Dane Etheridge, The University of Western Australia

The Influence of Board Networks on Information Asymmetry in Mergers and Acquisitions

Yushu Zhu, Australian National University

The Spurious Ratio Problem and the Determinants of Long-Term Debt Issuances

Discussants: Martin Bugeja, University of Technology Sydney
Richard Heaney, RMIT

SESSION 11: Innovation & Education

Chairperson: Abu Siddique, UWA

Isfaaq Timol, Monash University

Long-Run Convergence in Manufacturing and Innovation-based Models.

Daniel Suryadarma, Australian National University

Why are Muslims Left Behind in Education? Evidence from Indonesia.

Discussants: Steve Dowrick, Australian National University
Ranjan Ray, Monash University

SESSION 12: Labour Economics

Chairperson: Elisa Birch, UWA

Idaya Husna Mohd, Flinders University

A Critical Analysis of the Case for a National Minimum Wage for Malaysia.

Yury Andrienko, University of Sydney

The Role of Distance in Returns to Geographical Mobility: Evidence from HILDA Survey.

Discussants: Russell Ross, University of Sydney
Kostas Mavromaras, Flinders University

SESSION 13: Executive Compensation and Ownership

Chairperson: Iain Watson, UWA

Ja Young Suh, University of Technology Sydney

Analysis of CEO Compensation: Australian Evidence

William Taylor, Victoria University of Wellington

Managerial Ownership, Wealth Dependence and Asset Valuation

Discussants: Renee Adams, University of Queensland
Doug Foster, Australian National University

SESSION 14: Choice Modelling

Chairperson: Anu Rammohan, UWA

Abbie McCartney, University of Western Australia

The Policy Relevance of Choice Modelling: An Application to the Ningaloo and Proposed Capes Marine Parks

Yuanyuan Gu, University of New South Wales

Monetary Valuation of Informal Carers' Needs using a Discrete Choice Experiment

Discussants: Denzil Fiebig, University New South Wales
Elizabeth Savage, University Technology Sydney

SESSION 15: Bubbles, Crises and Crashes

Chairperson: Juliana Ng, UWA

Vicky Siew See Chow, University of Melbourne

An Examination of Option Hedging Strategies Before and During Crisis Periods

André Levy, University of New South Wales

Subprime Loans and Subpar Investments: A Dynamic Equilibrium of Financial Bubbles and Crashes

Discussants: Geoff Kingston, Macquarie University
Tom Smith, Australian National University

SESSION 16: Efficiency & Tourism

Chairperson: Sam-Ho Lee, UWA

Jonathan Kim Huat Lim, University of New South Wales

Free Entry and Social Efficiency in an Open Economy

Ann Marsden, University of Tasmania

An Investigation of Price Discrimination and Profitability in the Tourist Accommodation Industry in Tasmania

Discussants: Martin Richardson, Australian National University
Harry Clarke, La Trobe University

SESSION 17: Capital Markets and Currency Crises

Chairperson: Yihui Lan, UWA

Kiatanantha Lounkaew, Australian National University

Optimal Subsidy for Higher Education in Thailand

Julian Inchauspe, Macquarie University

The Role of Multiple Equilibria and Self-Fulfilling Expectations in Macroeconomics and Currency Crises

Discussants: Parvinder Kler, University of Queensland
David Goldbaum, University of Technology Sydney

ABSTRACTS

Do Merger Regulation Regimes Impede Cross-Border Mergers and Acquisitions

Manish Agarwal
University of South Australia

Many countries have liberalised their investment regimes to attract foreign direct investment (FDI) and also have enacted competition laws that include review of cross-border mergers and acquisitions (M&A), which is an important mode of FDI. It is claimed that merger regulation regimes (particularly the mandatory pre-merger notification systems) create disincentives for cross-border M & A. and they run counter to FDI liberalisation. This claim is examined in a sample of 70 countries for 1995-2006. Findings suggest that merger regulation regimes *per se* do not act as a barrier to cross-border M & A. They have a negative effect only when implemented in countries characterised by extremely poor investment climates.

The Role of Distance in Returns to Geographical Mobility: Evidence from HILDA Survey

Yury Andrienko
University of Sydney

This paper studies wage returns to distance for internal migrants in Australia relying on the traditional human capital model of investment in migration. Using individual level data from the HILDA Survey and applying a system GMM for dynamic panel earning model, I find evidence for theoretical predictions. There are negative returns to distance for labour moving for family reasons, on average negative four percent in the short-run. For individuals migrating for economic reasons returns to distance are positive, on average four percent, but decreasing with wage and disappearing for wages above median.

Investment Returns and the Price of Oil

Vipin Arora
Australian National University

It is possible that declining rates of return on a variety of savings instruments in the lead-up to the financial crisis of 2007-2009 may have contributed to the rising oil price during the same period. This paper elevates the claim that at least some oil exporting countries may have chosen not to increase production in-line with demand, believing that the future value of retained oil would yield higher returns than other instruments. Such behaviour is exhibited in simulations of a two-region dynamic general equilibrium model in which asset portfolios include oil reserves alongside foreign and domestic bonds. Increases in world savings decrease rates of return on bonds, making holding oil as an asset more attractive. This lowers production and raises the price. Similar behaviour is also shown following a savings rise in the oil-producing region.

Accounting for Groundwater Quantity Depletion and Quality Deterioration Externalities Simultaneously: Theory and Empirical Evidence

Wasantha Athukorala
Queensland University of Technology

Numerous studies have examined quantity depletion and quality deterioration issues of extracting groundwater. However, as they do not deal with both quantity depletion and quality deterioration externalities simultaneously, they have underestimated the shadow price of groundwater. The main objective of the paper is to derive the costs of groundwater extraction externalities including both quantity depletion and quality deterioration simultaneously. The study shows that in order to achieve the optimum outcomes by preserving the steady state quantity as well as the quality of groundwater, both types of externalities have to be incorporated into the resource management model. The theoretical arguments are tested empirically using data collected from onion production.

Resources, Revolution and Repression: The Paradox of Plenty

Yiyong Cai
Australian National University

In this paper, we present a resource-curse model, relating unfulfilled economic growth to resource hollow-out and labour divestment. The essential idea is that, having outside options, the mineral extraction sector exerts its monopolistic power and exploits most resources for exports rather than satisfying domestic demand, which depresses the good-producing sector, and lowers the productive labour return; consequently, labour is distracted from productive activities and the good producing sector shrinks further, which makes the elite exports more and civilians revolt more. This constructs a vicious circle. Having the energy-rich SSA in mind, we find our model not only capable of explaining the "lower" average income observed on the spot compared to other energy-poor economies, but also able to tackle the paradox of "(energy) poverty in midst of plenty".

Price Regulation and the Cost of Capital

Fernando Camacho
The University of Queensland

This paper investigates how the regulator's pricing decision under moral hazard can affect both the firm's cost of capital and its capital structure. We consider the two most typical regulatory frameworks: a price cap regulation and a cost of service regulation. We show that when moral hazard is not significant, the price cap regulation may generate lower welfare than the cost of service regulation. There is a trade-off between lower operational costs and a higher cost of capital under the price cap regulation and higher operational costs and lower cost of capital under the cost of service regulation.

House Prices, Credit and Willingness to Lend

Sarah Carrington
Monash University

This paper establishes a Tobin's q model in which house prices fluctuate around their long run equilibrium due to fluctuations in credit availability and income. It is shown that house prices are positively related to credit in the short run, however, negatively related to the availability of credit in the long run. Using survey data on banks' willingness to lend and data on disintermediation for the U.S. over a long period and for nine OECD countries over a short period it is shown that the availability of credit is the principal variable driving house prices around their long run equilibrium. Shocks to interest rates and income have only secondary effects on house price fluctuations.

An Examination of Option Hedging Strategies
Before and During Crisis Periods

Vicky Siew See Chow
The University of Melbourne

Many option pricing models are derived based on the assumptions of frictionless markets and continuous trading. However, in a practical environment, we face transaction costs when hedging an option, and trades only occur at discrete time intervals. Since volatility of the underlying asset and transaction costs can rise significantly during crises, those hedging strategies that work well under normal market conditions may deteriorate in performance during crisis periods. This paper examines the performance of option hedging strategies before and during crisis periods by using S&P 500 index options data. We find evidence that hedging strategies do perform worse during crises.

The Influence of Board Networks on the Information Asymmetry in Mergers and Acquisitions

Dane Etheridge
The University of Western Australia

We present evidence that board social networks play an important role in mitigating problems of information asymmetry surrounding mergers and acquisitions. Using a sample of 466 offers between ASX listed companies over the years 2000-08 we investigate whether measures of board centrality and distance between bidder and target can be used to predict characteristics of mergers and acquisitions. Central bidders, defined as bidders whose directors sit on many other boards, are less likely to face competition from other bidders and are more likely to complete deals. When target and bidder boards are close, bids are more likely to be recommended by the target, ultimately succeed, and use equity. These bids also offer lower premiums and are less likely to face competition from other bidders.

Innovation Contracts with Leakage Through Licensing

Shane Evans
Australian National University

In this paper a Developer contracts with a Researcher for the production of non-drastic innovation. Since effort is non-contractible, the Developer offers an incentive contract dependent on the observed magnitude of the innovation. It is shown that the distribution of intellectual property rights (IPR) ownership does not affect the level of effort exerted for innovations where the Developer would choose to license the innovation to its competitors. This is because the possibility of leakage of the innovation through licensing subsidies the Developer's payment when IPR is delegated to the Researcher, while at the same time eroding its profit.

World Food Demand

Grace Gao
The University of Western Australia

This paper deals with modelling consumption patterns in 138 countries from the 2005 International Comparison Program, where per capita incomes differ by as much as a factor of 100. Due to its importance in the budget (especially in poor countries), we start by considering food consumption and explore various forms of the Engel curve, emphasising the economic behaviour of the income elasticity and the [0,1] domain of the budget share. We then allow for the impact of international variation in prices by adding a substitution term to the Engel curve. Finally, we estimate a conditional demand model for the non-food elements of the consumption basket, and show how that can be integrated with food to yield a demand system of the conventional form.

Does the Law of One Price Apply to the Twin ADR's of BHP Billiton? Evidence from Arbitrage Trades

Keith Godfrey
The University of Western Australia

The law of one price says that similar securities should trade at the same price, with that price enforced by arbitrage. Instead the literature seems rich with counterexamples and theories to explain them, along with simulations of unprofitable arbitrage. How much arbitrage is actually going on? Evidence here shows that arbitrageurs trading the twin American depositary receipts of BHP Billiton are more likely to enforce a price difference than restore price equality. The arbitrage activity has to be inferred stochastically from price and time of trades because the trading logs are anonymous.

Monetary Valuation of Informal Carers' Needs Using a Discrete Choice Experiment

Yuanyuan Gu
University of New South Wales

Provision of care in the community requires a substantial contribution from informal carers whose motivation is often based on interpersonal relationships. However, there is limited information about the extent of care given, and the needs and preferences of carers in this setting. Our research attempts to fill this gap by conducting a discrete choice experiment on an Australian sample of carers that look after patients with a terminal disease. A method of paired comparisons is applied to measure the economic value of services to support them. In addition to the particular empirical analysis, our study also contributes to the development of Bayesian methods for this type of data in the following four aspects. First, a censored random effects probit model is constructed to estimate the valuation function which contains attributes of a service plan as well as the socio-demographic variables of a carer. Second, a class of heteroscedastic functions are assumed using observables, individual scales and both. Third, an exponential transformation is exerted on the bids to transform the latents to be approximately normal which provides a parsimonious way to allow the errors distribution to be skewed. Fourth, a Bayesian predictive distribution of the monetary measure of a particular service plan is derived for an in-sample carer and an out-of-sample carer.

Population Structure and Real Exchange Rate: Evidence from OECD Countries

AFM Kamrul Hassan
Curtin University

This paper suggests a methodology with which to analyse the influence of population structure on real exchange rate (RER) under the premises of the life cycle hypothesis. The methodology involves deriving a simple overlapping generation model following Obstfeld and Rogoff (1996) and then develops an estimable model in order to examine the impact of population structure on RER in an open economy. Data on a panel of 24 countries over 1980-2006 period is used in empirical estimation of the model. The paper finds that young and old dependents have significant appreciating and depreciating effect on RER, respectively. Although not significant, share of working age population has a depreciating effect on RER.

The Impact of University Licensing Behaviour on Scientist Disclosure

Rosemary Humberstone
University of Melbourne

In this paper we analyse how a Technology Transfer Office (TTO) developing a reputation in the sale of university research may affect a scientist's willingness to disclose ideas to the university. The TTO may prefer to check the quality of projects and only license high value projects because it increases the expected value of licensed projects, allowing the TTO to attract a greater payment per project. Developing a reputation, however, means that some disclosed projects are not licensed. From the scientist's perspective, this means that any given project they disclose has a lower probability of being licensed and so scientists may decrease the number of projects that they disclose to the TTO.

The Role of Multiple Equilibria and Self-fulfilling Expectations in Macroeconomics and Currency Crises

Julian Inchauspe
Macquarie University

Economists have been fascinated and, at the same time, sceptical about the possibility of multiple equilibria and self-fulfilling expectations in macroeconomics. This paper proposes a currency crisis model based on catastrophe theory which summarizes previous works in the literature and provides new insights into empirical testing of multiple equilibria. We argue that when multiple equilibria are present, pessimism in forward-looking expectations can be enough to make the economy jump from one equilibrium to a less efficient one. In this sense, bad expectations can self-validate and bring about a crisis. The model also has possible applications to other areas of macroeconomic modelling.

A Semi-Parametric Estimation Procedure and Method when Endogeneity Presents

Nam-Hyun Kim
University of Adelaide

In recent years, semi-parametrics has been a popular tool to conduct an empirical study in economics due to its strength to conduct an empirical study. Although it is a case that we often face endogeneity in an empirical study, a good estimation procedure and method have not yet been satisfactorily developed in the semi-parametrics. Hence, this paper intends to develop a semi-parametric estimation procedure and method based on the kernel estimation method when endogeneity presents. The estimation procedure comprises two steps (i) obtaining consistent estimator of the parametric component, and (ii) given the consistent estimator of the parametric component, obtaining the structural non-linear relation. In this version of the paper, we restrict attention on the first step. More specifically, we establish the $\sqrt{n}$ -consistent semi-parametric IV estimator and the application of the Hausman (1978) test in the semi-parametrics.

Subprime Loans and Subpar Investments: A Dynamic Equilibrium of Financial Bubbles and Crashes

André Levy
University of New South Wales

We demonstrate how a periodic cycle of financial bubbles and crashes emerges as a dynamic equilibrium in an economy where access to financial services and securities is unstable for a class of agents. Our results have no requirements on asymmetry of information or bounds on rationality. They derive simply from the relative wealth concerns that are instilled into the middle class by the threat that the migration of the financially disadvantaged into and out of the financial economy poses to their ability to save and invest. Under such circumstances, they will knowingly herd into financial bubbles and crashes as a rational response to protecting their ability to save. In doing so, the financial bubble they create sucks the lower class into the financial economy during the bull market, and pushes them out in the crash, self-fulfilling the prophecy that threatened them to start with. The cycle of financial booms and busts thus remains a stationary dynamic equilibrium while access to financial services and securities remains unstable to portion of the population. The model provides us insights into the asset and credit bubbles of the turn of the 21st century, and the Global Financial Crisis that ensued.

Free Entry and Social Efficiency in an Open Economy

Jonathan Kim Huat Lim
The University of New South Wales

Is free entry desirable for social efficiency? We examine this question in an open economy context under a Cournot setup. Specifically, we consider a "home market" where both home and foreign firms compete simultaneously. While free entry always leads to "excessive entry" in a closed economy setup (Mankiw and Whinston (1987), Suzumura and Kiyono (1986)), we find that free entry can be socially insufficient once there are some foreign firms. For linear demand, we find that as trade is liberalized, "insufficient entry" becomes more likely. This implies that entry regulation may not be as desirable as economies become more open.

An Investigation of the Productivity Spillover Effects of Inward FDI on the Chinese Electronic Industry

Sheng (William) Liu
University of Newcastle

Since 1978, China has pursued an export-oriented strategy of economic development and this culminated in spectacular economic growth. Much of this growth has been attributed to massive inflow of foreign direct investment (FDI). Although FDI is capable of generating positive spillover effects through the introduction of capital, technology and management skills, and thus enhance performance and competitiveness of domestic industries, the empirical evidence is not well established for the Chinese electronic industry. This paper develops a theoretical framework and empirical model for investigating the productivity spillover effects of inward FDI on the Chinese electronic industry.

Optimal Subsidy for Higher Education in Thailand

Kiatanantha Lounkaew
Australian National University

This paper examines the level of optimal subsidy for higher education in Thailand. The problem is casted in the context of Diamond and Mirrlees (1971) Production Efficiency Theorem. Optimal income tax and subsidies model developed by Bovenberg and Jacobs (2005) is applied to the case of student loan schemes. A particular contribution of this paper is the calculation of optimal subsidies in the context of interest rate transfers implicit in different approaches to student loans in that country. It is found that if policy-makers chose to use this mechanism to correct the distortions associated with the imposition of income taxes on graduates, the current implicit interest rate subsidies on Thai student loans would be considerably lower than they currently are.

An Investigation of Price Discrimination and Profitability in the Tourist Accommodation Industry in Tasmania

Ann Marsden
University of Tasmania

The paper investigates the pricing strategies adopted by Tasmanian tourist accommodation operators and their implications for profitability. Data on business practices is obtained from a census of Tasmanian tourist accommodation operators. Economic theory suggests that businesses can increase their profit by utilising price discrimination; selling to different customers at different prices. The paper considers how businesses use the characteristics of their customers, including the distribution channel used for booking, to price discriminate. An ordered probit model is used to test the hypothesis that the better the business is at price discriminating the higher their profit. The analysis suggests that the ability to use the website www.wotif.com is a significant determinant of profitability.

The Policy Relevance of Choice Modelling: An Application to the Ningaloo and Proposed Capes Marine Parks

Abbie McCartney
The University of Western Australia

Choice modelling is a popular environmental valuation tool among academic researchers, but has a troubled history in policy application. To improve its use in policy, one possible avenue is to enhance the amount of information extracted within the tool. This study investigates the possibility of incorporating management processes, as well as the traditional environmental outcomes, in the choice model as attribute levels. The approach is applied to two case studies: the Ningaloo and the proposed Capes Marine Parks in Western Australia. Using samples of the general public a comparison is made between a sample with management processes incorporated into the choice model, and one without. The inclusion of management is found to have a significant impact on the way respondents process information in the choice sets, but not on willingness to pay. It is suggested that, in future, the inclusion of management processes in CM be considered where useful information can be extracted to advise policy of welfare impacts on specific socio-demographic groups in society.

A Critical Analysis of the Case for a National Minimum Wage for Malaysia

Idaya Husna Mohd
Flinders University

The fight for the introduction of a national minimum wage was spearheaded by the Malaysian Trade Union Congress (MTUC), and this effort was stepped up after the Government announced a hefty increase in the salary of government employees. The demand seems to be well-founded as the minimum wage will see the workers in the private sectors, which are not benefiting from the government salary increase, protected. In mid 2007, the MTUC organized a nationwide picket across more than a dozen locations countrywide. The MTUC has stepped up its eight-year-long campaign, which would mainly benefit private-sector workers. The MTUC has been pressuring the Malaysian government to introduce a minimum wage of RM 900 plus Cost of Living Allowance of RM 300. They argue that a viable minimum wage would increase the household income, attract more local Malaysian workers and reduce dependence on foreign labour. This paper offers a critical analysis of the case for a national minimum wage for Malaysia.

Implications of Exchange Rate Policy for Foreign Exchange Market Development: Vietnam, 1986-2008

Tran Phuc Nguyen
Griffith University

As is the case in many developing and emerging market economies, Vietnam's foreign exchange (forex) market has remained relatively poorly developed despite more than two decades of general economic reform. This paper adopts a microstructure approach to the analysis of the root-causes behind the operational deficiencies of this market. The analysis suggests that the *de facto* adjustable pegged exchange rate regime has brought about a general stickiness in the VND/USD rate, which has then acted as a retardant in the development of the country's forex market. As a result, market operations and signals have become increasingly non-transparent and market forces have moved beyond the framework of current regulation.

Trust and the Transmission of Trust: Do Other-Regarding Preferences Make a Difference?

Aaron Nicholas
Monash University

Do altruistic or inequality-averse individuals exhibit higher levels of trust? Through the use of various within-subject dictator games and the strategy response method, subject responses are classified as being either altruistic, inequality-averse, a mix of the two, or purely self-interested. The results indicate that altruists and those with mixed preferences tend to give the most in trust games, but once other-regarding preferences are controlled for, only "pure" altruists tend to exhibit a higher level of trust. Furthermore, the result is robust even in a setting of "generalised trust", where the trustor is simultaneously a trustee with another player.

Does Strategic Play Explain the Decay in Contributions in a Public Goods Game? Experimental Evidence

Tirnud Paichayontvijit
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It is commonly observed that in finitely repeated laboratory public goods games contributions start at about 40-60 percent of the social optimum and decay from there onwards with increasing free-riding. There is controversy regarding the reasons behind this phenomenon of decay. Andreoni (1988) looked at two possible explanations behind this phenomenon of decay – "learning" and "strategies". The "learning" hypothesis suggests that contributions decay because players do not realize that free-riding is the dominant strategy of the game but learn so gradually over time leading to contributions dropping off. The "strategies" hypothesis suggests that some players may realize that free-riding is the dominant strategy but they do not want to educate their peers about it and hence the more sophisticated players mimic the less sophisticated ones in the initial stages of the game and then bail out and free-ride towards the end of the game. But neither Andreoni nor later replications of this study come up with definitive conclusions. In our study we appeal to the idea of "conditional cooperation" to suggest that in the presence of reciprocal preferences it is possible to think about the public goods game as a "coordination problem" with high contributions being an efficient equilibrium and low contributions being an inefficient equilibrium with others in between. We demonstrate that beliefs held by players about the contributions of their peers play a crucial role in determining their subsequent contributions. The fact that contributions depend more on beliefs about others' contributions and not on the availability of signalling opportunities provides evidence against the strategies hypothesis. Furthermore the fact the contributions decay more rapidly when players get to observe the contributions of their peers provides evidence to support social learning arguments. We argue that it is social learning about the heterogeneity of types in the population that is the key explanation to the familiar pattern of decay.

Boundedly Rational Equilibrium and Risk Premium

Lei Shi
University of Technology, Sydney

When people agree to disagree, how the disagreement among agents impacts on the market is the main concern of this paper. With the standard mean variance framework, this paper considers a market of two risky assets and two agents who have different preference and biased beliefs in the mean and variance/covariance of the asset returns. By constructing a consensus belief, the paper develops a concept of boundedly rational equilibrium (BRE) to characterize the market equilibrium and examines explicitly the impact of heterogeneity on the market equilibrium and risk premium when the disagreements among the two agents are mean preserved spreads of a benchmark homogeneous belief. It shows that, in market equilibrium, the biased mean preserved spreads in beliefs among the two agents have significant impact on the risk premium of the risky assets and market portfolio, and adding a riskless asset in the market magnifies the impact of the heterogeneity on the market. The results show that both optimism/pessimism and confidence/doubt can increase the market risk premium and reduce the risk free rate.

Does an Appointed Leader have Incentive to Provide Infrastructure with Immediate Return

Youhua Shu
The University of Sydney

Under fiscal decentralization, an appointed leader will prefer production related infrastructure to labour augmenting infrastructure. In comparison, an elected leader will increase labour augmenting infrastructures and decrease the production related infrastructures in the first period. The long run stock of labour augmenting infrastructures in an appoint system will exceed that in an election system, while the production related infrastructures depends on the parameters. Empirically, for production related infrastructure we find evidence that, in the short run, the elected village leader decreased paved road provision, but with no change on irrigation infrastructure. For labour augmenting infrastructure, little evidence supports the view that the elected leader has increased the provision of public health. The dynamic empirical results show that the gap converges in the provision of production related infrastructure between the governance regimes.

Analysis of CEO Compensation: Australian Evidence

Ja Young Suh
University of Technology, Sydney

The present paper analyses determinants of CEO compensation, and explores the impact of takeovers on CEO compensation using remuneration data for 382 firms listed on Australian Stock Exchange (ASX) from 2004 and 2008. We find that the firm size, stock performance and board size are positively related to the level of CEO compensation. However, inconsistent with several papers documenting that managerial power exerted by CEOs who also chair the board leads to additional compensation, we observe a lower level of compensation paid to CEOs who have this dual responsibility. We also find that risk factors (i.e. market risk and idiosyncratic risk) play an important role in determining the executive pay-performance relationship. While CEO's total compensation increases as the firm is exposed to a higher level of market risk, an increase in idiosyncratic risk seems to negatively affect the CEO compensation. Furthermore, it is shown that CEO's excessive risk taking behaviour is always penalized with a reduction in his/her compensation. Finally, we show that when CEOs successfully complete a takeover, they are rewarded with an increase in total compensation, most of which comes from the bonus component.

Why are Muslims Left Behind in Education? Evidence from Indonesia.

Daniel Suryadarma
Australian National University

This paper measures and investigates the reasons for the gap in secondary education progression between Muslims and non-Muslims. The analysis is done using a panel dataset from Indonesia that follows 3rd to 6th grade students over 14 years, until the sample is well into adulthood. Muslim males face a lower chance of enrolling in college compared to non-Muslim males, while among females the gap is largest at senior secondary enrolment. Equalising two sets of covariates, scholastic ability and parental education, removes most of the gap. Based on these results, this paper concludes by providing some policy recommendations.

Managerial Ownership, Wealth Dependence and Asset Valuation

William Taylor
Victoria University of Wellington

Managers are typically given stock in order to make them "think like shareholders". However, if executive compensation programs cause managers to hold more stock than is optimal for diversification purposes, then they will care about idiosyncratic risk. Giving a manager "too much" stock can have the unintended consequence of making managers think *less* like shareholders. We examine this issue when the manager has a Constant Relative Risk Aversion (CRRA) utility function and the firm's cashflow follows Geometric Brownian Motion. The assumption of CRAA utility causes the manager's valuation to depend on his financial wealth. While this is interesting in its own right, it also introduces some interesting numerical issues. We find that the boundary condition used has a significant effect on the solution. We therefore consider a variety of theoretically based boundary conditions and test their accuracy and the stability of the solutions.

Long-Run Convergence in Manufacturing and Innovation-Based Models

Isfaaq Timol
Monash University

Most studies of comparative labour productivity cannot find evidence of convergence in OECD manufacturing. Using cross-section data on manufacturing for 19 OECD countries over the period from 1870 to 2006, this study finds strong evidence of unconditional β-convergence as well as σ- convergence. Further evidence of unconditional β-convergence is found in panel regressions using 5, 10 and 15 year differences. However, there is no evidence of convergence when growth is conditioned on domestic R & D, technology spillovers and the distance to the frontier, which suggests that these variables are responsible for the convergence, as predicted by second generation endogenous growth theories.

Macroeconomic Implications of Endogenous Borrowing Constraints

Stéphane Verani
University of California Santa Barbara

There is a growing consensus that financing constraints significantly impact firm dynamics. Financing constraints arise with optimal contracts that are constrained efficient in the presence of moral hazard and/or incomplete enforceability problems. This paper answers the following question: What are the relative contributions of private information and limited enforceability to firm dynamics in the macroeconomy? For each financial friction, I construct a dynamic stochastic general equilibrium model with overlapping generations of workers and entrepreneurs. While the models are broadly consistent with recent empirical regularities qualitatively, the calibration to the U.S. economy implies models' predictions that are substantially different from each other quantitatively in terms of job relocation and welfare.

The Spurious Ratio Problem and the Determinants of Long-Term Debt Issuances

Yushu Zhu
Australian National University

This paper proposes a probit model for testing capital structure theories. It focuses on leverage increasing capital raisings and tests the various competing theories. It is shown that this approach does not have the spurious ratio problem documented by Barraclough (2007) that plague traditional capital structure tests. Results indicate that, contrary to stylized facts, leverage increasing firms tend to be larger, more profitable and firms with high R & D expenditures tend not to use debt as a means of financing.

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