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## PREFACE

This abstract book includes all the abstracts of the papers presented at the *5<sup>th</sup> Annual International Symposium on Economic Theory, Policy & Applications, 26-29 July 2010*, sponsored by the Economics Research Unit of the Athens Institute for Education and Research (AT.IN.E.R.). In total there were 82 papers and 93 presenters, coming from 30 different countries (Belgium, Canada, China, Cyprus, Egypt, Finland, France, Germany, Hong Kong, Iran, Israel, Italy, Japan, Lebanon, Malaysia, New Zealand, Portugal, Republic of Korea, Republic of Serbia, Romania, Saudi Arabia, South Africa, Spain, Sweden, Taiwan, The Netherlands, Turkey, UK and USA). The conference was organized into 19 sessions that included areas such as Economic Development - Technological Change and Growth, Mathematical and Quantitative Methods, International Economics, Macroeconomics and Monetary Economics – Monetary Issues, Health - Education and Welfare, Agricultural and Nature Resource Economics: Environment and Ecological Economics – Energy and Sustainability, Labor and Demographic Economics, Law and Economics e.t.c. As it is the publication policy of the Institute, the papers presented in this conference will be considered for publication in one of the books of ATINER.

The Institute was established in 1995 as an independent academic organization with the mission to become a forum where academics and researchers from all over the world could meet in Athens and exchange ideas on their research and consider the future developments of their fields of study. Our mission is to make ATHENS a place where academics and researchers from all over the world meet to discuss the developments of their discipline and present their work. To serve this purpose,

conferences are organized along the lines of well established and well defined scientific disciplines. In addition, interdisciplinary conferences are also organized because they serve the mission statement of the Institute. Since 1995, ATINER has organized more than 100 international conferences and has published over 80 books. Academically, the Institute is organized into four research divisions and nineteen research units. Each research unit organizes at least one annual conference and undertakes various small and large research projects.

I would like to thank all the participants, the members of the organizing and academic committee and most importantly the administration staff of ATINER for putting this conference together.

Gregory T. Papanikos  
Director

## **Modification of the Self-Sufficiency Ration and Use in Welfare Assessment**

**Amin I. Abdou**

Professor, National Research Centre, Egypt

This paper tends to suggest a specific modification of the commonly used self-sufficiency ratio. The defect of such criterion is undistinguishing between self-sufficiency due to domestic production abundance and that due to suppressed consumption. Some poor countries of limited resources hindering importation may have self-sufficiency ratios higher than those of other countries able to maintain greater per capita consumption standards through importation. As such, the study's suggested modification allows discrimination between the "actually" satisfied countries from those only "apparently" satisfied due to suppressed consumption and/or restricted imports. The new term sufficiency ratio is based on comparison between prevalent average per capita consumption and appropriate standards for consumable goods, and between actual applications of production requisites and the technical recommended allowances. On the other hand, comparison with the traditional term would allow detection of cases of apparent exaggerated consumption over actual intakes, mostly due to wastes underestimation. Likewise, comparison of actual to proper standards of consumption may serve as an indicator of the economic welfare standard.

# **Model for Forecasting Passenger of Airport**

**Farzaneh Ahmadzadeh**

Assistant Professor, Islamic Azad University of Karaj, Iran

This research forecasts the growth of air traffic in one of int'l airport.. It actually estimates the growth of air traffic with the trend model, and then the growth is forecasted by monthly air traffic and time series data. To estimate the coefficient of the model in general econometric methods use the time series data, it is suggested that the data should be stationary, otherwise false regression would be probable. Then before using, the data (variables), the data should be tested so as to be stationary. However, there are different methods to make data stationary such as Drawing Diagram and Augmented Dickey- Fuller Test (ADF), which were used in this dissertation. Finally, the estimation is base on the fifth month, namely (Mordad).

# **A Model to Estimate How Deep and How Long Could be the Recession**

**Lucian-Liviu Albu**

Director, Institute for Economic Forecasting, Romania

**Cristian Stanica**

Senior Researcher, Institute for Economic Forecasting, Romania

**Marioara Iordan**

Senior Researcher, Institute for Economic Forecasting, Romania

Due to global crisis, today all forecasts are changing rapidly. There are different opinions regarding how deep and how long the actual recession could be. Synthetically, the pessimistic authors are viewing the future economic dynamics as one of so-called L type or U type or W type, but the optimistic authors consider only a V type dynamics. In any case, the medium- or long-term forecasts are more affected by uncertainty. Over the last period it was an intensification of efforts to compute composite indicators in order to characterize synthetically the short-run dynamics. There were efforts made by national bodies or research institutes from many countries in order to compute composite indicators of the business cycle and, implicitly, to elaborate better short-run forecasts. Using certain models based on composite indicators, beside other models to analyse high frequency time series and to obtain short-term forecasts (principal component method, virtual monthly GDP method or various interpolating methods), it can result in richer information for the business environment. In our study we try to build a composite indicator based on some monthly time series and use it in order to obtain short-term forecasts for economic activity at national level. This indicator could be useful taking into account that actually there is no synthetic indicator to describe short-run dynamics of economic activity. To verify hypotheses of the estimating model for composite index, we use the quarterly time series for the elements of it and quarterly published GDP as a benchmark indicator. Moreover, we analyze the last time evolution of the Romanian economy under the effect of the actual global crisis and, based on absolute levels of GDP expressed in real (comparable) terms, we try to estimate few short-term scenarios of the GDP growth rate.

# **Growth, Investment, Corruption: A PSTR Approach**

**Leila Ali Aga**

Ph.D. Student, Université d.Orléans, France

This paper analyses the relationship between growth, investment and corruption. The main objective of this study is to investigate the indirect effects of corruption on growth mainly through investment. By using a Panel Smooth Transition Regression approach (PSTR) and a panel data of 101 countries over 20 years, we determine a non linear relationship between corruption and growth. The indirect effect is characterized by a smooth transition between two extreme regimes, representing the countries with low or high level of corruption. More precisely, our results suggest that the indirect impact of corruption on growth through investment is negative but decreases with the level of corruption. Hence, the elasticity of growth to investment is higher in countries with greater level of corruption than it is in countries with lower level of corruption. This positive correlation may result from the greasing the wheels effect of corruption. Moreover, we also find that the direct impact of corruption on growth is negative.

# **Natural Resources Abundance and Economic Development: Arabic Region Case (An Empirical Study)**

**Mohammad Asalmán**

Ph.D. Student, University of Paul Cezanne, France

The relationship between natural capital and economic growth was the subject of many studies. A big part of these studies agree about a central idea, that, natural resources abundance is probable to have a large variety of possibly conflicting effects on different sectors and function of the economy. That means, more a country acquire extra of natural resources, more, it realize less economic performance. The question at stake here is: Do natural resource abundant countries trend to realize more or less economic performance than resource-poor countries?

In this paper we intended to demonstrate how increased dependence on natural resources tends to go along with less rapid economic growth. So the purpose of this paper is to shed some news light on this relation. Then we restrict our attention to applied this analyze on the Arabic region.

# **Foreign Direct Investments: Correlations and Determinants for Romania**

**Dalina Andrei**

Researcher, Institute for Economic Forecasting, Romania

**The FDI-foreign trade (FT) relation** is complex. The specific qualitative difference between is that the FT is much more systematic on its flows and influence on the external balance of payments. On the contrary, FDI are much less systematic on their inflows, so further need the stock accounting --nevertheless, there is to relay on homogeneity of FDI inflows, in Romania: on large geographical sources, on inside regions, as destination, on activities and longer periods of reference.

**The FDI-economic growth:** the economic growth had the same story in Romania, as all over the CEE countries. Shortly, the FDI contribution to economic growth was weak in Romania so far, despite that foreign investors are currently more attracted by the economic growth.

**The FDI influence on employment** comes about two aspects: (1) a direct and short-term impact, meaning very harm on employment for a large number of jobs, including high skills; (2) a longer term influence of re-creating employment, jobs, skills, but also productivity and wages, together with new technologies.

**The FDI-international labour migration (ILM) relation** remains a topic area of theoretical approach, as international data on migration are weak enough. The capital (FDI) and migration (labour) are “looking for each other” also in the international area, as all over the organised production areas. So, internationally, the FDI and ILM flows are expected to be contrary, meaning from structurally different countries, as economically. The influences of these flows, on both countries, are expected to be comparable and on both short and long term. And, essentially, the two flows influence each other, and such report also involves skills, wages and employees’ welfare.

## **e-Learning and Social Capital**

**Diego Azqueta**

Professor, University of Alcala, Spain

This paper analyses the impact that e-learning may have on the formation of social capital within the education process. It addresses this question distinguishing two different educational levels: elementary and higher level education. Once the importance of social capital, both from an individual and from a social point of view, has been established, the paper goes on to analyse the risks that e-learning, as a substitute of conventional education, might entail in the process of social capital building. This risk is high at the early stages of the educational process, but low afterwards. In the case of elementary education, if e-learning is made a substitute, and not only a complement, of formal education as, for instance, with Home Schooling, it may entail a serious shortcoming: namely, it may hinder the formation of social capital among its participants. In the case of higher education three caveats will be analysed: First, the lower student performance and higher dropout rates suffered by on-line courses in comparison with their face-to-face counterparts are often traced back to lower levels of Psychological Sense of Community, caused by the lack of physical interactions among students who learn at a distance (Pigliapoco and Bogliolo, 2008). Furstenberg (2007), on the other hand, shows that, contrary to previous work on the subject, diversity in college's students tends to increase college academic quality. Finally, it should be mentioned that, in the transfer of knowledge process, personal contacts are a very important component, at least in developing countries, as the work of Kesidou and Romijn (2008) clearly points out.

## **The Role of Transition Speed**

**Sotirios Bellos**

Ph.D. Student, Bath University, UK

Foreign Direct Investments (FDI) is considered to be one of the most critical pillars of globalization. The end of the centrally planned economic system during the last decade of the 20<sup>th</sup> century introduced a series of radical changes in the economies of the countries that had followed this paradigm and at the same time unlocked their markets to the multinational enterprises (MNEs) which saw in these virgin markets worth exploiting investment opportunities. However, these opportunities were not risk free. Instead, the new virgin markets were characterized by institutional, infrastructure and developmental weaknesses, which could impose severe dangers to any potential investment opportunity.

This paper adopts a panel tobit analysis methodology, in order to study empirically the determinants of FDI operating in 27 transition countries, separated in three distinct geographical areas (Balkan, Central European and Ex-Soviet).

The empirical results demonstrate a wide range of parameters significantly affecting the incoming Foreign Investments. Infrastructure level, market potential, energy resources are some of the issues that have a decisive impact on the attraction of foreign investing capital. Additional to these, the speed of the measures taken in the context of transition to the status of open economy is found to be of primary significance. Privatizations either of large or medium scale appear to be one of the most important incentives for foreign investors. Taking into consideration the debate regarding the appropriate speed of transition and corresponding cases of success and failure, the paper provides a field of wider contemplation regarding the role of MNEs in the transition countries and their beneficial character in terms of technological spillovers, human capital improvements and contribution to production increase.

# **Wavelet Analysis of Value at Risk in Heterogeneous Markets. The case of CAC 40.**

**François Benhmad**

Post-Doctoral Researcher, LAMETA, France

Popularized by JP Morgan and its Riskmetrics system, Value at Risk (VaR) has become the standard measure of financial institutions exposure to market risks. But traditional VaR estimates methods use the same resolution for all time horizons although financial markets are characterized by the presence of heterogeneity of participants with different sensibilities to different time scales. In order to take into account this heterogeneity in VaR estimates, we apply the time frequency approach of Wavelet analysis. As a tool, it is able to decompose the returns time series into different timescales representing dealing frequencies of market participants.

The empirical results show that this approach improves considerably the VaR performance in comparison with traditional VaR models.

# **How Relevant is Minsky's Business Cycles Theory to Explain the Current Global Crisis? A Heterodox Assessment**

**Ersan Bocutoglu**

Head, Deartment of Economics, Karadeniz Technical University, Turkey

While classical tradition takes business cycles as temporal deviations from long run growth trend that market mechanism can automatically manage to eliminate, Keynesian tradition assuming that capitalism is inherently unstable states that the adverse effects of the crisis should be eliminated or mitigated by activist policies. The current Global Crisis (2007-2010) has created a great disappointment among economic circles about the mainstream business cycles theories. The fact that orthodox macroeconomic theories have failed in foreseeing, understanding, explaining and preventing business cycles has paved the way for investigating the heterodox approaches to the crisis such as Austrian and post Keynesian business cycles theories that have been ignored so far in macroeconomic theory and policy making. The aims of this paper are actually twofold: firstly to present Minsky's post Keynesian business cycles theory consisting of money manager capitalism, financial instability hypothesis and Minsky moment/process phases, secondly to discuss its applicability to the current Global Crisis. Since the orthodox macroeconomic tradition is against the very foundation of Minsky's approach that refuses the fundamental theorem of general equilibrium theory, the Arrow-Debreau proposition that a competitive equilibrium exists and it is Pareto optimum, and therefore it is irrelevant to expect from mainstream circles an orthodox assessment of the applicability of Minskian theory to the current crisis, this paper attempts to make a heterodox assessment about how applicable Minsky's business cycles theory is to the global crisis in view of the heterodox literature mainly of L. R.Wray, E. Tymoigne, P. Davidson and G. A. Dymski. It is concluded that the global crisis has deviated significantly from the investment cycle that Minsky's model describes although the profundity and relevance of Minsky's broad insights into the capitalist dynamics are more apparent.

# **Spatial Distribution of Human Capital in Rumania: An Approach using New Economic Geography Models**

**Gabriel Bolea Cosmin**

Ph.D. Student, University of Coruna, Spain

**Jesus Lopez-Rodriguez**

University of Coruna, Spain

**Andres Faina**

University of Coruna, Spain

Based on an extension of Fujita et al. (1999) core-periphery New Economic Geography model carried out by Redding and Schott (2003) we analyze the role played by economic geography factors in the explanation of the spatial distribution of educational attainment levels across the 42 Rumanian regions in 2006. The model establishes a relationship between human capital location and the economic geography variable called market access. The results obtained from the econometric estimation of the theoretical relationship posed by the model show that the percentage of individuals with medium and high educational levels in each Rumanian region depends positively on the market access size of the corresponding region. Doubling the market access of the regions, would increase the percentage of individuals with medium and high educational levels between 14% and 24%. Moreover the econometric results show that between 45% and 59% of the spatial variation in human capital levels is explained by the market access variable.

# **A Commitment Theory of Subsidy Agreements**

**Daniel Brou**

Assistant Professor, The University of Western Ontario, Canada

**Michele Ruta**

Economist, Economic Research Division, World Trade Organization, Canada

This paper takes a novel look at the rationale for the rules on domestic subsidies in international trade agreements. We build a model where a government has a tariff and a production subsidy at its disposal, taxation can be distortionary and an industrial lobby is organized to influence the political process to its advantage. The model shows that, under political pressures, the government will turn to subsidies when its ability to provide protection is curtailed by a trade agreement that binds only tariffs. This policy substitutability between tariffs and subsidies is inefficient and offsets the welfare gains from tariff cuts. Moreover, when factors of production are mobile in the long run but investments are irreversible in the short run, we show that the government cannot credibly commit vis-à-vis the domestic lobby unless the trade agreement also regulates production subsidies. That is, this model highlights the commitment value of subsidy rules. Finally, we employ the theory to analyze the Subsidies and Countervailing Measures (SCM) Agreement within the GATT/WTO system. Interestingly, we find important similarities in terms of the efficient design of rules on domestic subsidies between the standard approach and the commitment approach to trade agreements.

# **Being of Two Minds: Dynamic Ambiguity – Related Behavior**

**Oliver Bunn**

Graduate Student, Yale University, USA

Implementing the static ambiguity model of  $\alpha$ -maxmin expected utility, as proposed by Hurwicz (1951), in a dynamic framework, I propose a dynamic asset allocation model in the presence of ambiguity. This model allows me to define an endogenous confidence variable and investigate its impact on the decision problem.

Within any time-period, I consider the ambiguity parameter  $\alpha$  as well as the portfolio weights for the different assets as choice variables. In contrast to the ambiguity parameter, the utility function in the  $\alpha$ -maxmin representation is fixed, turning risk aversion into a constant throughout all time-periods. This distinction is in accordance with the view of the decision maker's ambiguity attitude as a malleable trait, as advocated by Heath and Tversky (1991) as well as Goodie (2003).

The interaction of two selves in a repeated games environment determines the equilibrium realization of  $\alpha$  and of the portfolio weights. This equilibrium approach allows me to circumvent the problematic assumption of dynamic consistency, which is otherwise common in the literature on dynamic ambiguity related models. Following the terminology of System I and II by Kahneman (2003), an emotional self as a representative of System I chooses  $\alpha$ , whereas a rational self as a representative of System II makes a portfolio decision in any time-period. The means to link different time-periods is the measure of confidence regulating the ambiguity degree that the emotional self can display in the subsequent period. Confidence is determined in response to the investment strategy in the previous period. This construction provides a link between the decision problem and the decision maker's self-assessment of the proficiency to deal with the investment problem. Positive feedback causes a tendency toward ambiguity affection and negative feedback results in higher degrees of ambiguity aversion.

The resulting cyclicality in the decision maker's ambiguity attitude provides a unified explanation for short-term reversals, medium-term momentum, and long-term reversals, observable in the cross section of asset returns. Because of its ability to capture the full range of ambiguity attitudes, this model also addresses a multitude of phenomena related to individual investors' behavior simultaneously, such as non-participation, under-diversification, or optimism-bias.

# **Interaction between Family and Work and Crisis**

## **Vulnerability of Married Women. Current Evidence for Spain**

**Juan A. Canada Vicinay**

Professor, Universidad de Las Palmas de Gran Canaria, Spain

To elucidate to what extend the current economic crisis influences the labor vulnerability of married women depending on whether or not they have reconciliation problems between family and work, this paper explores the interference of the vicissitudes of family life in labor transitions in relation to economic fluctuations between 2005 and 2009.

The conceptual framework assumes that the preferences are conditional to the household situation and that married women behave according to the criterion of gendered moral rationality, and hence they respond to the ups and downs of life by reallocating time to home and work according to the requirements of the new situation. Focusing on Spain, we observe wives do not have husbands to share the household responsibilities regardless of age and education. Therefore, considering an unequal bargaining power between spouses, we propose a conditional preferences Stackelberg approach related to two opposite events which shift the household situation depending on whether the time required by the family increases or decreases. For the first, named as conflicting events since they hamper reconciliation and then increase the reservation wage, are expected to act as a barrier to entry for inactive people and encourage the market exit of employees. On the contrary, reconciling events reduce reservation wage, and promote market entry for inactive and maintenance of the workplace for employees.

Using the EPA rotating panel between 1Q2005 and 4Q2009, we estimate Multinomial Logit models of labor transitions of married women separately for four labor states: never worked, inactive with previous labor experience, temporary employees and permanent employees. The longitudinal approach verifies the implications of the theoretical model in all the cases and shows that the effects of the crisis are more severe in the most precarious workers, so that, other things being equal, the recession increases labor vulnerability for those in difficulty in reconciling of family and work.

# **Tax Evasion, the Underground Economy and Financial Development**

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**Keith Blackburn**

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**Niloy Bose**

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We study the relationship between the underground economy and financial development in a model of tax evasion and bank intermediation. Agents with heterogeneous skills seek loans in order to undertake risky investment projects. Asymmetric information between borrowers and lenders implies a menu of loan contracts that induce self-selection in a separating equilibrium. Faced with these contracts, agents choose how much of their income to declare by trading off their incentives to offer collateral against their disincentives to comply with tax obligations. The key implication of the analysis is that the marginal net benefit of income disclosure increases with the level of financial development. Thus, in accordance with empirical observation, we establish the result that the lower is the stage of such development, the higher is the incidence of tax evasion and the greater is the size of the underground economy.

# **Estimating the Okun Coefficient in Romanian Economy: A DSGE Approach**

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The ongoing financial crisis seems to be much more severe than initially expected. Although it began as a financial crisis localized in the most financial developed economies, it rapidly extended to the emerging economies through several channels.

Romania, as other emerging economies, was affected due to the drop in demand which severely affected the exporters and also due to the tightening in the credit availability.

One of the most worrying aspects is the social impact of this crisis. Of course, besides the drop in the revenues, the individuals may be even drastically affected through losing their jobs. It appears thus of a significant importance to have an estimation of the impact of this recession on the dynamic of unemployment. Such estimation would be useful for governmental institutions, policy makers, or average people. The chief purpose of this study is to confirm whether Okun's Law has held for the Romanian economy. In regard to this, I ask the following questions: What was the Okun coefficient for the Romanian economy? How could it be estimated?

In this paper I use a DSGE model with unemployment and estimate it for Romanian economy using Bayesian techniques. I use the estimated model to derive an estimation of the Okun coefficient.

By using tools like impulse response functions, or variance decomposition, I also address the factors that underlie the dynamics of unemployment in Romanian economy and what policies could help the labor market in Romanian economy.

# **Dynamic Efficiency Measurement in a Discrete Choice Model: An Application to Inventory Behaviour**

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**Elvira Silva**

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Dynamic efficiency measurement at the firm level has been developed in the context of models in which the firm's decisions are continuous variables [e.g., Silva and Stefanou (2007), Nemoto and Goto (1999, 2003)]. In this paper, dynamic efficiency is investigated within a dynamic discrete choice structural model, where firms decide over discrete rather than continuous variables. We analyze a dynamic programming inventory model - in which a firm decides whether or not to order some products in each period - and provide a measure of dynamic efficiency at the product level. In our model, we allow for the existence of product heterogeneity as well as efficiency heterogeneity across products by including random coefficients in the analysis.

Using a dataset with weekly information on prices, sales, orders and stocks for a Portuguese firm from January 2008 to June 2009, we estimate the model with a two-stage approach. In the first stage, we provide nonparametric estimates of the transition probabilities of the state variables. In the second stage, we use the Bayesian estimation method proposed by Imai, Jain and Ching (2009), that allows simultaneously for the solution of the dynamic programming problem and the estimation of the parameters. This method includes in each iteration two steps: one solves the dynamic programming model and the other employs the Markov Chain Monte Carlo (MCMC) algorithm to draw values from the posterior distributions of the parameters.

## **Are Fake Arts Harmful?**

**Kimoon Cheong**

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Fakes in art are, in general, considered to be as forgery or counterfeit, and therefore, treated as fraud to be prohibited. It implies that the uniqueness of the original works should be protected against imitation or copies. The copyright law and artists themselves seem to have a negative attitude to imitations or copies of original artworks. However, economists may have different views: copies are not necessarily bad. They may enhance social welfare.

Faking activities have always been widespread. They range from the reproduction of art works to historical relics, musical pieces, and the counterfeit of banknotes. Perhaps the most attention might be paid by economists to the commercial copies of branded goods such as perfumes by Channel or Dior, watches by Rolex or Omega, shirts by Lacoste or Giorgio Armani, bags by Gucci or Louis Vuitton, etc. This paper focuses only on the fakes in the fine arts.

Economists take relatively positive attitudes to fakes while lawyers and artists have negative attitudes. It does not mean that forgeries do not have any economic problems. We know that significant costs can be occurred by the fakes in art markets. In this paper, however, it is going to be argued that many problems can be mitigated or overcome by appropriate institutional arrangements.

# **Personality and Preference: An Empirical Study of Taiwan**

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**Shu-Heng Chen**

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Modularity, as first proposed by Herbert Simon in his study of complex systems, has not only been extensively applied to economic modeling, from production to organization, but also has become an interdisciplinary subject. Chen and Chie (2004, 2007) built up an integrated model combining production and consumption into a modular economy. On the consumption side, their model relies on the assumption of modular preferences, which is motivated by the recent cognitive psychology studies on the modular structure of brain and mind. They further assume the increasing marginal utility in the hierarchical level of the modular preference, i.e., the synergy effect. In this paper, we propose the first test on the synergy effect using the Incentive Aligned Conjoint Analysis. By following Ding, Grewal, and Liechty (2005) and Ding (2007), we design the questionnaires and conduct a two-stage upgrading experiments to elicit the preference of a pool of 100 undergraduate students (41 female, 59 male) on their choice behavior over the following three 3C products, namely, personal digital assistant (PDA), digital camera (DC), and multimedia player (MP). From the analysis of their willingness to pay under several hybridizations of various attributes of the 3C product, we fail to find strong evidence to support the assumed synergy effect. Therefore, the increasing marginal utility in modular preference is yet to be found.

## **Zimbabwe's Land Reform Programme, 1980 -2010: Success or Failure?**

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The land question has always been and remains at the core of Zimbabwe's political and socio-economic development. It also remains the major cause of the current political tension between Zimbabwe and the former colonial power, Britain. The advent of European settler occupation of Zimbabwe in September 1890 was the genesis of the dispossession of blacks of their land. The 1893 invasion of the Ndebele Kingdom leading to the creation of the Gwaai and Shangani Reserves; the 1896 -97 Shona and Ndebele first war of liberation; the nationalist struggle in the period before and after World War Two; the second war of liberation that gave birth to the independent Zimbabwe in 1980 and the contentious Lancashire House Constitution negotiations that culminated in the 1979 Agreement all bear testimony to the centrality of the land issue in the country's history.

This paper will briefly highlight the main developments that took place in the expropriation of land by the white settlers from the indigenous blacks between 1890 and 1979. The paper will also discuss the systematic land segregation that the colonial administration applied in order to marginalise the blacks for the benefits of the white settlers. The paper will then point out that at independence in 1980, the country's agricultural sector comprised three sub-sectors: 6000 large scale commercial farmers owning 15,5 million hectares of prime agricultural land; 8 500 small scale commercial farmers holding 1,4 million hectares of land located in dry agro-ecological regions and 4.3 million communal people owning 16.4 million hectares of agricultural land, 75% of which was located in the drier agro-ecological regions where the soils were poor. The post –independent government therefore had a monumental task to redress this skewed land ownership pattern to achieve equitable land ownership. The paper will examine the independent government land reform programmes analyse to what extent they succeeded or failed to achieve intended objectives.

# **Analysing the Influence of Tourist Characteristics and Motivations on Tourist Expenditure at a Sun and Sand Destination**

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The tourism strategies of many sun and sand destinations have been oriented at increasing the number of tourists. However, in several papers it is suggested that the objective should not be to increase the number of arrivals but instead tourism revenue. To achieve this objective, the strategies of these destinations should be oriented at attracting tourists with a higher potential level of expenditure. Consequently, tourist characteristics and motivations must be identified that are linked to higher expenditure. In order to achieve this goal, in this paper an *ordered logit* model is estimated for tourist expenditure quartiles per person per day, with tourist motivations and tourist and trip-related characteristics being incorporated as explanatory variables. The analysis distinguishes between total expenditure, expenditure in the country of origin, and expenditure at the destination. Data from a survey conducted in the high season of 2008 in Mallorca (Spain), one of the Mediterranean's main sun and sand destinations, was used to estimate the models. The results show that certain motivations and tourist and trip-related characteristics are associated with certain expenditure segments. This would make it possible to identify the type of tourist that could be more profitable for the destination. The practical implications of the results are discussed.

## **Estimating the Monetary Policy Reaction Function in Egypt**

**Hany Elshamy**

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The monetary policy reaction function shows the relationship between the real interest rate set by the central bank and the level of inflation. Taylor (1993) showed in his seminal work a policy rule by which the Federal Reserve adjusts the policy rate in response to lagged inflation and the real GDP gap. Taylor found that this rule described the actual policy performance in the late of 1980s and beginning of 1990s.

Since 1993, several studies have applied and developed Taylor rule to examine the policies of the central banks in the developed countries such as Clarida et al (1998), (2000) and Fendel and Frenkel (2006). However, there have been few studies about the monetary policy rules in Egypt and developing countries.

The aim of this paper is to estimate the monetary policy reaction function for Egypt for the period 1972-2007. The main objective of this paper is to empirically estimate a Taylor-type monetary policy reaction function in Egypt, during the period 1972-2007. I am also particularly concerned to measure this function in the short run by using the Error Correction Mechanism(ECM).

# **The Fallacy of Composition Bias: Evidence from the Real Wage Cyclical Puzzle**

**Cyrus Farsian**

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The behaviour of wages over the cycle is one of the many unresolved puzzles in economics. While many attempts have been made to solve this problem, the usual outcome is a mismatching of results and more often than not, composition bias in aggregate wage statistics is the scapegoat of the apparent unresponsiveness of wages over the cycle. This avenue of research received much attention since Bils (1985) and in particular Solon et al. (1994), who find that real wages are highly pro-cyclical once composition bias is accounted for. This body of evidence has shaped a general consensus that the observed ‘mild’ cyclicality in real wages is due to composition effects which cause counter-cyclical biases because low wage jobs are the first to be destroyed during recessions (Pissarides 2009). In this paper, it is argued that the results of Solon et al. (1994) and other papers using similar techniques cannot possibly disentangle the true effect of composition bias. This is because the assignment of fixed weights used to keep the composition of the work force constant is arbitrary and imposes the direction of the bias. Thus, rather than determining the direction of the bias it only serves to show the possible magnitude once having assumed the way the bias works. Unlike previous studies, weights are not fixed arbitrarily. Instead, breaking down the composition bias problem into a sample selection problem ala Heckman (1974) and utilising econometric techniques and theoretical micro modelling we can relate aggregate measures of real wages with individual behaviour using cross-sectional (FES) data to account for biases. As in Blundell et al (2003) we can unravel the bias into three interpretable parts. That is biases due to individual movement in and out of work, changes in the variation of hours worked and changes in the variance of wages over the cycle. The findings show that aggregate real wages become cyclically less responsive over the cycle and no evidence of ‘counter-cyclical composition bias’.

# **Stock Market and Oil Prices: Dynamic Correlation in Oil-Importing and Oil-Exporting Countries**

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According to Park and Ratti (*Energy Economics*, 30, 2587-2608, 2008), “oil price shocks have a statistically significant impact on real stock returns contemporaneously and/or within the following month in the U.S. and 13 European countries over 1986:1–2005:12”. However, we know little about the dynamic correlation between stock market prices and prices of oil. This paper investigates the time-varying correlation between stock market prices and oil prices for oil-importing and oil-exporting countries. We employ a DCC-GARCH approach to further test the above hypothesis using recent data from eight countries (Oil-exporting: UK, Canada, Mexico, Brazil and Oil-importing: USA, Germany, Italy, Japan). Our results show that time-varying correlation of our series does not differ for oil-importing and oil-exporting economies. However, we find that correlation changes in respond to demand-side and supply-side oil shocks.

# **Intergeneration Mobility and Industrial Restructuring: An Evaluation using French Data**

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Using French data, the main objective of this paper is to evaluate the impact of industrial restructuring on human capital intergenerational mobility. The “restructuring” factor is usually not taken into account in the literature estimating human capital production function (e.g. Mulligan, 1997; Nguyen and Haile, 2003; Fabre and Moulet, 2004). Yet, some recent works suggest an influence of restructuring on intergenerational mobility (Fleury, 2007; Fleury and Hellier, 2008).

To test this impact, we use data coming from the French Formation and Qualification surveys (INSEE; 1993 and 2003), and from the French Population Census (INSEE, 1945-1999).

Two types of empirical models are used: a linear model, then a polynomial ordered model, depending on the type of the dependant variable (duration of schooling or level of education).

Our main results are the following: (*i*) there exists a negative impact of industrial restructuring on human capital accumulation; (*ii*) this impact is focused on those individuals whose parents are blue collars or are low skilled.

# **Dynamic Responses to Monetary Policy Shocks Using a PSO Algorithm: Evidence from UK**

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This paper uses time series models (VAR and VECM) with a Particle Swarm Optimisation (PSO) algorithm to examine the dynamic responses of UK inflation and output to monetary policy shocks. In particular, we examine and derive the optimal monetary policy implications of money supply and interest rate disturbances. Further, simulation scenarios and impulse response functions associated to monetary policy shocks are examined. Our estimation results provide new evidence on the importance of optimal monetary policy responses for the UK.

# **Home Country Trade Effects of Outward Foreign Direct Investment: An Analysis of the Portuguese case, 1996-2007**

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In a context of increased Foreign Direct Investment (FDI) by Portuguese companies in different regions of the world, particularly since 1996, this paper analyses the relationship between this Outward FDI and home country's trade performance.

This empirical study uses a panel data analysis within a framework of gravity equations for exports and imports, with a sample composed of Portuguese main partners (EU-15, U.S.A., Brazil, Angola, Japan and China) for the period 1996-2007.

Our main conclusion is that the empirical evidence for Portugal is consistent with a substitution hypothesis between direct investment abroad and trade, for the majority of countries in our sample.

**Deregulation Financial Sector Process in Morocco:  
Efficiency of Monetary Policy**

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## **Contract-Centred Veil-Piercing**

**N. Georgakopoulos**

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# **What Drives a Financial Crisis? On Fear Fundamentals and Financialisation**

**Angelos Gkanoutas-Leventis**  
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The aim of this paper is to propose a theoretical framework for approaching financial crises. Its purpose is not to provide a novel theoretical approach, but to combine and built on an assortment of ideas which collectively provide with a framework of understanding what shapes the financial cycle and thus why and how financial crises occur. The theoretical framework in this paper is going to draw its main influences from the Neo-Keynesian theory, but also the neo-Marxian and mainstream approaches. This framework will propose that three different dimensions dictate the size, length and depth of financial crises.

# **Another Look at the EU Pre-Financial Crisis Equity Returns from Different Frequency Data**

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## **Timing of Protectionism**

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**Aurora Gomez-Galvarriato**

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Recent history gives us evidence of the different timing and results of the opening up of several economies. We present a model to explain this divergence. Accordingly with this evidence, we show that, provided the government prefers more competition than less competition irrespective of the firms' nationality, essentially three concepts explain everything: The agents' degree of impatience, the gap between the domestic and the foreign technologies and the costs due to the political environment. In sharp contrast to the existing literature, we show that a temporal protectionism can be time consistent, and domestic firms adopt new technologies under it.

## **The Financial Crisis: Home Made in USA**

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This paper tries to investigate the global financial crisis that flared up in 2007 in the United States. It is now quite obvious that housing market boom and bust are the main sources of the recent financial disaster in the United States. Therefore, the reasons of such booms and busts in the housing market in the United States need a true assessment and explanation. The aim of this investigation is to identify the role of Fed monetary policy in the crisis originated in the housing market. For such purpose the paper examines the financial crisis within the context of an empirical model that helps to see the interaction among the key macroeconomic variables such as interest rate, housing price, inflation, economic growth, and unemployment in an ad hoc manner. In the paper, Federal Reserve monetary policy decisions implemented with the use of the federal fund rate as an operational monetary anchor over the years to stabilize inflation and output growth in United States is questioned whether it can be attributed to the variations in the key macroeconomic variables, particularly the housing prices. In such framework the responses of key variables to monetary policy decisions, particularly sudden and severe changes made in the federal fund rate by the Fed are closely examined with quarterly observations over the period of 1987 and 2008.

# **Is There an Education Kuznets Curve in China?: Gini Coefficient Approach**

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The objective of this study is to empirically investigate the relationship between education expansion and educational dispersion or inequality using the panel data from all 31 Chinese regions (1997-2007) officially published by *National Bureau of Statistics of China*.

Since the seminal work by R.Ram ("Educational Expansion and Schooling Inequality," *Review of Economics and Statistics*, 1990), the relationship between them has been one of the interests among the researchers. Ram, using the international data, found *Education Kuznets Curve*, that is, the education inequality measured by standard deviation of schooling years of the people, initially increase and then decrease with education expansion captured by the average schooling years of the people.

In this study, focusing on rapidly growing Chinese economy, we used the improved measure as an index of educational dispersion or inequality, i.e. *Gini* coefficients of schooling years, and explore its relationship with average schooling years of the people. Several researchers who used cross-country data showed the downsloped relationship in the diagram just plotting the education *Gini* coefficients and the average schooling years. Unfortunately, almost of the preceding empirical studies, not only by Ram's but also other researchers' who are interested in this area, are superficial in spite of the education is one of the most important determinants of human capital as an engine of economic growth. Further, the important point to note is that the educational inequality may be affected by income growth as an opposite direction of the causality.

According to the econometric investigation taking account of the determinants of economic growth into the estimation of the educational inequality, we found the (not inverted) U-shaped relationship between the education *Gini* coefficients and the average schooling years in China. This relationship is confirmed with the estimated results related to the determinants of education inequality including several explanatory variables commonly used in the economic growth literature.

## **Which Crises Drive Central Bank Reforms?**

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Based on a new dataset on the dates of implementation of central bank reforms, turnover of central bank governors, and episodes of financial crises in 139 countries during 1980-2005, we have tried to find whether the episodes of financial crises lead to the implementation of central bank independence reforms or not. And whether these crises are also responsible for the turnover of central banks governors. We introduce some new variables as determinants of central bank independence reforms that are crisis variables. We use a mix of economic, political and crisis variables to assess the determinants of the central bank reforms. Crisis variables include the banking crisis, currency crisis, and debt crisis. Our paper is a first empirical attempt on the financial crises as determinants of central bank independence and also gives new direction in central bank research with ongoing financial crisis facing the world.

Using the multilogit panel data analysis, we conclude that banking crisis is an important determinant of central bank independence reforms and turnover of central bank governors.

The other crises; currency and debt crises, failed to show their impact for conducting these reforms. Other variables that have the significant impact on the dependent variables are elections, trade openness and GDP per capita. Our results thus tend to show that politicians accord more independence to their central banks just after banking crises, as a way to recover credibility in the road to recovery. Interestingly, our results also show that chairpersons have to be changed during this process. This supports our argument that central bank independence reforms are a consensual way to improve credibility after a crisis, and that politicians multiply their gestures to convince financial markets, and their citizens, of their will to solve the crisis.

## **Confidentially Concerns or Cover-Up: Review of South African Crime Data**

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The measurement of crime is of importance to policymakers, researchers and the public and has the following purposes: monitoring, holding agencies accountable for resource allocation as well as performance and research. South Africa has a number of official crime data sources, which include South African Police Services and Department of Correctional Services. The Medical Research Council's National Injury and Mortality Surveillance Systems and the National Victimization Survey offers additional insights into crime trends from the victim's perspective.

As is the case in many developing countries, the availability of crime data in South Africa is problematic and its accuracy contentious. In the case of data recorded by the police under-reporting, misclassification of crimes and political pressures all serve to compromise crime statistics recorded by the police.

In the South African context, crime data which has been released publicly has been subject to criticism because it is released annually and in highly aggregated forms. The opaque nature of official sources of crime data makes any comparisons between them and other datasets flawed. In all cases the evolution of data collection methods and coverage could also render intertemporal comparisons invalid without strong assumptions.

This paper aims to illustrate potential areas of inaccuracy in South African crime data. The inaccurate measurement of crime, due to the unwillingness of the state to make micro-level data to researchers, creates many problems for policymakers. This paper suggests that more transparency of official crime indicators at the micro-level is needed. This will ensure that government interventions and policy can be targeted more effectively and efficiently. The latter is particularly pertinent in a developing country where policing costs in 2008 were budgeted at 9.1% of total government expenditure.

# **The Evolution of the Sectoral Energy Intensity Levels in South Africa: 1992 to 2006**

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Improving energy efficiency is considered a significant approach for decreasing energy consumption and hence, greenhouse gas emissions. In describing the quantitative nature of energy efficiency, the concept of “energy intensity” is being used vastly in the literature. The term “energy intensive” illustrates the relationship between the energy use and economic output. In recent studies, the energy intensity is presented to have a downward trend in numerous advanced and developing countries, such as Australia, China, Colombia, Italy, Japan, United Kingdom, United States of America and others.

The importance of the sectoral analysis of energy intensity lies with the acceptance of the fact that no two sectors’ energy consumption, energy intensity profile and economic activity are the same is understood. Therefore, the knowledge of the status quo and evolution of each sector *individually* is of great assistance for the energy policy makers in their decisions to control the overall energy intensity level of the country.

In this study, we identify methods for estimating the energy intensity levels proposed by the international literature. After analysing the importance of each, we use the most appropriate ones for the South African case and calculate the energy intensity levels for a number of sectors of the economy for the period 1992 to 2006. The sectors to be included are chosen subject to data availability for all variables needed to derive the energy intensity levels and are as follows: Mining and Quarrying, Manufacturing, Transport, Agriculture, Commerce, Construction, Iron and Steel, Food and Tobacco, Paper Pulp and Print, Wood and Wood products and finally, Textile and Leather.

To conduct this analysis, we will use data derived from the Energy Balances 1992-2006, as provided by the South African Department of Minerals and Energy (DME). In addition, time-series of economic indicators such as “Value added” and “Total output” by various sources such as the South African Reserve Bank (SARB) and Statistics South Africa (STATSSA).

# **Economic Integration and Foreign Direct Investment: A Case Study**

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The paper presents a case study on the relationship between economic integration and the inflow of foreign direct investment. The experience of the Spanish integration into the European Union is used to explore this relationship. Emphasis is placed to determine whether the accession of Spain to the European Union has affected the inflow of foreign direct investment in Spain by a one-time effect, a more gradual change in trend, or a combination of both. Statistical evidence suggests that there is substantial difference between the short-run and long-run effects. In particular, the accession of Spain to the European Union has produced only a limited short-run effect, whereas, the long-run effects on the inflow of foreign direct investment into Spain were favorable and substantial.

# **Multiscale Integrated Analysis of the Socioeconomic-Ecological Metabolism for Sustainable Policies: Romanian Case Study**

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Nicholas Georgescu-Roegen emphasized the irreversibility of the economic process and the effect of the entropy law governing physical and biological processes and promoted the concept of societal metabolism and bioeconomics. Multi-Scale Integrated Analysis of Societal and Ecological Metabolism (MuSIASEM) is a method developed in relation to the new field of science for governance and it can be used to check the robustness and the relevance of models, datasets, and forecasting using integrated biophysical, economic, social and demographic analyses across different hierarchical levels and scales. This paper applies the MuSIASEM approach to the study of structural changes in Romanian economy between 1999 and 2006. Romanian transition from centrally planned economy to market economy provides an interesting example of structural change at national level. The complexity of the socioeconomic system is analyzed on three hierarchical levels: national level (*level n*); the next level (*level n-1*) is divided between the production compartment (paid work) and the consumption compartment (households); the lower level (*level n-2*) is the split of the previous level in the corresponding sectors (agriculture, industry and services and government). The economy manages its survival through a continuous and reciprocal balancing between the type of jobs that people do or get trained for (the type of sectors in the production compartment), the number of people who do those jobs and the number of hours people work. Other explaining factors include the associated household way of living (household compartment), the technologies and energy used at work and at home (energy consumption), and the level of productivity workers achieve. Each of these factors can be influenced through political decision-making and this paper discusses the possible changes associated with the changes in Romania's socioeconomic metabolism.

# Some Game-Theoretic Grounds for Meeting People Half-Way

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The normative approach to sharing problems rarely leads to a single proposal. In fact, a trade-off can usually be found between properties, interpreted as different '*equity principles*', which are fulfilled by the various solution concepts.

This idea was superbly expressed by Young (1994): "Fairness does not boil down to a single formula, but represents a balance between competing principle of need, desert and social utility".

In this context, we have concentrated on transferable utility distribution problems with two different proposals that highlight discrepancy, i.e., problems that involve sharing a given amount of a perfectly divisible 'good' among a group of agents with two focal viewpoints.

Firstly, we introduce the bifocal distribution problems by adding, to a generic distribution problem, two solution concepts interpreted as prominent proposals for solving them. We then model these kinds of problems as transferable utility cooperative games as follows. We associate with each coalition the smallest quantity of the 'good' that such a coalition would receive according to the two proposed allocations.

The analysis of these games, known as bifocal distribution games, provides 'solid' theoretic grounds in defense of intermediate compromises. Specifically, we provide a necessary condition for sharing to be in the Core of these games: a quantity belonging to the interval defined by the extremes corresponding to the focal proposals must be recommended for each agent. Furthermore, although these games are not convex in general, we find that not only is the Shapley value a Core selection, it also coincides with the Nucleolus. We also show that the recommendation made by these two solution concepts is the '*average of the two focal distributions*'.

Our modeling is of great interest when applied to some certain problem types in which bipolarity may usually take place. In this regard, the previous general results are then applied to bankruptcy problems: a particular kind of distribution problems in which individuals have different incompatible rights, summarized in a claims vector, so the available amount of the 'good' should be rationed. In bankruptcy problems two significant viewpoints naturally arise as any distribution can be observed by focusing either on gains or on losses. This fact together with the idea that the general desirable social goal is to treat everybody as evenly as possible, captured by the Lorenz criterion, (Lorenz (1905)), provide a new basis for the '*average of the Constrained Equal Awards* and the *Constrained Equal Losses* bankruptcy solutions', two proposals put forward by Maimonides in the twelfth century.

# **Monetary Transmission in (ex)Transition Economies: Rigid vs Flexible ERR**

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The paper investigates the difference in certain monetary transmission channels in (former) transition economies which practised different exchange rate strategies on the road towards the EU (EMU). Countries are differentiated according to exchange rate and monetary strategy practised on the road towards the EU: the first one, strategy from fixed to flexible exchange rate that includes Poland, Czech Republic, Slovak Republic, Hungary, and Republic of Serbia; and the second strategy, practising rigid exchange rate regimes in the case of Estonia, Lithuania, Latvia, Bulgaria, and Bosnia and Hercegovina. The first strategy assume the change of a monetary regime or a nominal anchor, thus it includes the movement from exchange rate as a nominal anchor towards the inflation targeting monetary framework, while the second strategy assumes maintenance of exchange rate targeting monetary regime. Monetary channels analysed in the paper are exchange rate channel, interest rate channel, credit channel, direct and indirect influence to an exchange rate in the period 1990-2010. Models used to research mentioned monetary transmission channels are VAR/VEC models which operate with following time series: nominal exchange rate, reference interest rate, foreign exchange reserves and consumer price index, taken from IMF database. The idea of the paper is to explore the difference in the strength of specific channels within a monetary transmission mechanism in order to make conclusions concerning the appropriateness of current monetary and exchange rate regimes, especially in the case of Serbia. The results point to the conclusion concerning the sustainability of a current Serbian monetary policy framework or the combination of inflation targeting and managed floating exchange rate regime. The mentioned combination is sustainable under relatively low exchange rate pass-through and significant interest rate pass-through, in contrary, indirect/direct influence to an exchange rate must be emphasized in order to attain determinated inflation targets. The distinction between *de jure* and *de facto* exchange rate regimes could be revealed if there is a significant (in)direct influence to an exchange rate under officially floating exchange rate regime.

# **The Effects of Fiscal Policy in Open Economies: Some Empirical Evidence**

**George Karras**

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Fiscal policies have played a very prominent role during and in the aftermath of the recent global financial and economic crisis. However, despite the general consensus that fiscal expansions can increase economic output, the mechanisms through which this is achieved are not fully understood.

Theoretically, the two leading paradigms are the Neoclassical and the New Keynesian approaches, which make distinctly different predictions about the effects of government spending on consumption and wages. According to the Neoclassical model, a fiscal expansion creates a negative wealth effect that raises labor supply (and thus output) but reduces consumption and wages. On the contrary, New Keynesian models rely on elements such as oligopolistic competition, sticky prices, and liquidity-constrained consumers and predict an increase in consumption and wages.

This paper looks at the empirical evidence in an attempt to determine which of the two theoretical approaches is more consistent with the data. Using annual data from the 1950 to 2007 period for a panel of 62 developed and developing economies, the study sets up a five-equation system for government expenditure, GDP, consumption, investment, and net exports. The model is used to identify shocks in government spending and then derive their effects on the other four variables.

The estimated responses support the following findings: (i) the model confirms the existence of a fiscal multiplier which (in the long-run) may exceed one: indeed, the output effects of a fiscal expansion are sizable and permanent; (ii) an increase in government spending reduces consumption, a finding that is consistent with a negative wealth effect; (iii) higher government expenditure raises investment, a finding consistent with an increased marginal product of capital (and lower wages); and (iv) fiscal expansions deteriorate the net foreign balance, though the effect is much sharper in the short run than in the long run.

Overall, the results show that fiscal expansions have effects that are large, permanent, and economically meaningful. In addition, they are qualitatively more consistent with the Neoclassical rather than the New Keynesian approach.

## **Augmented Philips Curve: Adaptive or Rational Expectation?**

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We use the geometric lag model to estimate (expectations-augmented) Philips curve of South Korea. In this Philips curve equation, there is a adaptive expectation term for inflation. So, we compare the estimates for coefficients of expectation model with those of the partial adjustment model. In addition, we try to find new methods of estimating the (optimal) adjustment coefficient and the rational expectation component.

Estimation results may give the government the useful information for stabilization policy, since the shape and slope of Philips curve are important for implementation of macroeconomic policy. Finally, we compare the estimate of the natural rate of unemployment with that of other studies.

# **Analysing the Impact of Liquid Biofuels on UK Agriculture**

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Various state support policies of biofuels (e.g., EU Biofuels Directive (2003), UK Renewable Transport Fuel Obligation Order (RTFO Order, 2007) etc) have led to the significant expansion of biofuels industry in the EU over the past decade. However, despite being viewed as a solution to the problems of climate change, energy security and as a new measure for rural development, there are concerns about the impact of increased biofuel production on global food prices (e.g. The World Bank report (Donald Mitchell, 2008)) and environment such as deforestation (e.g. The Gallagher Review, (2008)).

Due to these growing concerns of the indirect effects of biofuels, the UK government has effectively slowed down the increasing rate of biofuel supply: i.e., 5.25 per cent (volume basis) of biofuels use in the total road transport by 2013/14 rather than by 2010/11 (RTFO (Amendment) Order, 2009). On the other hand, the EU has extended its commitment to biofuels use by requiring a minimum target of 10 per cent (energy content basis) renewable fuels in transport by 2020, on the condition of sustainability (Renewable Energy Directive, 2009).

With this debate surrounding biofuel policies, it is necessary to incorporate a liquid biofuels sector into the agricultural policy model in order to analyse the impact of biofuel policies on agricultural prices, production and agricultural land use change. This paper develops and incorporates a UK liquid biofuels sub-model into a partial equilibrium model of UK agriculture, the FAPRI-UK model which, in turn, is an element of the FAPRI European grain, oilseed, livestock and dairy (GOLD) model.

The modelling system is simulated under the assumption that current policies remain in place; i.e., the level of biofuels consumption under the UK RTFO (Amendment) Order. The modelling system is then further simulated assuming increasing biofuels usage; i.e., the level of biofuels consumption under the EU Renewable Energy Directive and the results are compared against the UK RTFO (Amendment) Order simulation. The analysis examines the likely impact of the increasing biofuels usage on the key agricultural sectors in the UK.

## **The Black Economy and Education**

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This paper develops an equilibrium search and matching model with informal sector employment opportunities and educational choice. We show that informal sector job opportunities distort educational attainment inducing a too low stock of educated workers. As informal job opportunities to a larger extent face low skilled workers, combating the informal sector improves welfare as it increases the incentives for education. However, too aggressive combating of the informal sector is not optimal as that induces inefficiently high unemployment rates.

# **The New Mercantilism and the Crisis of Global Capitalism: Elements for Discussion**

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The crisis of finance that roughly triggered off in 2008 raises several issues for economists. Is it an adjustment effect, or the beginnings of major restructurings? Is it the result of a major weakness of the model of expansion of capitalism that has prevailed since the 1970s or the outcome of this process? Is it a national "problem" exported throughout the world, or would the world be not big enough to solve a problem that was posed to it?

In this paper, we have chosen to discuss the current – inevitably global – crisis, by referring to the work of Joan Robinson and more particularly to the concept of « new mercantilism » that she presented in her inaugural lecture at Cambridge University in 1966 (Robinson, 1973). The central hypothesis lies in the fact that the global economy is made of a set of national economies and of private actors having unequal economic, financial and political power.

If the growth of international markets is not sufficient to absorb global exports, each economic power will attempt to achieve a surplus of its balance of payments. Such is the "new mercantilism" which brings the United States face to face with Europe and Japan and resembles the 18th century when England (poor in labour and land) became richer thanks to trade, notably sea trade, and to State intervention. Joan Robinson simply showed, using a didactic method, how « One man's good fortune is another man's bad fortune ». It is easier for powerful economies to defend their own interests and impose an « international division of labour ». Means of defence are evolving, but the principles are still the same. It is true that in order to understand the subtlety of new mercantilism, today's economists have to abandon their usual tools for a moment (free-trade hypotheses and models). They must also accept to see the world through the prism of its history.

In this text, we will first present the content and the definition of the « new mercantilism », then we will study how these practices have contributed and supported what we commonly call globalization or global capitalism. This globalization, because of the internal barriers (the advent and the consolidation of the monopoly as a norm of enterprise) or external ones (the "globalization" of the markets of goods, services and capital) to which capitalism went against, has quickly been achieved, organized and developed by finance. The latter, nourishing the "virtual economy", has become because of its breathlessness a cause of depreciation and of destruction of capital in excess. And after? What may be the future of the "world economy"?

# **Credit Card Holders, Revolvers and Convenient Users: Evidence from Malaysia**

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Credit card is a double edged sword. The credit facilities offered by credit card which provide liquidity for unforeseen circumstances can also tempt its holder to overspend. The “buy today, pay later” lifestyle has become a concern as bankruptcy due to credit card bad debts has risen in recent years not only in Malaysia but globally. Further, while the number of cards in circulation has risen significantly in recent years, it does not imply more card holders in the country per se but it simply reflects that cardholders are now holding multiple cards.

This paper examines the factors that determine: i) the likelihood of holding a credit card, ii) the likelihood of not having credit card debt despite holding a credit card and iii) the level of credit card debt incurred. These objectives will help to identify the credit card averters and to distinguish between credit card convenient users and credit card revolvers.

Using Tobit model with sample selection, it is found that age, income, education, loan commitments, past bad debt history and previous holdings of credit card have significant marginal effects on the probability of holding a credit card, probability of not having credit card debt despite holding a credit card and the level of credit card debt incurred. As an extension from existing credit card studies, financial literacy was added to the credit card debt model to determine if financial education has influence on personal financial management. However, this was found to be not significant, which could imply that credit card may be different from other consumer debts whereby theories on self control may be applicable given that credit card spending can be largely unplanned and impulsive.

# **Adoption of Inflation Targeting and Tax Revenue Performance in Emerging Markets Economies: An Empirical Investigation**

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Inflation targeting is a monetary policy framework that was adopted by several emerging countries over the last decade. Previous empirical studies suggest that inflation targeting has significant effects on either inflation or inflation variability in emerging targeting countries. But, by reinforcing the disinflation process and so, by reducing drastically seigniorage revenue, the adoption of this monetary policy framework could also affect the design of fiscal policy. In a recent paper, Minea and Villieu (2009) have shown theoretically that inflation targeting provides an incentive for governments to improve institutional quality in order to enhance tax revenue performance. In this paper, we test this theoretical prediction by investigating whether the adoption of inflation targeting affects the fiscal effort in emerging markets economies. Using propensity score matching methodology, we evaluate the “treatment effect” of inflation targeting on fiscal mobilization in thirteen emerging countries that have adopted this monetary policy framework by the end of 2004. Our results show that, on average, inflation targeting has a significant positive effect on public revenues collection.

## **Functional Food Innovation and Health Care Cost Savings: The Case of CLA-Enhanced Milk**

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There is an important link between agricultural research and the health. The incidence and severity of many major diseases such as diabetes, coronary heart disease, and cancer are affected by diet. A growing awareness of the link between diet and health has focused the attention of the food industry, policy makers, and consumers on the health properties of foods. For the food industry there are potential product differentiation opportunities, while for regulators there are challenges in how to regulate health claims, and how to/whether to regulate ‘unhealthy’ foods. In response to this interest, agricultural research has begun to focus on improving the health properties of foods and food ingredients, leading to the development of so-called novel foods, functional foods and nutraceuticals.

The goal of this paper is to develop an understanding of the economic impact of public policy to stimulate research and development (R&D) in healthier foods. Using a specific example of high CLA (Conjugated Linoleic Acid) milk, the paper assesses the potential magnitude of health care savings and social benefits (as measured by direct and indirect health care cost savings respectively) associated with the development of healthier foods. Finally, the paper assesses the implications for policies to stimulate R&D into healthier foods.

This paper uses a variation on the cost of illness (COI) approach to estimate the potential impact of a change in high CLA dairy intake on breast, colon, melanoma and stomach cancer costs in Canada. The preliminary results suggest that the range of potential health care savings due to increased consumption of high-CLA dairy products in Canada are between \$44 million dollars and \$988 million dollars annually; while the health care savings per kilogram of high CLA dairy products consumed range from \$1.22 to \$8.12. Hence, the potential health care cost savings are substantial.

From a public policy perspective, the knowledge gained from the paper illuminates an important new dimension for the management of public research and food product development. By explicitly recognizing the potential to develop healthier foods, the proposed paper contributes to a fresh perspective on research policy that incorporates larger potential social welfare gains related to the improved health.

# A Transparency Index for Monetary Policy Commitment

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Until recently the monetary policy outcomes are analyzed detached from the people involve in shaping them. It is assumed that individual policy makers are capable of analyzing information in a rational and optimum way. However, the hypothesis of bounded rationality (Simon (1957, 1959)) suggests that in actual situations individuals rely on personal interpretations when faced with informationaly complex and uncertain situations (Gigerenzer and Todd (1999)).

Moreover, as Blinder (2007) emphasize, the representative agent models are not sufficient to understand the monetary policy which is no longer a one-man affair. Monetary policy decisions reflect the collective assessment, cognition, and perception of a situation by a number of individuals. These individuals (or committee members) are different in their preferences, nurture different biases and dispositions due to differences in their functional experiences and educational trainings.

The influence of decision makers' background characteristics (as captured by education, age, and functional experience) is well-established in the field of organizational behavior (Hambrick 2005, 2007). In monetary policy, empirical evidence is accumulating. Thus, it is found that professional background and gender impact the inflation performance of the policy makers (Göhlmann and Vaubel (2007) and Farvaque et al. (2009)). In political economy, the former experiences of politicians are found to have important bearing on the market liberalizing reforms (Dreher et al. (2009)).

This paper argues on the basis of empirical and theoretical evidence from Psychology, Organizational behavior, and Economics that there is ample reason to consider policy makers background in monetary policy analysis. In particular, personality is important in monetary policy making because decisions involve significant discretion (King (1997) and Mishkin (2007)). For example, in the face of economic shock, the magnitude of change in interest rate, the estimate of the output gap, the future trajectory of interest rates and the weight that should be assign to external factors and output objectives, are all sources of discretion. Different policy makers differ in their assessment of these factors and thus differ in their opinions.

After establishing the importance of policy makers background in the process of policy making, the paper proposes to extend the scope of conceptual framework of monetary policy transparency to monetary policy committees. This is done by constructing an MPC index (for 75 central banks) on the lines of Eijffinger and Geraats (2006) index. The index reveals that central banks, in general, are not very transparent about policy makers background. In comparing the scores of central banks across monetary policy regimes, it is found that inflation targeting central banks are more transparent than others.

The paper also identifies some propositions that can be further explored with the help of data generated by the index.

# **French Regional Innovation System: Center Region Innovation Clusters Diagnosis**

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In the past two decades, strategic plans for promoting innovation in the regions based on the concept of regional innovation system are widely spread. For example, The European Commission has implemented more than 120 new programs of Regional Innovation Strategies in the last five years. So, the creation and the reinforcement of regional innovation systems for increasing the competitiveness of a region have become a political priority of all strategies of economical development. This paper intends to develop a reflection on the evolution of the trajectories of regional innovation systems and the regional development policies based on innovation. It will also address the issue of the French regional competitiveness clusters as an application of the regional innovation system concept. In addition, a diagnosis of innovation clusters from the French Center Region in answer to the latest European operational innovation programs requirements is provided. This diagnosis aims to identify and analyze the innovation clusters that can contribute to the economical development of the region and thus become the target of its Regional Innovation Strategy.

# **Real Options Approach as a Tool for Understanding Structural Change in Agriculture**

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The objective of this paper is to outline the discourse on structural change in agriculture and to discuss requirements that should be met by an advanced approach to the issue of structural change. In particular, the paper looks into the question: Does the real option approach provide a better and more comprehensive understanding of structural change? For this purpose different theoretical concepts of structural change are compared and contrasted with new structural developments. The neoclassical approaches to structural change assume the perfect competitive model with market equilibrium, and explain the drivers of structural change primarily through identifying the deviations from the equilibrium model. Although different in focuses and methods, the neoclassical concepts reason that a high degree of persistence is a special trait of agricultural structural change in contrast to the general economic structural change. The new approaches pick up on the persistence of agricultural structures, but redirect the focus from the driving forces to the velocity of structural change. Among them, the application of the real options theory for capturing and explaining the pace of structural adjustments represents a recent and dynamic one. Unlike other concepts dealing with the dynamics of structural change, the real option theory incorporates the issues of uncertainty, flexibility and irreversibility. This fact gives reason to investigate, whether the real options approach is able to accommodate not only quantitative changes, but also the new quality of structural change (e.g. regional dualism of structures, interconnection between the agricultural, energy and financial markets). The paper concludes that the existence of real options in agriculture affects the pace of structural change. Thanks to its dynamic view of decision making and to its highlighting of the combined importance of uncertainty, flexibility and irreversibility, the real options approach provides an enhanced toolkit for capturing the new modality of structural change.

# **Vertical Linkages in Ukrainian Agri-Food Business: The Role of Uncertainty and Resource Availability in Implementation of Different Coordination Mechanisms**

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A characteristic feature of modern agribusiness is the extension of food supply chains all over the world and last years in transition countries especially. After the collapse of central planned economy transition and globalization processes influenced rigorously the coordination mechanisms in Agri-Food business of Central and Eastern European countries. Access of the supermarkets and increased consumer need for high quality products play important role for organisations and count to the important drivers of supply chain development in Ukraine. Vertical coordination becomes a successful strategy of buyer-supplier relationships in Ukrainian Agri-Food business. Still such significant constraints as communication problems followed by information asymmetry and lack of transparency hamper the development of vertical coordination in Ukrainian dairy sector. To reduce supply uncertainty and improve the milk quality processing enterprises implement closer coordination mechanisms for their suppliers. The variety of observed coordination strategies is directed at the full exploitation of efficiency, quality and logistics potentials of the actors in supply chain.

This research aims to identify the relevant factors that influence the choice of different vertical coordination mechanisms within the dairy industry. Theoretical considerations to the problem of vertical coordination are derived from transaction cost economics (TCE) and resource - based view of the firm (RBV) as both of these approaches are important for understanding the inter-firm cooperation and competitive advantages of the firms. Empirical results confirm positive relationship between transaction attributes and availability of resources and implementing different coordination mechanisms. Asset specificity and uncertainty are important drivers for the tighter forms of vertical coordination and availability of strategic resources is considered by processing enterprises as important factor for the choice of the form and extent of vertical coordination. Implemented coordination mechanisms have positive effects on quality improvement, reducing information asymmetry and trust building between processing enterprises and their suppliers.

# **Ensuring Effectiveness of Economic and Monetary Policies through Considering Economic Schools of Thought: Lebanon 1990-2010**

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Decision makers and executives should have a macroeconomic approach in planning and fixing economic and monetary policies for their countries. A national economy should be considered as a system including three interdependent markets: Financial market, Labor market and Goods and Services market. Any attempt to practice an economic or monetary policy emphasizing on one or two of these markets and neglecting the third will lead to public debts, high unemployment and/or inflation rates. This neglect will also increase the financial crises risk especially for developing countries. These developing countries are suffering from not being able to apply liberal policies, compete in the international multilateral trade system and benefit from globalization.

International organizations usually condition their financial support to developing countries by encouraging and urging concerned governments to apply recession monetary policy focusing exclusively on the financial market via overcoming inflation as the principal objective to attain to recover the national economy.

Further to negative results obtained in different countries after practicing liberal and classic policies, mainly the Asian tigers in 1997, Mexico, Brazil and Argentina in the 80s and 90s and Greece in 2010, it is important and urgent to question these economic behaviors based on an academic comparison between different economic schools of thought, mainly the Classic and the Keynesian doctrines.

Why Lebanese government is still insisting on applying liberal policies, high tax rate, low government expenses and investments, a fix exchange rate and a high interest rate? Is it reasonable and possible to have a developed financial market with bank deposits equal three times the Lebanese GDP and at the same time, a very weak labor and goods and services markets characterized by 18% unemployment rate and a very low consumers' purchasing power? How come Lebanon have a huge public debt equal twice its national GDP and be considered by the IMF as the fourth country in economic growth progression in the region? Why not considering Mundell's incompatibility triangle and Kaldor's magic square to analyze this critical economic situation? Is switching from a currency board to a forward-looking crawling PEG one of the factors to break this vicious circle?

# **Interprovincial Disparities in China since the Reforms: Convergence or Divergence?**

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After a brief review of the recent empirical literature on regional inequality in China this paper examines the hypothesis of convergence in income and welfare amongst the provinces of China. At the first glance it seems that disparities amongst the Chinese provinces are on the increase. However, the empirical literature on inequality in China is diverse and often with contradictory conclusions. We considered two possible theoretical models with opposing expectations of regional disparities. The neoclassical argument of convergence mainly based on the diminishing returns and the mobility of factors of production, on the one hand, and the structuralist school of dualism advocating possible divergence as an expected outcome of the process of development on the other hand. The examination of per capita income showed a possible absolute convergence amongst the provinces of China since the economic reforms. Introducing domestic and external structural conditions which may have played a role in possible convergence still confirmed that there has been a convergence in income per capita amongst the provinces of China during the period of 1978 to 2008 albeit of a low magnitude. Our results confirmed that coastal regions with access to ports had enjoyed a much higher pace of growth than their inland counterparts mainly due to attracting a higher level of domestic and foreign capital and the subsequent higher level of external trade. We could not confirm any convergence of  $\beta$  type, absolute or conditional, in the level of welfare amongst the provinces. This contrast, as compared with per capita income, is intriguing.

We also consider a number of measures of possible  $\sigma$ -convergence amongst the Chinese provinces. With respect to per capita income there seems to be an overall tendency to convergence amongst the provinces, though a slight increase in divergence over the period of 1990 to 2004 followed by a change of direction since then is remarkable. The same measures applied to consumption per capita reflecting welfare showed steady divergence over the period of 1978 to 2006 with slight periodic reverse. This was in contrast to the results of the  $\beta$ -convergence model for welfare which showed no sign of convergence.

We employed an extended Gini coefficient in order to take into account the relative size of population in each of the provinces and thus to better reflect the magnitude of disparities. In the case of income per capita the previously obtained drop in disparities reversed to a distinctively increasing trend in disparities over the period. It is important to note that these different results are not necessarily contradictory as they refer to disparities between the provinces in China. While both are relevant to

interprovincial disparities one approach does not take account of the relative size of population whereas the other does in order to give a sense of the overall magnitude of population affected by disparities. The same measure was used for detecting possible convergence or divergence in welfare as measured by consumption per capita. No solid trend could be detected. We could neither conclude that there has been any convergence nor could we determine any divergence.

# **The Grand Corruption and Organised Crime Nexus: The Challenge in Subsaharan Africa**

**Simone Occansey**

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In recognition of corruption and organised crime as major obstacles to the development processes of poor countries, the search for effective strategies in combating these phenomenon in developing countries has become a major preoccupation, particularly since the 1990s.

Our topic was inspired by the growing interest of African law enforcement agents, government officials and researchers in the organized criminal businesses that are on the rise in sub-Saharan Africa. A few reports on the growth of organized crime have surfaced over the past decade. For example in 2005, a United Nations report on *Crime and development in Africa*, concluded that “Africa may have become the continent must targeted by organised crime”<sup>1</sup>. The problem is exacerbated by the international dimension of the crime and the fact that traditional leaders, politicians and government officials are key players in the process.

The purpose of this paper is to examine how the grand corruption in African countries contributes to the expansion of organised criminal activities on the whole continent.

The findings of our paper are based on the existing literature on corruption and organised crime. However, the paper highlights the fact corruption and organised crime are not isolated criminal phenomenon and points out the need of strong political commitment and corporate governance in the private sector to eradicate them.

We assume then, that there is a strong linkage between corruption practices that occur in many African countries and the development of organised criminal activities in the region. Moreover, we assume that organised criminal groups and networks tend to have international activities and to infiltrate the countries where they can make more profit with the minimum of risk. Indeed, Buscaglia and van Dijk (2003) pointed out the dynamic of the nexus between corruption and organised crime. The study of van Dijk (2007) also highlighted the fact that the growth of criminal groups enhances corrupt practices and noted there was a positive correlation between the level of corruption measured by the Corruption Perception Index (CPI) and the Organised Crime Perception Index (OCPI). Whilst studies on both corruption and organised crime abound, these have either not provided in depth the role of grand corruption in organised crime across sub-Saharan Africa.

We think the better knowledge of the grand corruption and the organised crime nexus and its mechanisms is important so that they can be eradicated.

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<sup>1</sup> United Nations Office on Drugs and Crime, *Crime and development in Africa*, june 2005, <http://www.unodc.org/pdf/African-report.pdf> (accessed on 2nd October 2008).

# **Competition and Growth: Reinterpreting their Relationship**

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Recently it has been proved empirically that the relationship between competition and growth in models of innovation is an inverted U-shape.

Only few models give a theoretical explanation to the empirical evidence. Our model tries to build another rationale. In particular, in our paper we modify a standard quality ladder model by assuming that R&D is driven by outsider firms and the winners of the race sell licenses to an exogenous number of firms over their patents, instead of entering directly the intermediate good sector. As a reward they get the aggregate profit of the industry. Moreover, in the intermediate good sector firms compete à la Cournot and it is assumed that strategic complementarities on costs are present. We prove that there exists an interval of values of the externality parameter such that the relationship between competition and growth is an inverted U-shape. For these values, when competition is low, the spillover effect prevails over the business stealing effect, while for higher level of competition the business stealing effect prevails over the externality effect. Moreover, we calibrate the model parameters for the UK economy and show that the numerical simulation validates our prediction.

Finally, it is possible to endogenize the number of firms in the intermediate good sector by allowing the R&D firm to choose the number of firms which maximizes her reward. We find that the optimal number of firms coincides with the one which maximizes the economy's long-run growth rate.

# **GDP Growth Predictions through the Yield Spread Time-Variation and Structural Breaks**

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We use TVP models and real-time data to describe the evolution of the leading properties of the yield spread for output growth in five European economies and in the US. We evaluate the predictive performance of benchmark term-structure models and identify structural breaks in the marginal processes of term spreads and government bond yields to shed light on the characteristics of inflation risk incorporated in bond markets and inflation expectations. Econometric analysis shows that: (i) the marginal predictive content of the term spread is not always significant over time and across countries; (ii) to some extent, the term spread contributes to the forecast performance of simple growth regressions in Europe, not in the US; (iii) inflation risk exhibits instability and generally declines over time. In some countries, among which the US, this decline is accompanied by vanishing leading properties.

# **Finnish Parties' Optimal Positions under a State of Nash Equilibrium**

**Achillefs Papageorgiou**

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The purpose of the paper is to apply concepts widely used in economics, such as Nash equilibrium, in politics. Depending on which party system is being studied, models of probabilistic voting have reached different conclusions of whether parties' optimal positions are driven by centripetal or centrifugal forces. Focusing on the Finnish party system, I undertake equilibrium analysis in 2007 elections by applying an algorithm developed by Merrill and Adams (2001). The algorithm is implemented under a conditional logit model where party choice depends on a quadratic loss function that measures the voter's distance from the party and on a 'bias' element such as party identification. Upon finding the parameter estimates from maximum likelihood in a conditional logit model the equilibrium values are computed. Results indicate towards an agglomerated Nash equilibrium. Lastly, the impact of party identification on equilibrium configurations is assessed by varying the empirical value of the parameter. Although, some evidence was uncovered to suggest that increases in levels of party identification motivate parties to adopt non-centrist positions, the preponderance of evidence was in line with the statement that party identification has a curvilinear effect on Finnish optimal configurations. The simulation analysis showed that: low levels of party identification lead to centripetal outcomes; medium levels of party identification lead to centrifugal outcomes; and high levels of party identification bring the parties back to the centripetalKeywords: Nash equilibrium, conditional logit analysis, Finnish political parties.

# **Selection and Socio-Economic Analysis of Nutrient Control Measures in the Scheldt Watershed: How to Reach WFD Objectives in a More Sustainable Way?**

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The main objective of the Water Framework Directive (WFD 2000/60/EC) is to reduce the contamination of water bodies in an efficient way. The Driver-Pressure-State-Impact-Responses (DPSIR) framework was identified as a possible approach towards analysing the development of management strategies according to the European Water Policy. This methodological DPSIR framework has been developed for three watersheds (the Scheldt, the Seine and Somme) and the Belgian coastal zone in order to elaborate possible measures (Responses) for controlling and/or reducing nutrient Pressures and their Impacts, such as eutrophication. In parallel, a cost-effectiveness analysis is used to assess the direct costs of Responses and compared them with the Responses' effectiveness as recommended in the WATECO guideline.

The cost-benefit analysis compares the direct costs of the Responses with their impact in monetary terms. Several methodologies are already in place to convert the impact from physical terms to monetary terms, so this question is open for discussion.

The Responses concern two types of Pressures: point and diffuse Pressures. These both act on nutrient reduction and have been simulated on three watersheds: the Seine, the Somme and the Scheldt, which are the main ones to enrich the Belgian coastal waters. Unit direct costs are costs for the Driving force agent responsible for the nutrient pollution; they have been aggregated in the three basins. The hydrobiogeochemical Riverstrahler model enables the State and the Pressures in the watersheds, as well as the Impacts from them and from the Responses, to be evaluated. The MIRO model, a biogeochemical model describing diatom and *Phaeocystis* blooms in the marine coastal domain, coupled with the Riverstrahler model, allows the Impacts and the Responses effectiveness in the Belgian coastal zone to be assessed. The results show that the selected policy measures have no spectacular effects on coastal eutrophication. Even if nutrient excesses are reduced, their imbalance is not removed. Moreover, the more the measure is implemented upstream of the production or consumption cycle, the more the repetitive costs are reduced.

# **Ownership Structure as Corporate Governance Mechanism in Chinese Private Enterprises: Evidence from Shantou City, Guangdong Province**

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It has long been debated about the impact of ownership structure on firm's performance. While agency theory emphasizes the role played by management, endogenous ownership theory emphasizes the role of market discipline. However, most existing studies look at established companies in developed world where the market mechanism is well-developed while an important part – family firms in less developed economy– has largely been neglected. Chinese private enterprises have dramatically re-emerged since the late 1970s, of which most private enterprises are characterized by family businesses in terms of corporate governance. This paper investigates the relationship between ownership structure and firm performance based on a survey over 189 private enterprises in Shantou City, Guangdong Province. Following the agency theory and endogenous ownership theory and taking other influential factors into account, the findings suggest that firm performance is closely linked to its ownership arrangement in a given market environment, representing a combination of orthodox endogenous ownership theory and agency theory. Additional analysis further reveals the effect of firm performance on managerial shareholding. However, the relationship between family shareholdings (including the shares jointly owned by the largest shareholder and his/her family members) and firm performance is insignificant, requiring further research.

# **French Residential Energy Demand: Micro-econometric Analysis of Household Multi-fuel Energy Consumption**

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In France, devising efficient policies for a low carbon society requires, among others, a careful understanding of energy consumption in the residential sector, which is responsible for about 13% of total carbon emissions. However, paradoxically, the literature on energy demand in the building sector in France is not very deep. At our knowledge, almost no study deals with this question using a household level microdata set.

In this paper, we explore patterns of French household residential energy consumption using the 2006 *Enquête Logement* which is a disaggregate household level survey data. Dwelling sector is divided in 3 types of parks: individual houses, collective private park and social collective park. We estimate a total energy demand equation of households for each park. The model incorporates a continuous/discrete decision framework which allows for interactions between decisions on heating system (the discrete choice) and the consumption of energy (the continuous choice). Five main categories of determinants of energy consumption by m<sup>2</sup> are included in the econometric models: (1) technical properties of dwelling, (2) climatic areas, (3) socio-demographic variables of the household, (4) average price of energy, (5) heating system.

Results show that the intensity of energy used by m<sup>2</sup> is almost completely constrained by the technological properties of the dwelling, the heating system and the climate. The part played by the socio-demographic variables is incremental, the price-elasticity is lower than unity and the income-elasticity is also very low.

These results mean that the possibility for a French household to handle its own level of energy consumption by m<sup>2</sup> in an existing dwelling is extremely weak in absence of investment in the quality of this dwelling. At a macro-level, this implies to develop legislation and fiscal incentives in order to boost the investments and to significantly improve the energy efficiency in the existing buildings.

# **An Analysis of the Effects of Monetary Policy on Banks' Balance Sheets**

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This study empirically analyses the impact of monetary policy on banks' balance sheets. It contributes to the understanding of the behaviour of banks and, given their essential role as financial intermediaries, the understanding of the transmission mechanism and potency of monetary policy, which is of the utmost importance from a policy point of view.

We look at various issues. In addition to bank loans, deposits, and security holdings, we also look at other balance sheet items. This allows seeing whether, following a monetary contraction, banks raise funds alternative to deposits and/or reduce assets other than loans. We also look at whether policy impacts differently banks with different sizes, or different characteristics – namely liquidity, capitalisation, and ownership. We focus on Portugal and use vector autoregressive models with data from the banking sector aggregate balance sheet as well as panel data models with individual bank-level data.

We uncovered adjustments, following a monetary policy contraction, on items of both sides of balance sheets supporting the absence of perfect substitutability. Although initially deposits contract more than loans, loans end up suffering a bigger contraction. Moreover, security holdings and other asset items initially contract more than loans and start to recover later, while there is an increase in non-deposit funding suggesting banks to raise funds to compensate for the decline in deposits. The patterns of response identified are consistent with the existence of portfolio adjustments that contribute to the slow and gradually bigger contraction in bank lending we found.

We also found that loans by smaller banks are more affected. This may reflect a loan supply response, as complying with a bank lending channel, or a loan demand contraction, as could be the case if smaller banks tend to lend to clients that are more severely affected by the policy contraction. The latter view has support in our finding that smaller banks display a higher increase in their security holdings than larger banks, suggesting a reallocation of funds freed by a stronger contraction in the demand for loans.

## **CGE Analysis of Regional Policy in Northern Kyushu Area**

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This study develops a policy model with different profit obtained by the regional policy that the hierarchized administration requests on the regional economy of Japan. In case of Japan, a hierarchy of National, Prefecture, and City administration exists, and a different regional policy in these each hierarchies can be set up. Generally, the policy and its evaluation might be different whether should give priority to national interests or to each region's interests. To show such a situation, quantitatively analysis by using the computable general equilibrium model (CGE model) is examined.

Concretely, Kitakyushu City and Fukuoka City are taken up as an administrative region at the city level. Together with these two cities and surrounding areas, it becomes Fukuoka Prefecture.

On the other hand, the case of including Yamaguchi Prefecture, the adjacent prefecture, in these regions exists. In this case, it can be called Northern Kyushu Area by combining Fukuoka Prefecture and Yamaguchi Prefecture, and such a large area also becomes important in the regional policy as higher hierarchy. Five regions including the rest of Japan are focused on this study.

Moreover, due to availability of the input-output tables of these regions, respectively, the data base to develop the CGE model is estimated after tabulating the interregional input-output table.

## **The Evolution of British Package Holiday Prices in the Balearic Islands, 2000-2008**

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The aim of this paper is to analyze the evolution of package tours prices of a sample of British tour operators, during the period 2000-2008. Three alternative price indexes are shown: a fixed base hedonic price index, a chained hedonic price index and a chained Laspeyres price index. The results show that the fixed base hedonic price index has had a slight increase, while the chained hedonic price index and the chained Laspeyres price index has decreased its value. The comparison of these indexes with two competitive indicators (CPI index and Package holidays & accommodation index of Great Britain) shows that the package tour price to the Balearic Islands has reduced weather it is compared with the British cost of living index or it is compared with the general British package tour price index. Moreover, an elementary tourist demand model, done with the indexes, suggests that British demand is less sensitive to the price of the package tour.

## **Can Turkey Abandon the National University Entrance Exams?**

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# **The Economic, Social and Political Development of Peripheral Areas as a Result of the Establishment of Graves of the Righteous in their Jurisdiction**

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There are many sacred sites in Israel. Some of them (such as Jerusalem) attain their sanctity from above, in other words by dint of a specific halakhic command, and some receive their sanctity from below, from the public that attributes special spiritual qualities to a site.<sup>1</sup> The places that are sacred due to custom include "graves of the righteous" who lived during ancient times, the vast majority of which are located in the north of Israel. Many of these places, which are geographically distant from population centers, benefit from large numbers of visitors (up to seven million people annually<sup>2</sup>), economic development by means of special market places, a developing tourist industry and a lively social and political interest in the region. Some of them even undergo a bureaucratic process at the end of which the government officially recognizes the site as a sacred place and budgets its operation.<sup>3</sup>

During the past two decades we have been witnessing a gradually expanding phenomenon of "graves of the righteous" in many locales in the south of the country, which is also distant from population centers. But as opposed to the north, which is characterized by the graves of righteous men who had historical influence and a connection to the geographic region in which their graves are located, and where occasionally, as we have mentioned, the sites also receive official recognition, the graves of the righteous in the south are attributed to contemporary righteous men, usually people with local influence, who are not necessarily connected to their place of burial and whose grave sites are not officially recognized by the state.<sup>4</sup>

At the same time, the southern burial sites, like the northern ones, are highly popular among the general public, are enjoying a significant expansion of economic, social and political activity in the area near the grave and are a destination for pilgrimages by politicians of the highest rank. This process has caused cities and

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<sup>1</sup>Avi Sasson, From an anonymous holy man to an official site, the Jewish dimension in the process of sanctifying graves in the State of Israel, **Derekh Ha'aggadah 9**, 2006, pp. 158-176. Michael Vigoda, On the holy sites, between halakha and minhag, **Daat**, Ministry of Justice, 2004.

<sup>2</sup> Naomi Mei Ami, **The Grave Site of Rabbi Shimon bar Yochai in Meron**, The Knesset, Research and Information Center, 2008.

<sup>3</sup> Noga Collins Kreiner, The Chararters and Tourist Potential of Pilgrimage to the Graves of the Righteous, Final Report, submitted to the Ministry of Tourism, 2006. Yonatan Ehrlich, **The Budget of the Ministry of Tourism: Main Statistics and a Discussion of Prominent Issues**, submitted to the Knesset Finance Committee, December 2006.

<sup>4</sup> The Ministry of Religious Affairs site: <http://www.dat.gov.il/religion/console/mng/holyplaces> search aspx?current posting} ={6FDCAA96-218E-4BC2-9780-135E4F76B264

regions that are socio-economically impoverished and geographically distant from the center of the country to become more central, both regionally and to a certain extent nationally as well (such as the town of Netivot).

In this connection we would like to mention two concepts: **center and periphery**. In the center of the country are the social elites and the government institutions, and it determines the social status of individuals influenced by it. The areas surrounding the center, which have no real influence on the policy of the center, are called the **periphery**. The urban society of Middle Eastern and North African origin that populates most of the communities of the south considers itself excluded in terms of culture, the media and politics, and represents the periphery.<sup>1</sup> The construction of graves of the righteous establishes regions in the south as a "secondary center," which mediates between the center and the periphery and shares the power of the center.<sup>2</sup>

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<sup>1</sup>E. Shils. **Center and Periphery, Essays in Macrosociology**, Chicago: Chicago University Press. 1975, pp. 3-16. Concerning the improvement of the dichotomous model for the sequence ranging from a center to a secondary center and to the periphery see D. Horowitz and M. Lisk, From Yishuv to State: **The Jews of Palestine During the Mandate Period as a Political Community**, Tel Aviv, 1977, pp. 47-52. For an analysis of the Shas movement that represents the Middle Eastern society according to the model see A. Feldman, **Factors in the Growth of a New Party: The Union of the Torah-Observant Sefardim (The Shas Movement)**, doctoral thesis, Bar Ilan University, Ramat Gan 2001, pp. 11-12, and also, see B. Kimmerling, Between State and Society, A, the Open University, Tel Aviv 1995, p. 49.

<sup>2</sup> Horowitz and Lisk, ibid, pp. 47-51.

## **Dynamics of Public Good Voluntary Provision**

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The existing literature about public goods provision distinguishes between continuous and discrete public goods. The possibility of a public good with discrete fixed and continuous variable production costs was almost ignored in the literature. We studied the dynamics of private voluntary contributions to a public with fixed and variable costs within a two-stage game frame work. Preliminary results indicate the possibility for over contribution for financing the fixed costs followed by sub-optimal contribution for financing the variable costs in a Markov-Perfect-Equilibrium. Our preliminary results also indicate that the MPE is very sensitive to certain specifications. Nevertheless, our model may resolve some empirical and experimental perplexities.

# **The Relevance of Real Estate Market Trends for Investment Property Funds Asset Allocation: Evidence from France, Germany, Italy and United Kingdom**

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In the last decade, the sector of the property funds specialized in real estate, had an impressive growth in the European market and became a solid alternative for real estate investment. This expansion was the underneath cause for the invention of new approaches to the real estate fund management and strategies adopted from the specialists of the sector. The aim of the paper is to evaluate real estate time series and to define the best investment strategy, through the usage of technical analysis tools widely utilized in the asset management industry.

By considering the IPD index for four main European countries (France, Germany, Italy and United Kingdom), an analysis of real estate trends is released for the period 2000-2008. Once identified the main trends and the main reversal points, an analysis of all investment funds listed in each country is released in order to evaluate if funds manager consider market trends in constructing new investment vehicles and /or modify the portfolio composition in order to benefit from this investment opportunity. The study proposed, considers separately the new portfolios constructed and the existing ones. For the first type of fund an analysis of the coherence with optimal portfolio structure is released and the main causes of portfolio misalignment are pointed out. For the property funds pre-existing our analysis study the presence /absence of portfolio re-balancement correlated with the trend in the real estate sector. Results obtained show that market cycles in each country are different from sector to sector and manager do not consider the trends in order to modify the portfolio composition but there are some interesting differences in the countries considered.

# **Financial Shackles: An Analysis of Firms' Financial Constraints in Portugal**

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Today's shortage of financial resources calls for the attention of researchers to the problem of financial constraints faced by firms. In this paper we analyse firm's financial constraints by estimating both investment-cash flow sensitivities and cash-cash flow sensitivities upon a large unbalanced panel of Portuguese firms in order to obtain robust findings. Additionally, we classify firms according to characteristics that are generally believed to indicate the presence of constraints. This paper is original in the sense that: (a) it explores a recent methodology to measure financial constraints (cash-cash flow sensitivities), that, although appearing useful and consistent, to our knowledge has barely been used yet; (b) it tests a new way of classifying firms by their level of financial distress (SA index), that, to our knowledge, has not yet been used except in its introductory paper; (c) it is the first to explore this dataset to analyse financial constraints for the Portuguese economy. Our results clearly show that Portuguese firms are, in general, financially constrained. Furthermore, we verify that such constraints are more severe for certain groups of firms, in particular those firms that are smaller. However, we do not find compelling evidence that age and dividend policy work as good proxies for financial constraints. Finally, we cast some doubts on the use of Investment-Cash Flow Sensitivities, as well as on the direct implementation of the SA index as a measure of financial constraints.

# The German Historical School and its Relevance to Behavioural Economics Today

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The paper analyses concepts of the German historical school and the associated discussions that relate to methodological considerations of the economic discipline. These considerations allow further understanding of fundamental notions of political economy and behavioural economics.

Two main points are considered as a result of the above. These are

- 1) the substantive and value forming character of social entities and economic outcomes themselves, and
- 2) the impact this has potentially on institutional economics in a) its philosophical grounding and b) the shaping of institutions themselves in the political economic (or “Nudge”) sense.

The perceived merit of a social norm can be seen as the result of the institutional framework that applies a set of sanctions, which could be rewards or penalties. For our discussion purpose here, the focus will be on the explanatory aspects of the existence of social norms, in particular the analysis of the institutional role in the generation of social norms. This can be further extended to the analysis to which extent the institution itself is created as a result of the social norm. Aristotle’s ideas and the discussions during the so-called *Methodenstreit* (methodological dispute mainly between Gustav Schmoller and Karl Menger) enlighten the understanding of the role of social institutions, their origin and effects. The current debate about libertarian paternalism requires an institutional-theoretical discussion to gain insight into the desirability of such institutionalisation of economic and social behaviour.

The German Historical School relies on the principle understanding that ethics are of fundamental importance in understanding social notions which are changeable and subject to an evolutionary process. Gustav Schmoller’s understanding follows the Aristotelian thought of a holistic approach of mankind, social forms and state institutions which points out that this central point of economic and social policy is found in the underlying institutions.<sup>1</sup> This formulates the framework of the political and economic community and their actions are founded upon the existing moral values and therewith the ethical concepts within the historical setting. The norms and values persistent at the time are believed to shape society so that a common ethos is identifiable. This in essence highlights Schmoller’s refusal of utilitarianism which takes a positive view on ethics and assumes that a nation is able to formulate a social

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<sup>1</sup> Schmoller. G., (1884) Review “Friedrich List. Das nationale System der politischen Oekonomie, 7. Auflage, Stuttgart 1883: Gotta”, in: Schmollers Jahrbuch, 8: 281-83.

agreement on acceptable and legitimate behaviour. The ethos is thus evolutionary and based on the ethical convictions at the time. Karl Menger (1883) reiterated Aristolelean philosophy in his criticism of English empiricism and the deduction of knowledge on the basis of empirical observation. He denied empirical observation the ability to test the perception (*Erkenntnis*) of structural relationships.<sup>1</sup> Rather should the explanation be inductively derived.

The concepts of the German Historical School are here highlighted in their interconnection of psychology, culture, institutions and times; these considerations have not yet found their way into the current behavioural economic domain and are linked to the ones recently put forward by authors like Sunstein and Thaler (2008).<sup>2</sup> Rather than focusing on the social policy that is needed, here behavioural economics formulates the passive influence of individuals through institutions which is in stark contrast to the humanistic view put forward during the end of the 19<sup>th</sup> century in Germany.

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<sup>1</sup> Menger, C., (1883) *Untersuchungen ueber die Methode der Sozialwissenschaften ind der politischen oekonomie insbesondere*, Leipzig.

<sup>2</sup> Sunstein, R.H.; Thaler, C. R. 2008, *Nudge*, New Haven & London: Yale University Press.

# **Effects of Migration on Tax Policy in the EU Countries: An Empirical Analysis**

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In this paper, we study whether migration affects taxes on labor and capital income. The analysis is based on panel data for 14 European countries. The results indicate that migration does affect subsequent tax rates; taxes on labor income increase with increased migration, especially in countries with large public sectors. However, this effect is reduced for countries with large foreign trade and/or large shares of elderly in the population.

# **Is International Competition between Nations in a Global World Welfare-enhancing?**

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In this paper, we will investigate into the question, if the competition between nations regarding international trade and the international capital market, is a way to enhance the economic welfare in all involved countries in the long-run. Since a few years, a lot of people, especially from non-governmental organizations like ATTAC, criticize the developments of world-wide globalization. These people argue that the increasing international competition will not enhance the welfare of the average citizens and will harm the working class people and the poor all over the world. Especially, they maintain that the process of globalization is only in favour for the capital owners and rich people, where the countries are competing which each other by cutting back the social standards of employees, by cutting back the rights of labor unions and by giving up national economic policy and national social security policy. In principle the critical people argue that it is impossible to realize gains from trade for all societal groups if the competition is unfair regarding missing international labor standards and social security standards.

Here we will try to analyse these problems with the help of a simple endogenous growth model. To make the analysis as simple as possible and to concentrate on long-run growth effects we will take only the capital markets into account. Consequently, we reduce our analysis to open capital markets and we will make use of a simple endogenous growth model. Additionally, we will analyse the problem mostly from a national perspective. This approach seems to be useful, because no country in the world is really able to influence the world market prices at the time of globalization.

# **U-shaped Female Labor Participation with Economic Development: Some Panel Data Evidence**

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Using a panel data of about 130 countries from 1950-1980, we analyze the relationship between female labor participation and economic development. Cross-country evidence suggests that female labor participation exhibits a U-shaped relation with economic development (Pampel and Tanaka, 1986; Goldin, 1994; Cagatay and Özler, 1995). These cross-country results, however, could be subject to “Kuznets fallacy”, i.e., a spurious cross-sectional relation similar to the cross-sectional Kuznets curve, which fails to hold up in a time series context. Cross-sectional estimates are likely biased because of potential country-specific effects. On the other hand, due to limited data availability, long time-series evidence on the U-shaped relationship between female labor participation and economic development is scanty. In this paper, we explore the time-series aspect of the feminization U hypothesis by analyzing a panel data of about 130 countries in 4 periods: 1950, 1960, 1970 and 1980. We perform several panel data estimations. Not only do we perform within-group estimates to account for fixed effects, we also use dynamic panel data estimations to account for country-specific and time-specific effects, dynamic effects and endogeneity problem. These estimation methods allow us to compute consistent estimates in a short panel like the one we have here and test whether the feminization U shows up as an intertemporal relation. The dynamic panel data estimation demonstrates that the U-shaped relationship between feminization of the labor force and real GDP per capita is not a “Kuznets fallacy” and it holds up as an intertemporal relationship, which confirms the cross-sectional results in the literature.

# **Who needs to be “The Biggest Loser”? Evidence from Malaysia**

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In this paper, we examine the socio-demographical and health-lifestyle determinants of obesity likelihoods in Malaysia since the country exhibits a number of attributes of particular interest to public health advocates. First, like other middle- and high-income countries, 29.7% of males and 28.6% of females in Malaysia are overweight while obesity prevalence is 10.0% for males and 17.4% for females. Second, three of the five leading causes of death in Malaysia, including heart/pulmonary circulation diseases, cancer, and cerebrovascular diseases (hypertension/stroke), are obesity related. Third, Malaysia provides an ideal opportunity for a novel examination of the possible role of ethnicity/race in affecting critical health issues such as obesity as its multi-ethnic population consists of Malays, Chinese, Indians, and others of native descent. Finally, as Malaysia aspires to achieve developed country status by 2020, successful development strategies should include improvements in both the economic and public health sectors. In turn, these strategies to overcome the obesity risk problem could be useful guides for less developed nations in the region.

Data were obtained from the Malaysian Non-Communicable Disease Surveillance-1 (MyNCDS-1). The cross-sectional population-based survey consisted of 2447 observations, with an obesity prevalence rate of 17.2%. Based on Logit regressions, the results suggest that obesity risks in Malaysia are affected by gender, education level, family history, health conditions, smoking status and ethnic backgrounds. Specifically, Malaysians more likely to be obese consist of females (5.3%), lower educated (0.9%), those with history of family illnesses (4.8%) and non-smokers (6.4%). Meanwhile, Chinese (9.3%) and other (5.5%) ethnic groups are less likely to be obese compared to Malays. Other factors such as age, marital status, income, location of residence, work-hours, and diet do not have a statistically significant role in determining obesity likelihoods. Based on these results, several policy implications are discussed vis-à-vis the obesity health problem in Malaysia.

## **Challenges for Direct Capabilities Measurement**

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Direct measurement of capabilities and/or functionings is scarce. Problems arise concerning the observability of capabilities and there is the challenge of the valuation of the functionings and/or capabilities. This paper wants to add to the kind of ‘primary data’ base research as it is pioneered in Anand & Van Hees (2006) and Anand et al (2009). We develop a questionnaire which consistently makes the distinction between functionings and capabilities on the one hand, and between the measurement and valuation of these functionings and capabilities on the other hand. We compare between an objective and a subjective measurement of functionings and capabilities. We add questions about the ‘satisfaction with life as a whole’ to link up with the applied happiness literature.

The guinea pigs are a population of 18 year old first year Bachelor students in applied economics and business studies. From a methodological point of view, the results show that it is possible to directly measure (and distinguish between) functionings and capabilities and to construct meaningful models.

Although the research design has primarily exploratory objectives, the explanatory modelling results are challenging as such. In general the capability set of potential functionings is perceived to be larger than the functionings that are actually realized and the valuation for the set of capabilities is higher than the valuation for the functionings. If one uses general life satisfaction as the variable to be explained, we find that general life satisfaction is strongly influenced by (higher) reported functioning levels, and not by (higher) capabilities. Capabilities do not directly provide life satisfaction, but only indirectly when being realized (achieved) as real functionings.

# **Flexible Wage Contracts and Worker Performance: Evidence from Italian Firms**

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This paper focuses on the effects of decentralized wage scheme, which link employees' pay to performance, and worker/firm performance.

The effects of monetary incentives on worker effort and firm performance is a central topic in economics. According to the principal-agent paradigm, firms (the principal) has to link employees' remuneration scheme to any verifiable indicator of performance in order to avoid opportunistic behaviours. However it has been argued that improperly designed monetary incentives are likely to lead to opposite response of workers to the "incentive", especially by those who multitask are members of teams or are subjected to subjective evaluations by superiors. Finally the effectiveness of incentives on workers' behaviour may vary significantly accordingly to the institutional/economic context in which the firms operates. For example if workers in unionized firms perceive that their job is secure (and wages and career prospects don't strictly depend on their performance), pay-related schemes should have a lower impact on their effort (and hence on their productivity) than in the case of workers in non-unionized firms.

In light of these considerations, the aim of this paper is to provide further empirical evidence on whether and to what extent performance related pay affects workers effort and in turn firm productivity for different type of workers (white collar vs. blue collar), working in workplaces characterized by different degree of uncertainty and risk and in firms operating in different economic and institutional settings.

The analysis is based on information on performance related payments and indicators of workers effort collected by the Confindustria (Italian Manufacturing and Service Industries Association) survey 2008 for about one thousand Italian firms with information provided by balance sheets data from the AIDA database and information on union density by sector and localization. The Confindustria survey provides detailed information at firm level on wage level and composition, employment composition (by sex, type of contract, education and qualification), employment flows (hires by type of contract and separations by reason, and conversion rates from temporary to permanent), and working time (including overtime hours, temporary lay-offs and absenteeism).

# **Market Integration: An Empirical Study of Agricultural Trade in the EU**

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Given that the main objective of the EU was the establishment of an integrated market, it is surprising that the European agricultural markets have not received a great deal of attention in the literature. This paper evaluates the accession of Austria, Finland and Sweden to the single EU common market (1995). The nature of market integration prior to and after accession is empirically investigated for a number of key agricultural products. Market integration is a necessary, but not sufficient, condition to initiate the movement of resources from inefficient into efficient industries among the countries engaged in trade liberalization. If market integration does not arise, trade-liberalizing initiatives would not function as predicted. The paper addresses the following issues: 1) Are agricultural markets in these three new acceding countries integrated with those in the EU and among themselves?; and 2) Is there evidence of market integration in the pre-EU and/or post-EU period? The price movements are studied for rye, soft wheat, barley and oats. The products chosen for analysis differ with respect to their relative importance and they are heavily supported by CAP. The EU offers an intervention price for rye, wheat and barley, while the exports of oats from Finland and Sweden are highly subsidized. The cointegration of the commodity prices across countries is tested using time-series techniques. Cointegration analysis consists of two steps; first, the cointegrating relationship is investigated to see if prices are related by a long-run relationship; second, to determine if two countries belong to the same market, an adjustment process to short-run shocks must be investigated. Of the four markets tested, the rye and barley markets proved to be most tightly integrated with the German (EU) market, while the oats market was the least integrated. Even though the countries under study were part of the European Free Trade Agreement (EFTA) before joining EU, there was no evidence of market integration for agricultural products in the pre-EU period.

# **Towards An Optimal Mix of Public and Private Enforcement in Consumer Law - Contrasting the Cases of Package Travel and Misleading Advertisement**

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Among Law and Economics and legal scholars there is a rather wide consensus that the enforcement of consumer law can most efficiently be achieved by making use of a mix of public and private enforcement mechanisms. There is furthermore agreement that the mixes will look differently for various sectors of consumer law. This contribution will undertake a first try to illustrate how the optimal mixes for the area of package travel and misleading advertisement – two of the main fields in consumer law – would look like. In order to fulfill this challenging objective a three-step analyses will be followed: 1. provision of optimal incentives, 2. optimal risk allocation and 3. minimization of administrative costs

The two areas have been chosen because they usually lead to distinct amounts of damages which, in turn, cause different effects on people's behaviour (victims, lawyers etc.). A particular case scenario in the area of package travel will be chosen as an example of a case in which individual damage is high enough to make it profitable for an individual to file a claim at court. To contrast this, a typical small claims case shall be selected from an example within misleading advertisement. In analysing them an adapted enforcement mix shall be developed for both in which also the effectiveness of using injunctions will be assessed – this appears to be particularly useful in the second case scenario.

The two main policy options for law-making as to consumer law enforcement are giving priority either to deterrence or compensation issues. From a methodological point of view the deterrence model, first developed by Gary Becker, is taken as a base for this paper and acknowledging the tension between the two approaches, compensation aspects thus only play an ancillary role for the analysis. Enforcement shall be set up in such a way as to deter (potential) wrongdoers by providing for a sanction (multiplied by the probability of conviction and detection) that is at least as high as the possible gain from committing a wrong. Derived from this there are differently efficient roles for instruments such as individual and collective private enforcement (the latter by representative action or forms of class actions), administrative and criminal law enforcement, same as self-regulation and their possible combinations. Throughout the argument current solutions from various European Member States shall be referred to, same as the latest the developments at European level (particularly the Green Paper on consumer collective redress from 27th November 2008 and 2009 'Proposal for a Directive on rules governing damages actions for infringements of Article 81 and 82 of the Treaty').

# **The Empirical Study on the Relationship between Environment Pollution and Human Development in China**

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Based on Chinese provincial panel data from 2003 to 2008, this paper structures EDI and HDIM, and establish the simultaneous equation model to analyze the relationship between environment population and human development. The results reveal that the inverted “U” relationship between the two still hold even after treating the economic growth as an endogenous variable and controlling some variables, such as industrial structure; Meanwhile, the environment degradation also significant impedes economic growth. Pay more attention and investment on human development is the key point to solve the dilemma of economic growth, resource exhaustion and environment degradation, which arises during the process of rapid development in China.

# **On The Properties of Stein-Rule and Inequality Restricted Estimators when the Regression Model is Over-Fitted**

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This paper considers the effect of an erroneous inclusion of regressors on the risk properties of the Stein-rule, positive-part Stein-rule and inequality restricted and pre-test estimators in a linear regression model. The two Stein-rule estimators are considered when extraneous information is available in the form of a set of multiple equality constraints on the coefficients, while the inequality estimators are considered under the case of a single inequality constraint. It is shown that the inclusion of wrong regressors has only minimal effect on the properties of the Stein-rule and positive-part Stein-rule estimators, and no effect at all on the inequality restricted and pre-test estimators when there is a single inequality constraint.

# **Entry and Exit of Firms under Monopolistic Competition. A Two-Sector Open-Economy Analysis**

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Free entry and exit of firms before zero profit achieved is one of the important characteristics of monopolistic competition. Using a micro-macroeconomic analysis, this paper provides some insights into the macroeconomic implications of such entry and exit of firms, in an open-economy setting.

The model developed in this paper is a two-country two-good model with the particular focus on the domestic economy. Each of two sectors in the domestic economy possesses monopolistically competitive features. Without attempting to address all relevant aspects of long-run entry and exit of firms, this paper mainly studies the consequences that free entry and/or exit of firms in one sector may have on the average price level and real aggregate output level of the remaining sector, as well as the consequences of entry and/or exit on the domestic economy as a whole.

According to our long-run analysis, an entry of firms into one sector, *ceteris paribus*, tends to reduce the average price level and increase the total output level of its own sector. However, this entry tends to decrease/increase the price level and increase/decrease total output level of the other sector, if the cross price-on-cost effect is larger/smaller than the output-on-cost effect.

While capable of deriving the comparative static results for a closed economy by eliminating foreign variables, our model highlights the importance of sectoral changes due to inter-dependency between different sectors in one economy.

More importantly, the model developed in this paper can readily be used to further study the effects of some exogenous disturbances on the average price and aggregate output of each sector as well as of the whole economy, by incorporating the endogenous determination of entry and exit of firms in the relevant sector and examining the optimizing behaviour of the monopolistically competitive firm that represents the sector.