

2013

Economic Theory, Policy and Applications Abstracts

Eighth Annual International
Conference on Economic Theory,
Policy and Applications, 22-25
July 2013, Athens, Greece

Edited by Gregory T. Papanikos

THE ATHENS INSTITUTE FOR EDUCATION AND RESEARCH



8th Annual International
Conference on
Economic Theory, Policy and
Applications
22-25 July 2013, Athens,
Greece

Edited by Gregory T. Papanikos

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Preface

This abstract book includes all the abstracts of the papers presented at the *8th Annual International Conference on Economic Theory, Policy and Applications, 22-25 July 2013*, organized by the Athens Institute for Education and Research. In total there were 54 papers and 60 presenters, coming from 33 different countries (Australia, Belgium, Bolivia, Brazil, Canada, China, Colombia, Croatia, Czech Republic, Denmark, Egypt, France, Germany, India, Israel, Japan, Lebanon, Lithuania, Luxembourg, Malaysia, Mexico, Portugal, Romania, Singapore, South Africa, Spain, Sweden, Switzerland, Taiwan, the Netherlands, Turkey, UK, USA). The conference was organized into 14 sessions that included areas such as Macroeconomics & Other Essays, Quantitative Analyses, Applied Microeconomics 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 150 international conferences and has published over 100 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
President

8th Annual International Conference on Economic Theory, Policy and Applications
22-25 July 2013: Abstract Book

[Athens Institute for Education and Research](#)
[Sciences Research Division](#)



8th Annual International Symposium on Economic
Theory, Policy and Applications
22-25 July 2013, Athens, Greece

PROGRAM

Conference Venue: [St George Lycabettus](#), 2 Kleomenous Street, 10675
Kolonaki, Athens, Greece.

ORGANIZING AND SCIENTIFIC COMMITTEE

1. Dr. Gregory T. Papanikos, President, ATINER.
2. Dr. Chris Sakellariou, Vice President of Finance, ATINER & Associate Professor of Economics, Nanyang Technological University, Singapore.
3. Dr. George Poulos, Vice-President of Research, ATINER & Emeritus Professor, University of South Africa, South Africa.
4. Dr. Nicholas Pappas, Vice-President of Academic Affairs, ATINER & Professor, Sam Houston University, USA.
5. Dr. Panagiotis Petratos Vice President of ICT, ATINER & Associate Professor of Computer Information Systems, California State University, Stanislaus, USA.
6. Dr. Ethel Petrou, Professor and Chair, Department of Physics, Erie Community College-South, State University of New York, USA & Academic Member, ATINER.
7. Dr. Andreas Toupadakis, Lecturer, University of California, Davis, USA.
8. Dr. Nicolas Abatzoglou, Head, Environment Research Unit, ATINER & Professor, Department of Chemical & Biotechnological Engineering, University of Sherbrook, Canada, Chair Pfizer, PAT in Pharmaceutical Engineering, Director GREEN-TPV and GRTP-C & Pwelcomes.
9. Ms. Lila Skountridaki, Researcher, ATINER & Ph.D. Student, University of Strathclyde, U.K.
10. Mr. Vasilis Charalampopoulos, Researcher, ATINER & Ph.D. Student, University of Stirling, U.K.

Administration

Fani Balaska, Stavroula Kiritsi, Eirini Lentzou, Konstantinos Manolidis,
Katerina Maraki & Celia Sakka

C O N F E R E N C E P R O G R A M

(The time for each session includes at least 10 minutes coffee break)

Monday 22 July 2013

08:30-09:15 Registration

09:15-09:30 Welcome and Opening Remarks

- Dr. Gregory T. Papanikos, President, ATINER.
- Dr. John Roufagalas, Head, Economics Research Unit, ATINER & Professor, Troy University, USA.

09:30-11:00 Session I (Room A): Growth Issues I

Chair: Gregory T. Papanikos, President, ATINER.

1. Chrysost Bangake, Associate Professor, Artois University, France & Jude Eggoh, Professor, Artois University, France. A Reexamination of the Financial Development-Growth Nexus in Presence of Structural Breaks: The African Countries Experience.
2. *Christian Dreger, Research Director, DIW Berlin, Germany, Hans-Eggert Reimers, University of Applied Sciences, Wismar, Germany. Does Euro Area Membership Affect the Relation between GDP Growth and Public Debt?
3. Felicitas Nowak-Lehmann, Researcher, University of Goettingen, Germany, Agnieszka Gehringer, Professor, University of Goettingen, Germany & Inmaculada Martinez-Zarzoso, Professor, University of Goettingen, Germany. The Determinants of Total Factor Productivity in the EU: Insights from Sectoral Data.
4. Shunsuke Shinagawa, Research Associate, Waseda University, Japan & Tomohiro Inoue, Assistant Professor, Waseda University, Japan. Indeterminacy in an R&D-Based Endogenous Growth Model with Nominal Wage Stickiness.

11:00-12:30 Session II (Room A):

Development Economics

Chair: *Christian Dreger, Research Director, DIW Berlin, Germany.

1. Ying Ying Lee, Student, Sunway University, Malaysia, Derek Ong, Lecturer, Sunway University Business School, Malaysia, Kong Yee Wei, Lecturer, Sunway University Business School, Malaysia, Lee Sung Li, Lecturer, Sunway University Business School, Malaysia. The Recent Shift of Focus from Foreign Direct Investment (Fdi) to Domestic Direct Investment (Ddi) in Malaysia's Economic Transformation Programme (Etp): is it the Right Move?
2. Josue Mbonigaba, Lecturer, University of KwaZulu Natal, South Africa. The Relative Costs, Health Outcomes and Cost-effectiveness of HIV/AIDS Interventions in Rural and Urban Areas in South Africa.

11:00-12:30 Session III (Room B):

Education Economics

Chair: Vasileios Vlaseros, PhD Student, University of Edinburgh, UK.

1. David Wilkinson, Principal Research Fellow, National Institute of Economic and Social Research, UK, Anitha George, Research Fellow, National Institute of Economic and Social Research, UK & Lucy Stokes, Senior Research Fellow, National Institute of Economic and Social Research, UK. Does Early Education Influence Key Stage 1 (Age 7) Attainment? Evidence for England from the Millennium Cohort Study.
2. Eleni Kalfa, Ph.D. Student, University of Kent, UK & Matloob Piracha, Lecturer, University of Kent, UK. Immigrants' Job Mismatch and the Penalty of Over-Education.
3. Haizheng Li, Professor, Georgia Institute of Technology, USA & Qinyi Liu, PhD Student, Hunan University,

<p>3. Peter Mokricka, Assistant, PhD Student, Masaryk University, Czech Republic. Systematization of Investment Certificates.</p>	<p>China. Full Time Versus Part Time Students: Does Regular Employment Lowers Returns to Schooling?</p> <p>4. Przemysław Chmielecki, PhD student, Nicolaus Copernicus University in Toruń, Poland. Claims of Business Ideology to University Education.</p>
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12:30-13:30 Lunch

<p>13:30-15:00 Session IV (Room A): Applied Microeconomics Chair: Shunsuke Shinagawa, Research Associate, Waseda University, Japan.</p>	<p>13:30-15:00 Session V (Room B): Income Distribution Issues Chair: David Wilkinson, Principal Research Fellow, National Institute of Economic and Social Research, UK.</p>
<ol style="list-style-type: none"> 1. <u>Daniel Packey</u>, Professor, Curtin University, Australia & Jose Saavedra-Rosas, Professor, Curtin University, Australia. Multiproduct Mine Output and the Case of Mining Water Utilization. 2. <u>Arwin Pang</u>, Assistant Professor, Feng Chia University, Taiwan & Jeffrey Englin, Professor, Arizona State University, USA. Is Outdoor Activity a Luxury Good? A Study of Big Game Hunting for United States. 3. Gabriela Pasztorova, Junior Researcher, CERGE-EI, Czech Republic. Does Loan Maturity Matter in Risk-Based Pricing? Evidence from Consumer Loan Data. (Monday 22 of July 2013) 4. <u>Lonester Sibande</u>, PhD Student, University of Kent, UK, Alastair Bailey, University of Kent, UK & Sophia Davidova, University of Kent, UK. Smallholder Farmers' Market Participation and Transaction Costs: The Impact of Mobile Phones, Radios and Farmer Organisations in Cereals and Legumes Marketing in Malawi. (Monday 22 July 2013) 	<ol style="list-style-type: none"> 1. Peter Koveos, Professor and Director, Syracuse University, USA & Yimin Zhang, Professor and Dean, University of Shanghai for Science and Technology, China. Income Distribution in China: Has Reform failed? 2. Olusegun Akanbi, Associate Professor, University of South Africa, South Africa. Structural and Institutional Determinants of Poverty in Sub-Saharan African Countries. 3. <u>Tadas Gudaitis</u>, Researcher, International Business School at Vilnius University, Lithuania & Teodoras Medaiskis, Associate Professor, Vilnius University, Lithuania. Assessing the Impact of Private Second Pillar Pension in Lithuania. 4. Yasuhiro Nakamoto, Associate Professor, Kyushu Sangyo University, Japan. A Complicated Formation of Warm Glow Giving.

<p>15:00-16:30 Session VI (Room A): Regional Economics Chair: Peter Koveos, Head, Accounting & Finance Research Unit, ATINER & Professor, Syracuse University, USA.</p>	<p>15:00-16:30 Session VII (Room B): Game Theory Chair: Olusegun Akanbi, Associate Professor, University of South Africa, South Africa.</p>
<ol style="list-style-type: none"> 1. Yuan Zheng, PhD Student, University of Copenhagen, Denmark & Martin Dallimer, Professor, University of Copenhagen, Denmark. What Motivates Rural Households To Prepare for Climate Risks? A Case Study of Drought and Hailstorm Prevention as Proactive Adaptation in Lijiang, Yunnan, China. 2. <u>Funing Zhong</u>, Professor, Nanjing Agricultural University, China & Jing Xiang Professor, Nanjing Agricultural University, China. Demographic Transition in Rural China: Implications for Future Economic Growth. 3. <u>Jing Zhu</u>, Professor, Nanjing Agricultural University, China & Wu Guosong, Professor, Nanjing Agricultural University, China. China's Agricultural Trade Policy Mix Adjustments on Agricultural Products. 4. Jan Walkens, Professor, Stenden University, the Netherlands & Shilpa Samplonius, Lecturer, Stenden University, the Netherlands. The Crimping Regions and Employment. 	<ol style="list-style-type: none"> 1. Brishti Guha, Assistant Professor, Singapore Management University, Singapore. Reinterpreting King Solomon's Problem: Malice and Mechanism Design. 2. Vasileios Vlaseros, PhD Student, University of Edinburgh, UK. Costly Political Action and Majority Decisions. 3. *Tarek Selim, Professor and Department Chair, American University in Cairo, Egypt. Games of Competition: War of Attrition Experiments.

<p>16:30-18:00 Session VIII (Room A): Technology Issues Chair: Brishti Guha, Assistant Professor, Singapore Management University, Singapore.</p>
<ol style="list-style-type: none"> 1. <u>Yih-Luan Chyi</u>, Professor, National TsingHua University, Taiwan, Eric S. Lin,

Associate Professor, National TsingHua University, Taiwan & Kuei-Yen Liao, Specialist, Council for Economic Planning and Development, Taiwan. R&D Spillover and Patent Production in British, French and German Firms.

2. Oscar Mascarilla-Miro, Lecturer, University of Barcelona, Spain & Montserrat Crespi-Vallbona, Professor, University of Barcelona, Spain. Agglomeration of Firms into Technological Districts: The Case of 22@ Project in Barcelona.
3. Alexander Schiersch, Research Associate, DIW Berlin, Germany, Martin Gornig, DIW Berlin, Germany & Heike Belitz, DIW Berlin, Germany. Is Technical Progress Sectorally Concentrated? An Empirical Analysis for Western European Countries. (Monday 22 July 2013, evening)

21:00–23:00 Greek Night and Dinner (Details during registration)

Tuesday 23 July 2013

08:30-10:30 Session IX (Room A): Financial Economics

Chair: *Jan Bruha, Researcher, University of Economics, Czech Republic.

1. Yanmin (Edward) Qian, Professor, Zhejiang University, China & Hua Sheng Song, Professor, Zhejiang University, China. Diversification and Corporation Performance: An Empirical Study of Chinese Listed Companies.
2. Indrani Chakraborty, Professor, Institute of Development Studies Kolkata, India. How Does Corruption Influence Corporate Governance? A Cross-Country Perspective. (Tuesday 23 July 2013)
3. Anastasios Gentzoglani, Professor, University of Sherbrooke, Canada. Technological Changes, Regulation and Privacy and Fraud in the Financial Aggregation Industry.
4. Fernando Mierzejewski, Researcher / Consultant, SAS Institute Inc., Belgium. Actuarial Characterisation of the Cost of Secured Liabilities – with an Interpretation of the Black Monday and the Dot-Com Financial Bubbles.
5. Roberto Santillan, Professor, EGADE Business School, Mexico. An Economic Analysis of the European Financial Turbulence Contagion 2010-2012.
6. Mario Augusto Bertella, Professor, Sao Paulo State University, Brazil. Controversies of the Neoclassical Theory of Finance, the Behavioral Finance and the Agent Based Models. (Tuesday 23 July 2013)

**10:30-12:30 Session X (Room A):
Applied Microeconomics II**

Chair: Anastasios Gentzoglani, Professor, University of Sherbrooke, Canada.

1. Klaus Schoeler, Professor, University of Potsdam, Germany & Dr. Julia Reilich. Regional Returns on Education in Germany.
2. Luisa Bernat D., Professor, Icesi University, Colombia. Gender Wage differences and Labor Market Segregation in Colombia. Is Segregation an Issue of Concern?
3. Stavroula Malla, Associate Professor, University of Lethbridge,

**10:30-12:30 Session XI (Room B):
Environmental and International
Economics**

Chair: Mihaela-Nona Chilian, Researcher, Institute for Economic Forecasting, Romania.

1. Jesper Stage, Professor, Mid Sweden University, Sweden. Living in a Bubble: Potential Gains from more Flexible European Water Policies.
2. Chin-Chyuan Tai, Professor, Averett University, USA & Jue-Ling Tai, Professor, Averett University, USA. The Effects of Changes in Macroeconomic Policy and Imported Goods Price under Flexible Exchange Rates - Classical Models.

<p>Canada, Jill Hobbs, Professor, University of Saskatchewan, Canada & Eric Kofi Sogah, Research Assistant, University of Lethbridge, Canada. Functional Foods Health Benefits and Health Claims.</p> <p>4. <u>Nenad Rancic</u>, Assistant Professor, Faculty of Zagreb, Croatia, Meta Ahtik and Ozren Pilipovic. Economic Analysis of Judicial System: Case Study of Croatia and Slovenia.</p> <p>5. *<u>Jan Bruha</u>, Researcher, University of Economics, Czech Republic & OtoPotluka, Professor, University of Economics, Czech Republic. The Evaluation of the Impact of Operational Program Enterprise and Innovation in the Czech Republic.</p>	<p>3. Laura Rovegno, Post-doc Researcher, University of Luxembourg, Luxembourg. Endogenous Trade Restrictions and Exporters' Pricing Behaviour.</p> <p>4. *<u>Georges Nehme</u>, Dean of the Faculty of Business Administration, Antonine University, Lebanon & Eliane Nehme, Professor, Antonine University, Lebanon. Competitive Advantage of Nations and Multilateral Trade System: How Can Lebanon Benefit from Trade Liberalization without Enhancing its Strategic Industries?</p>
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12:30-13:30 Lunch

13:30-15:00 Session XIII (Room A): Quantitative Analyses

Chair: *Georges Nehme, Dean of the Faculty of Business Administration, Antonine University, Lebanon.

1. Mihaela-Nona Chilian, Researcher, Institute for Economic Forecasting, Romania, Cezar Mereuta, Professor, Institute for Economic Forecasting, Romania, Lucian Liviu Albu, Professor, Institute for Economic Forecasting, Romania, Ionut Pandelica, Professor, Institute for Economic Forecasting, Romania & Marioara Iordan, Professor, Institute for Economic Forecasting, Romania. Model for Qualitative Static and Dynamic Evaluation of Performance of the Export Sectors In Romania during 2009-2012.
2. Ying Liu, PhD Student, University of Wollongong, Australia & Kankesu Jayanthakumaran, Lecturer, University of Wollongong, Australia. Economic Growth, Trade, Energy Consumption and Environment in China: A Panel Cointegration Analysis.
3. Bilge Ozluer, Research Assistant, Mimar Sinan Fine Arts University, Turkey & Tuncay Can, Associate Professor, Marmara University, Turkey. Analysis of Intersectoral Relationships with Markov Chains: The Case of Greece. (Tuesday 23 July 2013)
4. Kien C. Tran, Associate Professor, University of Lethbridge, Canada & Efthymios G. Tsionas, Professor, Athens University of Economics and Business, Greece. Functional Coefficient Regression Model with Longitudinal Data and Correlated Errors.
5. Ana Paula Fontainhas Mendes, Senior Economist/Monitoring & Evaluation Manager, Millennium Challenge Accounting, Cape Verde & Mario Augusto Bertella, Professor, Sao Paulo State University, Brazil. Crisis in Sub-Saharan Africa: Stagnation and Decline in the 1980s. (Tuesday 23 July 2013)

15:00-16:30 Session XIV (Room A): Macroeconomics & Other Essays

Chair: John Roufagalas, Head, Economics Research Unit, ATINER & Professor, Troy University, USA.

1. Tomohiro Inoue, Assistant Professor, Waseda University, Japan, Shunsuke Shinagawa, Research Associate, Waseda University, Japan, Eiji Tsuzuki, Researcher, Chuo University, Japan & Moto Kamiura, Assistant Professor, Tokyo Dekini University, Japan. Why does a Quantitative Easing Policy Become Ineffective under a Zero Interest Rate?
2. Luis Nunes, PhD Student, University of Minho, Portugal. Analyzing the Crowding-out Effects of Government Intervention on Private Donations.
3. Manuel Jose Sanchez Sanchez, Associate Professor, National University of Distance Education (UNED), Spain. A BVAR-DSGE Model for Forecasting the Spanish Economy.
4. Raul Castanieta Calderon, Mpd Student, Universidad Catolica Boliviana San Pablo, Bolivia. The Special Theory of Capital's Distribution. (Tuesday 23 July 2013)

17:30-20:30 Urban Walk (Details during registration)

21:00-22:00 Dinner (Details during registration)

Wednesday 24 July 2013

Cruise: (Details during registration)

Thursday 25 July 2013

Delphi Visit: (Details during registration)

Olusegun Akanbi

Associate Professor, University of South Africa, South Africa

Structural and Institutional Determinants of Poverty in Sub-Saharan African Countries

The conventional policy models designed to tackle poverty have not been able to address the peculiar socioeconomic and institutional conditions of the country or region in perspective. Much of the literature focuses on the macroeconomic determinants of poverty, leaving out non-economic factors which could be more important. In this milieu, this study empirically examines the relationship between governance, physical infrastructure, and the level of poverty in sub-Saharan Africa. The estimations are based on a panel of 19 selected sub-Saharan African countries over the period 1990 to 2010 using the two-stage least squares (TSLS) estimation techniques. The results from the estimations portray robust parameter estimates and suggest that governance and infrastructure are significant determinants of poverty in the region. Furthermore, the study tends to detect that a sustainable level of poverty could be attained at particular governance and infrastructure rating after controlling for the level of GDP and other factors across the region. Therefore, countries with better governance and infrastructure ratings will achieve lower poverty levels, and poverty tends to converge as physical infrastructure improvement and better governance are pursued.

Chrysost Bangake

Associate Professor, Artois University, France

&

Jude Eggoh

Professor, Artois University, France

A Reexamination of the Financial Development-Growth Nexus in Presence of Structural Breaks: The African Countries Experience

The relationship between financial development and economic growth has been extensively studied in the economic literature both theoretically and empirically. Although this question dates back at least to Schumpeter (1911), the seminal contribution of King and Levine (1993b) revived a great interest and gave a boost to increasing academic researches. The question of causal relationship between financial development and economic growth is an important phenomenon for economic policy makers and has clear policy implications for developing countries. It is generally admitted that most of African countries have limited financial market linkages with the world economic. This situation has contributed to weak economic growth, a relatively low saving rate and capital flight from the region (Collier and Gunning, 1999). Although many empirical studies have examined the causal relationship between financial development and economic growth in Africa, the results are still ambiguous.

The main contribution of this paper is to provide new empirical evidence on the relationship between financial development and economic growth for 32 African countries over the period from 1970 to 2009. Specifically, we employ Westerlund (2007) panel cointegration tests which do not impose common factor restriction and solve the problems of Pedroni's (1999) residual-based tests being also robust to possible cross-country dependence. We also make use of Westerlund (2006) panel cointegration test allowing for multiple endogenous structural breaks, which can differ among series. However, given that this is an overly restrictive assumption in macroeconomics, we draw our empirical conclusions using bootstrap-based critical value. This method allows us to solve another problem of Pedroni's (1999) cointegration test that cannot accommodate structural breaks. To the best of our knowledge, such an analysis has not performed to study the relationship between financial development and economic growth in Africa.

We show that there exists a long-run equilibrium relationship between financial development, economic growth, and auxiliaries' variable in African countries. This result is robust to possible cross-country dependence and still holds when allowing for multiple endogenous structural breaks, which can differ among countries. Furthermore, our study confirms previous results of bidirectional causality between financial development and economic growth. Finally, there is a marked difference in the cointegration relationship when country groups are considered.

Luisa Bernat D.

Professor, Icesi University, Colombia

**Gender Wage differences and Labor Market
Segregation in Colombia. Is Segregation an Issue of
Concern?**

Mario Augusto Bertella

Professor, Sao Paulo State University, Brazil

Controversies of the Neoclassical Theory of Finance, the Behavioral Finance and the Agent Based Models

The aim of this paper is to present some controversies of the neoclassical theory of finance, the response of a school usually called as behavioral finance and the characteristics of the agent-based computational economics. The paper begins with a discussion of the main foundations of the conventional theory of finance, including the Capital Asset Pricing Model (CAPM) and the market efficiency hypothesis. Then, we analyse the two pillars on which rests the theory of behavioral finance: the limits of arbitrage and the cognitive psychology of the decision-making agent. It is observed that behavioral finance is a new approach to the financial market that emerges as a byproduct, at least in part, of the difficulties encountered by the conventional paradigm. In general, this theory argues that some financial phenomena can be better understood by considering models in which agents are not completely rational. To date, one of the greatest successes of behavioral finance is a series of theoretical studies showing that in an economy in which rational agents (arbitrageurs) and irrational (noise traders) interact, irrationality can have a substantial and permanent impact on prices. One possible reason is that there are some psychological biases which virtually no one escapes. A second reason is that when investors are risk averse, prices reflect a weighted average of beliefs. The agent-based models can contribute considerably to the study of behavioral finance theory. They may answer two key questions: first, how behavioral biases remain under aggregation, and second, what kinds of biases survive in a co-evolutionary environment. A central feature of the economic agent-based simulations is the possibility to include heterogeneous agents. Global behaviors resulting from the interaction between various types of agents are beyond the scope of many analytical models and are the major area of interest of agent-based models. Another significant feature of these models is the ability to model rationally limited agents. Finally, these models can simulate long-term effects such as learning and adaptation, difficult to include in analytical models. It is noted that an integration between behavioral finance and the agent based models may occur in the near future, given the realism of their assumptions and the instruments offered by this last approach.

Jan Bruha

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The Evaluation of the Impact of Operational Program Enterprise and Innovation in the Czech Republic

The goal of this paper is to evaluate the Impact of Operational Program Enterprise and Innovation in the Czech Republic. Operational Program Enterprise and Innovation is an EU program implementing Priority Axis 2 - Development of Companies -of Operational Program Enterprise and Innovation 2007-2013. The aim of this program is to support the growth of performance and competitiveness of small and medium-sized enterprises to improve their position in the market and keep or increase the number of jobs.

We evaluate the effect of the program on three measures: employment, sales and profits in enterprises using the advanced econometric technique: the propensity score matching combined with difference-in-differences. We find some effects on employment, but little effects on sales or profits.

Raul Castanieta Calderon

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The Special Theory of Capital's Distribution

The document aims to give the most accurate idea on how it is distributed (statistically speaking) the capitals into the economy (whatever form it will take i.e. as a capital goods, financial assets, money, even information), taking into account the main paradigms that shaped the current concepts which rules international trade and finance, in order to reach a descriptive synthesis (and focusing it onto a math model which links the variables: capital and rate of return) through Boltzmann's statistic for the special case of a closed economy, including its most probable configuration when the capital is highly mobile. Indeed, the model suggests that capitals flows follow probabilistic distributions, defined, which form is specified by the rate of return. Thus, this essay answers the following question: Is it possible that within a given economy, all its economic agents can enjoy unlimited wealth and prosperity?

Moreover, a remarkable result of the essay, considers the following phenomenon as well:

"Economic systems don't forbid the existence of massive capital's holders -this is, that they have huge quantities of capital- but it makes their existence will be dangerous for the rest of the members of such economic system".

Indrani Chakraborty

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How Does Corruption Influence Corporate Governance? A Cross-Country Perspective

Several factors, including corporate governance, have received attention as the determinants of corruption in recent literature. However, very few studies address the effects of corruption on corporate governance. This study makes an attempt to fill this gap. We seek to answer the following question: does a corrupt country experience better or worse corporate governance? To test this hypothesis we employ data for 61 countries, including 10 Asian countries, over the period 2007-2011. We apply two different econometric methods viz., pooled OLS and dynamic panel data estimation by GMM method. For measuring corporate governance, we use three alternative measures viz., the strength of auditing and reporting standards (AUDIT), the efficacy of corporate boards in representing outside shareholders (BOARD) and the protection of minority shareholders' interests (MINORITY). Our empirical findings show that corruption adversely affects corporate governance practice, represented by all the three measures. Moreover, we find strong complementary effects between corruption and quality of governance as well as freedom of press on the corporate governance practice of a country. In the case of the Asian countries, we specifically observe that more press freedom is associated with better functioning of corporate boards and helps reduce the effects of corruption in these countries. The lesson that emerges from this study is that controlling corruption should be given priority at the national level in order to experience better corporate governance practice which would in turn, lead to higher levels of economic growth.

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Model for Qualitative Static and Dynamic Evaluation of Performance of the Export Sectors In Romania during 2009-2012

The approach considered by the team of authors is justified by the fact that the period 2009 - 2012 was characterized by an economic crisis that Romania has experienced to the fullest, and because it is important to identify the sectoral behavior of Romanian companies in the foreign markets in this period.

The measure of external sectoral competitiveness of the Romanian companies is given by their presence in the foreign markets, measured by the value of sales in these markets. The model proposed by authors assesses the static and dynamic behavior of the companies in the Romanian export sectors relative to the national average. The research aims to identify by an appropriate model the strong sectors that were responsible for success, as well as the poor performing sectors that may turn into significant vulnerabilities in the future.

The results show that during the crisis, on the background of a significant overall increase in the index values of Romanian exports, in the export structure prevailed the sectors that may be considered as relative or significant strengths and the sectors with clear opportunities for success, while the sectors with potential vulnerabilities became sectors that in previous years held top positions in the structure of exports and still have significant shares in the national value added and employment, which may foreshadow serious adjustment and social problems in the future. Also, there is a significant change in the structure of Romania's export specialization in 2012 as compared to 2008, namely the advance of technologically advanced sectors and the decline of energy-intensive and/or OPT-based sectors.

Przemysław Chmielecki

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Claims of Business Ideology to University Education

University since its very beginning has a special place in the social structure and culture. From the time of Wilhelm von Humboldt University position has become more important because it accounted the highest school, having privilege of proclaiming what in a given country can be regarded as true and law. It had also guaranteed the status of a research institution. A similar thought is in favor of Kazimierz Twardowski, claiming that the university has to fulfill the momentous task of bringing humanity expressed in the light of pure knowledge, enrich and deepen learning and acquisition of scientific truths and probabilities, and to cultivate the skills of their investigation - thus creates the highest intellectual values that would arise man in the share (Twardowski, 1992, p. 462). Founder of the Lvov-Warsaw School compares university to the lighthouse, which illuminates the way ships on a stormy sea, becoming a guiding star for navigating the unknown waters of sailors (Ibidem, pp. 464-465). It is no wonder that university education in their idea is identified for the highest level of cognition and the peak in the official structure of education. It requires, therefore, the relevant maturity for both moral and mental (Alacorn, 2009/2010, p 6).

Presently, however, this vision is forgotten, and its place is taken by a pragmatic model that puts the emphasis on practicality and dynamic and at the same time flexible possible for application knowledge to the empirical reality. Current social surveys, ministerial reports clearly show a trend that education did not adequately prepare to enter the job market. Complaints employers are essentially the fact that employees with appropriate education cannot fulfill the tasks assigned to a given position - ergo - now getting a formal education does not translate into having practical skills desired by a prospective employer. The main weaknesses were identified education: vocational malpractice, dominance theory over practice, lack of information sharing with industry, lowering the level of the students and the low flexibility in adapting to the needs of employers. The employer is therefore required to pay all costs (money, time, efficiency, etc.) independent apprenticeship employee to work (see: Fedorowicz, Sitek, 2011, p 267).

What is particularly important business sector, not only in a passive way affects the university, but it clearly affects the shape of curricula, sets research areas financially motivated scientists, lobbying some issues over others, etc. Present we do not have to deal with essentially autonomous university but another branch of industry or, more broadly tool driven by the economy, which is to act according to the logic of the free market filtered by the criterion of profitability. The proposed speech put a clear thesis that business ideology has unlawfully laying claim to the seizure of the ethos of the university, yet inevitably engages with the academic world. This solution is, of course, both positive and negative repercussions.

Circled area above analysis seems to deserve deeper reflection, and this abstract is a contribution to reflect on business ideology pretensions to university education. Made reflection will invest on the border of philosophy, sociology and economics.

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&

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R&D Spillover and Patent Production in British, French and German Firms

This study empirically assesses relationships between R&D spillover across regions and industries and innovation output of top R&D investors in France, Germany, and the United Kingdom. A recently proposed model implies effects of regional R&D spillovers can be disentangled into two countervailing ones: a positive technological spillover effect and a negative product market rivalry effect. According to the *2006 EU Industrial R&D Investment Scoreboard* (the *Scoreboard*), the countries with the heaviest corporate R&D investment are the United Kingdom, France and Germany, which comprise 72 percent of total R&D investment by the top 1000 European corporate R&D investors. However, empirical studies of the firms with the highest R&D investment in the European Union (EU) are limited. Recent measures of local (within-region) and external (cross-region) spillover of technology and spillover of product markets are constructed by using R&D investment and patent data for 606 British, French, and German firms. Firms surveyed by the *Scoreboard* were those located in the 76 Nomenclature of Units for Territorial Statistics level 2 regions during the 2002-2007 period. The panel count data model and the generalized method of moments (GMM) method were used to solve endogeneity problems arising from firm R&D investment. The estimates are robust to different specifications of patent production functions and to different regional effects. Specifically, the R&D activities of other firms in proximate technology fields are positively related to the patenting activities of French and German firms whereas the R&D investments of product market rivals are negatively associated with patent applications of French firms in general and British firms in the biotechnology and pharmaceutical industry. The encouraging regional R&D spillovers experienced by German firms could have resulted from technological spillover effects on patenting outweighing the effects of product market competition.

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Does Euro Area Membership Affect the Relation between GDP Growth and Public Debt?

The rapid transformation of the financial crisis into a sovereign debt crisis especially called into question the medium and long run stability of the European Monetary Union. While the crisis originated in the periphery, core euro area states like Italy have become affected. While theoretical models often predict a negative impact of government debt on economic growth, supporting empirical evidence is still rather scarce.

We analyse the nonlinear relationship between the debt to GDP ratio and real per capita GDP growth for euro area members and a broader set of industrial countries (including euro area) by distinguishing periods of sustainable and non-sustainable debt. Thresholds for debt are theory-driven and depend on the macroeconomic conditions. If the nominal interest rate exceeds nominal output growth, primary budget surpluses are required to achieve a sustainable government debt ratio. The negative impact of the debt to GDP ratio is limited to the euro area and similar for sustainable and non sustainable levels of public debt. In the broader panel of industrial countries, the negative effect of debt diminishes. This result is fairly robust and holds even for exogenous thresholds. Therefore, the evidence suggests that the participation in monetary union might entail an additional risk for its members.

Anastasios Gentzoglani

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Technological Changes, Regulation and Privacy and Fraud in the Financial Aggregation Industry

Privacy has been the cornerstone of development of western societies. Although previous advances in technologies enhanced the possibilities of breaching privacy laws, modern information technologies such as the internet and mobile phones further increase these possibilities. Financial service firms use mobility data to provide personalized services to end-users (M-Banking, investment, Paypal accounts, utility accounts, etc.). More than 50% of all iOS and Android traffic is available to ad networks making the concerns of privacy and fraud as the most contentious issues of modern technologies.

This is particularly true with the advent of the new industry, the *financial aggregation industry*. Financial aggregators offer a bundle of financial services using various technologies, the *screen scraping technologies* and *direct feed technologies*. The distinction is important because the potential threats of violation of privacy and fraud are different depending on the technology used to retrieve and bundle financial information. For financial aggregator firms, the use of direct feed technology is costly, in terms of time and labor cost. By contrast, the screen scraping technology is less safe and less reliable but faster and cheaper than the direct feed technology.

It is hypothesized in this paper that profit seeking aggregators would exploit these technological characteristics to their advantage. Thus, screen scraping technology which does not need any human involvement could be more widely adopted than direct feed technology. By storing consumers' identity, user names, passwords and other valuable information somewhere in the *cloud*, financial aggregators' could contribute to cybercrime and fraud. As the industry expands, it is expected that the number of cases of fraud and/or privacy violation would increase. In anticipation of such a trend, some countries have set committees to examine the issues arising from the expansion of aggregator services and consider possible solutions. Self-regulation and *ex ante* and *ex post* regulations are some of the options available (Gentzoglani, 2011, 2012). This paper examines the development of this industry and its technological, legal and regulatory context in three different jurisdictions, USA, Europe and Asia. It provides the necessary background and a thorough understanding of the functioning of the industry in various geographical and institutional contexts.

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&

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Assessing the Impact of Private Second Pillar Pension in Lithuania

The aim of the paper is to evaluate the impact of privately accumulated second pillar pension for old-age pension (first pillar pension). Currently in Lithuania, second pillar pension funds' participants shall choose the participation level within private second pillar pension funds. Pension funds participants shall choose 1 of 3 options: to stop transfer part of social insurance contributions to second pillar private pension funds, to increase transferred social insurance contributions by 1% and additionally get subsidy by 1% from average monthly wage in Lithuania. Finally, participant can stay with the current social insurance contributions amounts. The quantitative, statistical data and qualitative analysis of pension accumulation results in private second is made in the article. Moreover, pension reform success (or failure) analysis is done in the article, by evaluating: was it rational or not for certain groups of participants to participate in second pillar pension funds. The results of analysis showed, that participation in second pillar pension funds has positive effects on old-age pension. However, periods with negative investment return were observed and it is more appropriate to high investment risk pension funds (pure equity pension funds group) and for participants, who are near the retirement age (5-7 years left till the start of the retirement age), sudden frustrations can effect accumulated capital very negatively. Transformation from "Life-Style" pension fund system to "Life-Cycle" pension system is evaluated as one of the solutions for existing problem.

Brishti Guha

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Reinterpreting King Solomon's Problem: Malice and Mechanism Design

Economics treatments of King Solomon's problem have recast it as the problem of allocating an indivisible object to the individual who has the highest valuation for it. I argue for an alternative interpretation of King Solomon's problem in terms of one of the two claimants being "malicious". A "malicious" claimant places no intrinsic value on the object but derives utility from depriving the true possessor of the object. This new interpretation permits a simpler solution than those considered in the literature. I derive a mechanism that induces truthful revelation where the equilibrium involves a single round of elimination of weakly dominated strategies, and no monetary transfers. I assume that (a) the true claimant has a positive value for the object, while the malicious claimant has a non-positive value, (b) both claimants know only their own valuations; in addition the true claimant knows her rival is malicious but does not know the extent of her malice, (c) the mechanism designer knows that one claimant has a positive valuation while the other has a non-positive valuation and is malicious, but does not know which is which; nor does he know the actual magnitudes of the valuations. I also find that second-price sealed bid auctions may not result in a desirable allocation from the mechanism designer's point of view (even if monetary transfers were allowed in equilibrium). I also discuss real-life economic examples to which similar mechanisms can be applied.

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Why does a Quantitative Easing Policy Become Ineffective under a Zero Interest Rate?

We develop a New Keynesian DGE model with credit creation of commercial banks, and demonstrate the existence of two steady states (i.e., the intended steady state and the unintended one) in common with ones shown by Benhabib et al. (2001).

In the model, each bank creates deposit money as a function of firms' demand for funds, which is dependent on the lending rate set by the bank. The credit creation is constrained either by the legal reserve ratio or the zero bound on interest rates.

A "positive-interest-rate economy" emerges when the constraint of the legal reserve ratio is binding (that is, the actual reserve ratio equals to the legal reserve ratio), while a zero-interest-rate economy emerges when the constraint of the zero bound is binding. A positive-interest-rate economy can achieve the intended steady state with a positive inflation rate and a positive output gap, if the central bank maintains the growth rate of deposit reserve higher than the technological change rate.

In a zero-interest-rate economy, a "trap of credit creation" inevitably occurs, and not only an interest rate policy but also a quantitative easing policy is ineffective. A "trap of credit creation" differs from a liquidity trap and means that increases in deposit reserves do not cause increases in deposit reserves under a zero interest rate. This is attributed to the fact that the lending rate cannot drop to less than zero, and thus firms' demand for funds does not increase further. The trap brings the unintended steady state with deflation and negative output gap, as seen during the Heisei recession in Japan.

Reference

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Immigrants' Job Mismatch and the Penalty of Over-Education

This paper explores the impact on over-education of immigrants in the Spanish labour market by analysing the determinants of education-occupation mismatch with an emphasis on home country labour market experience. With this aim, we use cross-sectional data from the National Immigrant Survey of Spain 2007 to estimate a bivariate probit model taking into account the possible problem of selection bias. Our main findings show that the incidence of immigrants' education-occupation mismatch in the Spanish labour market in both, first and current job can largely be explained by the incidence of education-occupation mismatch in the last job held in the home country. The probability of having been over-educated at home shows to have a higher effect on the probability of being over-educated in the first job upon arrival where work experience gained in the home country shows to be highly valued for Spanish employers. In addition to this, our results show that those who were over-educated in their first job after arrival are more likely to continue in being over-educated in their current/last job in Spain. After assessing the key determinants of over-/under-education, we furthermore analyse the performance of immigrants in Spain by estimating the penalty of over-education as well as asking the question: what would have been the penalty of over-education for immigrants working in the correctly matched job, if they were over-educated? To address this, we estimate conditional wage probabilities by using a wage analysis distinguishing between immigrants being in the correctly matched occupation and those who are over-educated. Our results show that immigrants working in a job that matches their educational qualifications would have earned a significant lower wage if they had been over-educated as they would more likely be working in lower-paid jobs instead. Additionally, over-educated immigrants would have earned a higher amount if they were in the correctly matched job.

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Income Distribution in China: Has Reform failed?

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The Recent Shift of Focus from Foreign Direct Investment (Fdi) to Domestic Direct Investment (Ddi) in Malaysia's Economic Transformation Programme (Etp): is it the Right Move?

Recently, there had a been transition of Malaysia's focus from Foreign Direct Investment (FDI) to Domestic Direct Investment (DDI) as stated in the Economic Transformation Programme (ETP). This research aims to explore further on the relevance of such shift in the current economic context. Methodology involves data collection through interviews besides analysis of data via analytical induction and content analysis. This paper involves discussion on the definition of FDI and DDI where a lacuna is discovered in DDI's definition. Besides, this research had also managed to show that in the current economy environment, DDI had become more relevant to the economic growth of a developing country including Malaysia as compared to FDI despite being constrained by the domestic savings and market size. FDI is seen as a complement of DDI. This study recommended the development of SME, politic and economic inclusion as well as indigenous technology of Malaysia in the future to attract more DDI, ensuring success of the ETP. Future researchers may consider to research on the lacuna in the definition of DDI as well as the SME and indigenous technology to further assist the overall ETP.

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Full Time Versus Part Time Students: Does Regular Employment Lowers Returns to Schooling?

Promoting a lifelong learning process has been a hot issue in recent policy pronouncements as a key area for the expansion of human capital investments. Adult education, especially through on-job regular education, is seen as a means by which older workers in general, and workers with low skill or lower education level in particular, can gain new knowledge and skills to enhance their position in the modern economy.

In the paper we use Chinese Household Income Project (CHIP) 1995, 2002, 2007 data to evaluate the effect of on-job educational programs on the individuals' labor market earnings. We used the extended basic Mincer equation and analyze empirically the effect of on job education on the individual earnings. The results show a consistent story: comparing with workers who took full time regular education or on job education, those who receive part time on job education have a lower schooling return, 0.3%-1.2% lower empirically. Moreover, in higher education levels, the gap in schooling return between full-time and part-time on job education learners tend to be relatively larger. It indicates taking on-job educational program at college, graduate school or above make individuals earn much less than those who received the same full time education, and the harmful effect on earnings would be less serious at professional school or middle professional level.

We further evaluate empirically the possible underlying mechanism for the lower returns for on-job education program learners compared with full time learners through four channels. It's found that it is not entirely caused by the rank of educational programs and quality of students. In China it may be due to other causes, like the learner's incentives and efforts induced, depreciating learning capacity with respect to age.

Further research will be carried on in analyzing the lifelong learning mechanism and relevant policy implications will be offered.

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Economic Growth, Trade, Energy Consumption and Environment in China: A Panel Cointegration Analysis

With continuously increasing environmental degradation, a question raised is whether China can achieve sustainable economic growth. The answer depends on the relationship between economic growth and environmental pollution. Until recently, there have been two parallel literatures on the relationship between economic growth and environmental pollution. The first set of studies has focused on the economic growth-environmental pollutants nexus. A second more recent set of studies on the relationship between economic growth and environmental pollution has focused on the economic growth-energy consumption nexus, since pollution burning fossil fuels primarily generates emissions. This paper extends the recent studies by implementing the both first and second generation panel unit root tests and cointegration techniques to investigate the long-run and short-run relationships between emissions (production wastes, and SO₂ emissions), energy consumption, trade and economic growth for China's 29 provinces over the period 1980-2009. Our results show that in the long-run equilibrium, energy consumption has a positive and statistically significant impact on all emissions, while trade openness has a positive and significant impact on the emissions, indicating the Pollution Haven Hypothesis. Furthermore, a non-linear relationship is found between all emissions and economic growth, consistent with the Environmental Kuznets Curve for the whole panel, although it does not hold in all provinces.

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Functional Foods Health Benefits and Health Claims

The World Health Organization (WHO) identifies nutrition as a significant and manageable determinant of chronic disease. Scientific evidence and a growing awareness of the correlation between diet and health, coupled with sedentary lifestyles, an aging population, and ever increasing healthcare costs have driven the interest in healthier food products. These products include functional foods and natural health products with positive health benefits to consumers.

Existing literature suggests that the development of credible health claims on functional food can produce benefits in the form of improved health, health care cost reductions and a facilitation of market growth through international trade. This study estimate the potential health care benefits of allowing disease risk reduction health claims on soluble fibre and soy protein which are under consideration in Canada, but already permitted in countries like the U.S, Sweden, Brazil and U.K. The target illness is coronary heart disease (CHD). The method used in this study is a variation of the cost of illness approach.

The preliminary results suggest that an increased consumption of functional food due to new health claims could result in significant health care savings. A 1% increase in the intake of soluble fibre leads to \$3,509million savings in health care cost (base case). Furthermore, a 1% increase intake of soy protein using the base estimate leads to savings of \$3,889 million in the health care cost. These results indicate that increase intake of soluble fibre and soy protein could increases economic welfare.

The growing burden of health care cost remains a key policy issue. Hence, the potential effects on public health care costs of increasing the consumption of functional foods in diets due to new health claims is of major policy relevance. Policy implications/recommendations will be discussed.

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Agglomeration of Firms into Technological Districts: The Case of 22@ Project in Barcelona

The main goal of this paper is a theoretical analysis of the complex process of agglomeration of firms into technological districts when cities are also competing for them. Positive spillovers tend firms to locate in the same area, while congestion effects limit this process. Thus, for any given city there exist an optimal number of firms. If there are fewer firms, we face competition under increasing returns to scale, with path dependence effects. Hence, if firms are relatively scarce, not all cities would be occupied by firms at optimal level. The problem of a firm is to choose an optimal city expecting on rational behavior of other firms. Such factor as office rent depend on city size, while wage cost and spillover effects depend also on the number of firms there. Technological firms choose to agglomerate in those cities where after optimal entry their profits will be maximized. Under certain conditions for parameter set, there exists an equilibrium allocation, where all firms are located in the cities with better parameters. Since cities are different, their attractiveness also differs.

The second goal of this paper is the empirical analysis of advantages and disadvantages of emerging technological district 22@ in Barcelona. At present, Barcelona needs state intervention that would create critical mass of technological firms in this area. On empirical side, we analyze potential effects of investment in infrastructure in Barcelona to improve its attractiveness. In particular, we are interested in the factors that can be responsible for growing density of technological firms located in 22@ district.

In fact, we have different types of firms (local, national and international) and there is heterogeneity across the cities (not only size, but also other factors matter). We try to figure out what factors, different from its size, can give an advantage to a city and then to apply this approach for the case of Barcelona city and its technological district.

Josue Mbonigaba

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The Relative Costs, Health Outcomes and Cost-effectiveness of HIV/AIDS Interventions in Rural and Urban Areas in South Africa

The literature has long argued that the impact of HIV/AIDS interventions depends on the contexts of implementation because of the complex interaction between HIV/AIDS interventions and factors in such contexts. However, there has not been much literature on the dependence of the cost-effectiveness of HIV/AIDS interventions on socio-economic contexts such as the rural area and the urban area. This paper aims to compare the relative cost-effectiveness of PMTCT, HAART for adults, and HAART for children across the rural area and the urban area in South Africa. Markov states transition models are used to track costs and effectiveness over time for hypothetical cohorts of patients in these areas. Interventions' cost and effectiveness over time are based on projections of Spectrum Policy modeling in the areas, to capture HIV/AIDS interventions and contexts interaction dynamics. The provisional results of the analysis indicate that the cost-effectiveness of HIV/AIDS interventions depends on the rural and urban contexts to a significant extent. These results could guide policy makers on the intensification of already committed resources in rural and urban contexts for efficiency sake.

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&

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Crisis in Sub-Saharan Africa: Stagnation and Decline in the 1980s

The aim of this paper is to present some controversies of the neoclassical theory of finance, the response of a school usually called as behavioral finance and the characteristics of the agent-based computational economics. The paper begins with a discussion of the main foundations of the conventional theory of finance, including the Capital Asset Pricing Model (CAPM) and the market efficiency hypothesis. Then, we analyse the two pillars on which rests the theory of behavioral finance: the limits of arbitrage and the cognitive psychology of the decision-making agent. It is observed that behavioral finance is a new approach to the financial market that emerges as a byproduct, at least in part, of the difficulties encountered by the conventional paradigm. In general, this theory argues that some financial phenomena can be better understood by considering models in which agents are not completely rational. To date, one of the greatest successes of behavioral finance is a series of theoretical studies showing that in an economy in which rational agents (arbitrageurs) and irrational (noise traders) interact, irrationality can have a substantial and permanent impact on prices. One possible reason is that there are some psychological biases which virtually no one escapes. A second reason is that when investors are risk averse, prices reflect a weighted average of beliefs. The agent-based models can contribute considerably to the study of behavioral finance theory. They may answer two key questions: first, how behavioral biases remain under aggregation, and second, what kinds of biases survive in a co-evolutionary environment. A central feature of the economic agent-based simulations is the possibility to include heterogeneous agents. Global behaviors resulting from the interaction between various types of agents are beyond the scope of many analytical models and are the major area of interest of agent-based models. Another significant feature of these models is the ability to model rationally limited agents. Finally, these models can simulate long-term effects such as learning and adaptation, difficult to

include in analytical models. It is noted that an integration between behavioral finance and the agent based models may occur in the near future, given the realism of their assumptions and the instruments offered by this last approach.

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Actuarial Characterisation of the Cost of Secured Liabilities – with an Interpretation of the Black Monday and the Dot-Com Financial Bubbles

A model is presented for the characterisation of the cost of corporate liabilities based on a theoretical framework developed by Robert Merton, where such agreements are described in terms of option contracts. As in the Merton's setting, two arrangements are considered, involving the exchange of the *excess of return* and the *excess of loss* over the level of reserves – related, respectively, to a *call* and a *put* option in the model of Merton.

For the purpose of representing the situation of markets where firms cannot continuously adjust their capital structures, unlike in the Merton's setting, the cost of issuing corporate debt is associated with the price of a particular type of insurance policies called *layers* – giving the holder the right to ask for the excess of loss over a certain retention level. It can be proved that the value of the corresponding *net-assets* portfolio – equal to the value of outstanding assets minus liabilities – is maximised when the proportion of reserves is equal to the *quantile function* of the probability distribution describing the series of net-assets returns.

A market equilibrium approach is next adopted to derive the level of the *equilibrium* interest rate, representing the *cost of issuing debt collateralised by the aggregate assets portfolio*. A rich description of secured funding markets is possible within this framework, allowing for a broad range of states – exclusively dependent on observable variables. High levels of the equilibrium interest rate are thus associated with markets where the assets pledged as collateral are *highly depreciated*, and vice-versa.

The model has been calibrated to the series of successive returns of the Dow Jones and the Nasdaq composite indexes. The Black Monday and the Dot-Com crisis episodes are described and interpreted within the new theoretical framework, thus demonstrating that these events are not to be regarded as *singular* or *abnormal* scenarios.

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Systematization of Investment Certificates

Investment certificates are a subset of financial instruments known as structured products. Certificates are compound investment instruments consisting of two or more elements, at least one of them is usually a derivative, in most cases option. Basic defining feature of these products is that their value is derived from the value of the underlying assets, which may include shares, indices, currencies, commodities, interest rates and others. Investment certificates make available investment strategies utilizing derivative components also for retail investors. This paper deals with the specification of investment certificates from the legal, economic and accounting point of view and their systematization, especially according to the criteria influence of the volatility on the value of these financial instruments. It is going to be discussed financial engineering and valuation of investment certificates, analyzed and revealed the structure of the various types of certificates, into which different types of standard and/or exotic options enter. In addition to changes in the value of the underlying assets, changes of implied volatility have also important impact on the value of investment certificates during the duration. Expectations of growth or decrease in volatility can become one of criteria for investment or investors can build an investment strategy based just on the change in implied volatility. The output of this paper is also systematization of investment certificates based on criteria influence of the volatility on the value of these financial instruments. It determines the products positively and negatively correlated or uncorrelated to changes in implied volatility.

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A Complicated Formation of Warm Glow Giving

We examine what lies behind the act of warm glow giving in a laboratory experiment. Making use of the experimental design in Crumpler and Grossman (2008), we separate the warm glow giving from the other motivations. We find that the contributions generated by the warm glow giving are highly sensitive to the reference contributions, indicating to the complementary relationship between own and the others' contributions. When specifying the act of warm glow giving, which are related to morality and conformity, we estimate the specified parameters and investigate the interplay of achievement motives used in the psychology.

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Competitive Advantage of Nations and Multilateral Trade System: How Can Lebanon Benefit from Trade Liberalization without Enhancing its Strategic Industries?

International trade theories explain the advantage of nations to adopt a liberal trade model and to participate in the multilateral trade system via liberalizing their systems by eliminating trade quotas, tariff barriers and other forms of protectionism. The influence of international institutions, mainly the World Trade Organization (WTO), has been important. The WTO contributed by helping and advising governments so that they would benefit from multilateral agreements by granting preferential treatments for developing countries joining the institution, and making them learn from other countries' experiences in the accession process. Both liberalizing and protecting local production have advantages and weaknesses; how do existing theories about trade policy explain this landscape?

Liberalizing the economy proved to be beneficial for some countries, while others suffered from distasteful consequences on domestic production, employment and purchasing power. Some researches explained that large-scale changes in political institutions, especially in the direction of democracy, may be necessary for the kind of massive trade liberalization that has occurred. Changes in preferences cannot be overlooked in some economies while explaining the rush to free trade. The reciprocal impact of trade on domestic policies and the international political system are important. Analyzing the hypotheses about nation's competitiveness and its dependence on the capacity of its industry to innovate and upgrade deems indispensable.

This paper will be testing the relevancy from applying Michael Porter's diamonds theory and the Heckscher-Ohlin-Samuelson model on developing economies, mainly Lebanon, in order to gain national competitive advantages while having strong regional and international rivals. Do companies gain advantage against the world's best

competitors because of pressure and challenges? Lebanese productive companies are suffering from lack of competitiveness because of weak governmental support and absence of public planning to enhance strategic industries by developing a strong flexible export based model. With a 2.6 billons dollars deficit of its balance of payment, how can Lebanese government join the WTO and liberalize its trade system while avoiding its negative impact on national and social prosperity?

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The Determinants of Total Factor Productivity in the EU: Insights from Sectoral Data

This paper examines the development of total factor productivity (TFP) and the drivers of TFP for a panel of 17 EU countries in the period of 1995-2007. Apart from R&D, human capital or both in determining total factor productivity (TFP), there are theoretical and empirical contributions that focus on some other factors explaining TFP. The main aim of this research is to investigate TFP and its determinants in a unified framework. Moreover, given that technological knowledge, its generation and exploitation are intrinsic to a certain localized context, we investigate the determinants of TFP in a particular geographic, economic and political environment, namely the European Union (EU).

From a methodological point of view, we are interested in productivity improvements, expressed in terms of TFP. This indicator is often called a measure of ignorance, as little is known about the non-input - often unobservable - determinants of economic growth¹. Related to the degree of ignorance one can also define TFP in a narrower or wider sense (Eberhardt and Teal, 2010). TFP can either stand for output growth due to technological improvements and efficiency improvements (TFP in the more narrow sense) or output growth due to all sorts of factors, such as a more favorable resource endowment, a better climate, better functioning institutions, less corruption etc. (TFP in the wider sense).

In this paper we will argue that it is highly preferable to estimate TFP taking country heterogeneity into account than doing some TFP accounting based on standard labor and standard capital input shares (with the conventionally assumed elasticities of 2/3 and 1/3 for labour and capital, respectively) given that we are interested in country-specific

¹ The first to label TFP as a „measure of our ignorance“ was Moses Abramovitz (1956: 11) when analysing the causes of economic growth.

TFP differences. Therefore, in order to properly estimate country-specific TFPs it is of utmost importance to allow for country-specific production technology and country-specific input coefficients as well as to tackle endogeneity in the production function. Endogeneity occurs when inputs not only influence output but output also determines inputs. In terms of inputs, we distinguish between observable inputs (capital, labour) and unobservable inputs (the quality of capital and labour; effort; technological improvements; institutions; work relations; etc).

As we will look at 17 older and newer EU countries (where data were sufficiently available over the period 1995 to 2007), TFP differences are discernible even though common factors do influence all countries thus generating cross-section dependence (CSD). These common factors can be specified and modeled when estimating TFP at the country level. Apart from an important contribution that we deliver in terms of methodological work, it is, thus, the main objective of this paper to explain why some countries are more successful in terms of TFP, i.e. non-input related output growth, than others and what might be the role played by the degree of openness of an economy, by R&D which determines the extent of innovation, by human capital, by ICT and by unit wages.

To accurately study TFP in selected EU countries, the most recent panel data estimation techniques are used and further improved. The purpose of this paper is thus three fold: First, to estimate aggregated and sectoral TFP for 17 EU countries by means of the augmented mean group estimate or to control for endogeneity, cross-section dependence and heterogeneous production technology. Second, to present and discuss stylized facts concerning the development of TFP in different EU countries and different sectors. Third and most importantly, to determine the drivers of TFP. Among them we include FDI, ICT, wages and different types of trade openness. We find that although wages are the main driver of TFP, ICT, extra-EU trade and human capital also play a role.

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Analyzing the Crowding-out Effects of Government Intervention on Private Donations

A possible *crowding-out effect* of government social expenditure on private donations has been thoroughly discussed in several papers with no solid conclusion. This paper tries to shed some light on the matter by proposing a theoretical analysis of the relationship between government intervention and the individual decision of transferring income. Furthermore, the paper attempts at providing a comprehensive understanding of several empirical studies on the matter. Moreover, we explore various elements that enrich individual decision-making process, particularly social and cultural environment which may be relevant for a more complete analysis on a possible *crowding-out effect* of government social expenditure on private donations. Thus, considering the set of choices of an individual with altruistic preferences this paper intends to comprehend how the level of government social expenditure may affect the individual propensity to donate part of his income. Finally, the paper tries to analyze the individual propensity to donate regarding social income distribution inequalities, evaluating the individual tolerance and possible response to different levels of social income distribution inequality.

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&

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Analysis of Intersectoral Relationships with Markov Chains: The Case of Greece. (Tuesday 23 July 2013)

Economic planning is an essential notion for many countries to actualize their economic, political and social goals to enhance their development levels. Input-output analysis is a convenient method that is used in a widespread manner for economic planning. It is useful to measure the interdependency of all industries of the economy, and it enables surveying commodity demands, supplies and their international trade flows. The core of the method is specifying the output levels of industries by considering the interrelationships of the industries within the scope of input requirements to produce commodities. The input coefficients are the basis of input-output analysis and make this analysis applicable, which can be obtained from input-output tables.

In spite of, some countries have significantly reduced the time delay in the publication of the tables in recent years; many applications of input-output analysis are obsolete because of the outdated database. It is a costly and time-consuming process since it depends on large-scale investigation and statistics. So, it is inevitable that the use of effective procedures for updating the data. There are several methods used for this purpose. RAS procedures are widely used methods, but RAS procedures avoid random changes of critical input coefficients, and this property causes insufficiency. For economic planning, it is essential to have not only recent data, but also to have long-term estimates. Hence, there is a need of a method which is taking into account the randomness and reflecting the transition between the periods of economy while updating and long-term forecasting the input coefficients. Therefore, in this study Markov Chains Theory is used for updating and forecasting input coefficients, which is a very effective and widely used method for estimating the future behavior under uncertainty. In this context, the main objective of this study is to estimate input coefficients of Greece's economy for long-term (for the years 2014-2016) with Markov Chains based on 2000 and 2005 input-output tables of Greece.

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&

Jose Saavedra-Rosas

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Multiproduct Mine Output and the Case of Mining Water Utilization

This article looks at the economic factors that would be necessary for the commercialisation of water found at mining sites. Water is quite often found in mines. The extraction of water is necessary for the successful operation of the mining enterprise. The water is typically discarded or reinjected into a new location away from the mine. We consider the possibility of the water extracted from the mine as being considered a co-product having value. This is could be particularly true for mines located in arid conditions.

Sometimes ore bodies contain more than one economically viable resource. For example, lead, zinc and copper have been known to reside in close proximity. The extraction processes are similar and so it makes sense to develop all the resources at the same time rather than build separate facilities to cope with each resource. It is less expensive to do this because of economies of scope, or more specifically, subadditivity in the firm's aggregate cost function (see Baumol and Braunstein 1977). This can occur for four reasons. First, the company has in place an institutional structure capable of, and experienced in, dealing with selling the output. Second, the company already has in place a staff of mining engineers familiar with the extraction process and ore body characteristics. Third, the company has a management staff well versed in the benefits and principles of cost minimization. Finally, the company already has a capital infrastructure in place (e.g. place of business, computers, etc.) and does not need to duplicate it. Therefore, because of shared (and proportionally smaller) expenses of already in place assets and personnel, the company is capable of providing multiproducts at a cost that is equal to or less than it would incur if it had to construct two separate facilities. As the company will already have to extract the water to operate the mine, it may be profitable to process, containerize and offer the water for sale rather than discard it.

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&

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Is Outdoor Activity a Luxury Good? A Study of Big Game Hunting for United States

Krutilla (1967) suggested that the nature experiences are luxury goods. Over the last decade, there has been renewed interest in the issue of whether environmental goods are luxury goods. Most studies have been focused on European countries and found income elasticities of recreational expenditures are larger than one by observing purchasing behaviors. The main goal of this study is to investigate Engel curve for big game hunting in U.S. over the period 1991-2006. Big game hunting is especially interesting because it is an expensive activity which has experienced significant decline in recent decades. The analysis uses regression to explore the inter-temporal recreational income elasticities in 1991, 1996, 2001 and 2006. In addition, the recreational income elasticities by the place of residence (urban or rural), age (younger or older than 55 years old) and education level (less or more than 12 school years) are estimated to discover the demographic effects. Quantile regression is also used to estimate the recreational income elasticities in different income percentiles across time.

We find that in the aggregate both trip-related expenditures and equipment expenditures are necessary goods. But when different categories of expenses are disaggregated transportation costs such as airplane fares, guides, pack trip or package fees are luxury goods.

The policy implication is policy maker who is interested in enhancing the benefits of outdoor activity recreation should make efforts in facilitating the access for outdoor activity.

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Does Loan Maturity Matter in Risk-Based Pricing? Evidence from Consumer Loan Data

In the last decade substantial changes in the amounts of consumer loans could have been observed worldwide. Despite the initial difficulties of short credit history on borrowers or pioneer methods on evaluation of the creditworthiness of borrowers, lending institutions on the emerging markets started their prudent but extensive provision of consumer loans. In order to evaluate the riskiness of consumer loans prior granting, financial institutions differentiate between “good” and “bad” borrowers by using different credit scoring methods. Although the aim of financial institutions is either to minimize the risk of default or to maximize the survival time of granted loans, empirical evidence suggests that financial institutions’ lending policy is not successful in achieving either of these objectives. Therefore, on a sample of both rejected and accepted consumer loans from a Czech commercial bank, I show that employing the survival analysis approach, instead of the currently used logistic regression approach in credit scoring could help find the optimal trade-off between higher default risk and higher return in lending policy. I estimate the probability of default by both logistic regression and the survival analysis approach and study how marginal changes in a default-risk-based acceptance rule would change the size of the loan portfolio and average credit losses. To conduct the comparison of efficiency gains I apply the Expected Shortfall concept. In particular, I derive the probability distribution of credit losses for the different time horizons of estimated survival probabilities and show that by employing the survival analysis approach financial institutions’ lending policy is efficient in classifying “good” borrowers from “bad” borrowers and is consistent with default minimization objectives. This paper contributes to the growing literature on credit scoring in two ways. First, it finds the optimal trade-off between higher default risk and higher return rate of consumer loans. Second, it quantifies the efficiency gains that the introduction of survival analysis approach would have in loan granting decisions.

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&
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Diversification and Corporation Performance: An Empirical Study of Chinese Listed Companies

Diversification is an important corporate strategy for companies to integrate the industry value chain or make a portfolio investment to avoid risk. It could generate the premium or discount. During the past decade, Chinese companies move towards the diversification strategy abundantly, but often end up with unsuccessful performance. We study the hypotheses of the “premium” or “discount” of diversification which are much argued in the literature, based on the real world economy in China. We study diversification degree as well as the diversification strategies; both vertical diversification and horizontal diversification are considered. Using the data of listed companies on Chinese stock market from 2000 to 2010. We find the diversification largely fits the “discount” theory, but is not the same case regarding short-term and long-term value. Moreover, the diversification could not mitigate the systematical risk companies faced. We also find the stockholder concentration degree, the management holding, the corporation nature and the corporation size all affect the diversification motivation, which finally change the company performance. Our study explains why particular type corporations are more interested in diversification. It also sheds light on how to improve the diversification management for Chinese companies.

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Meta Ahtik

&

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Economic Analysis of Judicial System: Case Study of Croatia and Slovenia

Judiciary plays a significant role in the execution of statutory and contractual rights. Analysis of motivation of judicial decision making is therefore of extreme importance for evaluation of proper functioning of judiciary. We wish to show the importance of law and legal institutions for economic development and presents economic reasoning for judicial independence. We hope to show the incentives of performing judicial profession and judicial decision making. Furthermore judiciary's position as an interest group will be described. Status of Slovenian and Croatian judiciary will be analyzed through the prism of the previously described theoretical foundations.

The aims of this paper therefore are twofold: a) to analyze the importance of judicial independence for economic system as a whole. A more independent judiciary means that property rights and contractual obligations of the citizens and potential investors would be better protected and executed and there would be a higher level of investment in the economy and economy b) We wish to consider the individual judge motivation in hers/his work. We propose to explain this by using the following function $U(T_s, T_p, I, R, O)$ where U stands for judges motivation/utility and T_s stands for working hours, T_p stands for free time, I is the income, R is the judges reputation, O are other factors that influence judicial behavior such as popularity and respect that arises from his/her work. We hope to do this by applying economic analysis to the Croatian and Slovenian judicial system and judges from 1991 till present time.

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Endogenous Trade Restrictions and Exporters' Pricing Behaviour

This paper analyses the effect of antidumping (AD) duties on the pricing behavior of exporters targeted with these measures. Using product and firm-level data for South Korea, the study provides evidence of increased export unit values and firms' markups following the imposition of AD ad valorem duties. These findings are consistent with the hypothesis that, unlike other import tariffs, AD duties are not absorbed by exporters. The results on firms' average markups also suggest that the price adjustment following the imposition of AD duties occurs mostly through the export price, and not through reductions in the exporter's home price. The analysis controls for the presence of other trade measures as well as the endogeneity in AD and other contingent protection measures.

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A BVAR-DSGE Model for Forecasting the Spanish Economy

This paper estimates a Bayesian Vector Autoregressive Dynamic Stochastic General Equilibrium (BVAR-DSGE) model of the Spanish Economy. We use the estimated model to forecast the key macroeconomic variables of output growth, underlying inflation and the cash rate. The open economy DSGE model of Lubik and Schorfheide (2007) is implemented to provide prior information for the VAR. The forecasting output of the model is competitive with benchmark models such as a Minnesota VAR and an independently estimates DSGE model.

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An Economic Analysis of the European Financial Turbulence Contagion 2010-2012

The current public finance and balance of trade crisis experienced by some European countries is the outcome of a process of convergence that was misunderstood by the designers of the euro. Long before the creation of the euro and the constitution of the European Monetary Union, Mundell (1961) established that a geographic zone with multiple countries could have a single currency as long as the individual countries' economic cycles were somewhat coordinated. In that sense, any external shock that affected all member countries at any moment in time could be remedied with a unified monetary policy. For example, if a high level of economic activity caused the prices and wages of some sectors in the economy to experience inflationary pressures, the Central Bank of the area would be well placed to enforce a restrictive monetary policy by raising interest rates and other measures to disincentive consumption and investment so as to reduce the demand-pull component of inflation. In that sense Mundell wrote about the possibility of existence of an Optimal Currency Area (1961).

Following that philosophy, the largest and most industrialized European countries (Germany, France and at the beginning the U.K.), engaged in what was know as the European Monetary System, centered around the adoption of semi-fixed exchange rates among the currencies of its members.

Costos de transacción, exposición al riesgo cambiario y sus efectos sobre la utilización subóptima de los recursos productivos de los países.

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Martin Gornig

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&

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Is Technical Progress Sectorally Concentrated? An Empirical Analysis for Western European Countries

Previous research shows that TFP growth at the industry level is more broad based in Anglo-Saxon countries than in continental European countries. Given that, in the context of growth accounting approaches, TFP is taken as a proxy for technological progress, this finding suggests that technological progress in continental European countries is confined to few sectors. Yet, TFP, measured in the tradition of growth accounting, is ultimately only a residual. Thus, it is an open question whether technological progress is really unevenly distributed across sectors within European nations, or whether other unknown factors cause the unequal distribution of TFPs.

The paper aims to address this question. To this end we use the Generalized Malmquist Productivity Index (GMPI), which allows for the decomposition of TFP into technological change, efficiency improvements and scale changes, as well as Harberger diagrams in order to visualize and measure the extent of sectoral divergences. The analysis is conducted for nine continental European countries.

The findings of the paper are as follows: First, our analysis confirms the presence of large differences in the sectoral patterns of TFP growth among European countries. In this respect, our results are in line with previous findings on TFP growth. Second, and in line with the literature using Malmquist approaches, decomposition reveals that the technology component explains large parts of TFP growth. However, as shown using the Harberger diagrams and the area under the Harberger, in almost all European countries technological progress is much more evenly distributed than TFP across sectors. Instead, we find stronger sectoral disparities in both efficiency improvements and scale changes than in the technology component. Hence, our results contradict the interpretation that sectorally concentrated TFP growth denotes sectorally concentrated technical progress, which is in fact much more widespread.

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&
Julia Reilich

Regional Returns on Education in Germany

We start our research with a simple model of utility maximization under the assumption that an individual has the choice between spending its money for human capital or for consumption of goods during the life time. Should the growth rate of consumption be

positive, the return on education has to be higher than the time preference rate. Therefore, we look at the empirical results for the rate of return of human capital. The estimation of a return on education for Germany gives the average profitability of investment in human capital on a national basis. This paper further enhances the existing literature using a regional perspective.

On a federal-state level, regional returns may be evaluated. Therefore, the dataset is separated due to regional aspects and the Heckman procedure applies to correct for self-selection between employed and unemployed individuals. Using confidence intervals of 95 %, a comparison of the estimated results will follow. On this basis, we find regional disparities between East and West Germany. This is particularly valid for Mecklenburg West-Pomerania, but also Saxony-Anhalt and Thuringia show higher returns on education than other states. In the past, various studies already showed regional disparities in Germany due to macroeconomic differences. Comparing these with the results yielded in a bivariate analysis, we find that federal German states which have higher returns on education tend to have a lower economic performance.

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Games of Competition: War of Attrition Experiments

A general framework for games of competition as an extension of the 'War of Attrition' game is investigated, where different forms of competitive strategies are introduced in classroom experiments. The games are experimented from a specific framework of competition (single one-shot strategy) to the more general competitive framework (multiple conflicting strategies over time). The core game is a classroom simulation of real life competition where firms must compete in prices, fixed and variable costs, production capacity, brand loyalty and differentiation, entry and exit decisions, financial loss limitation, asset liquidation, with a discounted monopoly prize when ruling out competition and repetitive choices of such strategies over time. There is also the possibility of inventory carry-over to the next business cycle. Timing of price decision points in relation to firm production is also varied, with ex-post and ex-ante production investigated in relation to pricing. Advertising, asset risk, and industry size are assumed common across all firms, which is a limitation of the competition games investigated. However, very interesting results are found contrasting traditional theory. Strikingly, imperfect Bertrand outcomes persistently emerge more than any other outcome- outweighing the Cournot strategies, especially under differentiated markets. However, such persistence is at fault when inventory carry-over is introduced into the games. In games of limited time competition with carry-over inventories, it is found that first mover quantity advantage is more effective than the second mover price advantage. Prices are confirmed as increasing signals of product quality conditional on their augmentation to the decreasing risk aversion level of the players who choose higher prices. Markets that allow for carryover inventories are characterized by higher levels of productivity, and less price discrimination against consumers. Trembling-hand imperfection and bounded rationality were existentially true in the game experiments yet they were persistently unqualified to contrast the game winning outcomes. In general, the opportune time of adjustment of strategy from any unanticipated moves of rivals is found more critical in gaining a sustained competitive advantage than the strategy itself. The faster

the adjustment towards a change in strategy, the better the competitive outcome.

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&

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Indeterminacy in an R&D-Based Endogenous Growth Model with Nominal Wage Stickiness

We propose a new long-run macroeconomic model involving a price adjustment process by introducing nominal wage stickiness and exogenous money growth into a R&D-based endogenous growth model. The main purpose of this study is to examine how money growth affects long-run economic growth and determinacy property of equilibrium path.

At first, we focus on the steady-state economic growth and employment. We find that there exists a unique balanced growth path for sufficiently high rates of money growth, and that the economy exhibits sustained growth based on sustained R&D. Faster money growth results in greater employment and faster economic growth along such a balanced growth path. Furthermore, under some restricted parameters, no balanced growth path exists for low rates of money growth; the economy is trapped in a steady state without long-run growth.

By investigating the local dynamics within the neighborhoods of the steady states, we show that changes in money growth rates have an influence on determinacy of the equilibrium path. Under the specific parameters, whether the balanced growth path is determinate or indeterminate varies depending upon the money growth rate; therefore, policy-makers can eliminate volatility in the economy through their decisions. However, faster money growth causes faster balanced growth, although the balanced growth path is more likely to be indeterminate, that is, policy-makers may face a trade-off between implementing growth enhancing policies and economic stabilization policies.

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Smallholder Farmers' Market Participation and Transaction Costs: The Impact of Mobile Phones, Radios and Farmer Organisations in Cereals and Legumes Marketing in Malawi. (Monday 22 July 2013)

This paper assessed the impact of ownership of mobile phones and radios and membership to farmer organisations on transaction costs of market participation and volume of sales for smallholder farmers in cereals and legumes marketing in Malawi. The impact of mobile phone ownership is further estimated on the quantity sold and selling unit value. The paper applies a Heckman sample selection model in order to address the problem of the sample selection bias in modeling sales volume. Results suggest that transactions costs associated with marketing of cereals and legumes are significantly reduced with ownership of mobile phones and membership to farmer organisations.

Membership to farmer organisations provides strong incentives for both increased market participation and sales volume, while mobile phone ownership provides incentives only for increased sales volume. Furthermore, mobile phone ownership increases both, the selling unit value and quantity sold for most cereal and legume crops. These results provide evidence that transaction costs of market participation and intensity of commercialisation of food crops can significantly be reduced with the use of improved communication technologies and organisation of smallholder farmers. The paper concludes with suggested policy implications and development interventions to reduce transaction costs in food crops marketing in the absence of improved infrastructure and institutions in rural areas in developing countries.

Jesper Stage

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Living in a Bubble: Potential Gains from more Flexible European Water Policies

The European Union's Water Framework Directive entails strict targets for improved environmental quality in the various water bodies of the Union. In some cases these targets clash with other social and economic goals. In the case of Sweden, for instance, the water quality targets will affect hydropower production, leading to reduced electricity production and increased reliance on fossil fuels. In this paper, we use empirical data on electricity production and ecological potential from a set of Swedish water bodies to analyse the implications of the Directive. We compare the economic and environmental impacts, if the current regulatory framework is applied, to the impacts that could potentially be achieved with more flexible bubble-style frameworks where environmental gains in one water body can be used to offset environmental losses in other water bodies. We find that bubble policies, if correctly applied, could lead to Pareto improvements where both economic losses and environmental gains are greater than those with the current regulatory framework. We discuss implications for the cost effectiveness of the current policies.

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&

Jue-Ling Tai

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The Effects of Changes in Macroeconomic Policy and Imported Goods Price under Flexible Exchange Rates – Classical Models

In a fixed exchange rate system, the exchange rate can become an effective policy instrument for balance of payments adjustment by changing the terms of trade which result from changes in domestic goods price or the imported goods price in domestic currency. A number of studies have focused on an examination of the price effects of exchange rate changes, where the exchange rate is viewed as an exogenous variable under fixed exchange rates.

However, in a flexible exchange rate regime, where the exchange rate is freely determined purely in the foreign exchange market without government intervention, it is widely recognized that the exchange rate is an endogenous variable.

Since the spring of 1973, flexible exchange rates have replaced fixed exchange rates in the major industrial countries, and the exchange rates and price levels of these countries have also experienced considerable variability. Among the economists the controversy over the relationship between exchange rates and prices has become common. In the study we adopt the hypothesis that both exchange rate and price are endogenous variables under flexible exchange rates and argue that they are all determined by the same exogenous variables.

Based on Chacholiades' and Turnovsky's model, the purpose of this research is to theoretically examine the effects of changes in macroeconomic policy and imported goods price under flexible exchange rates by developing classical full-employment model with traded goods only. We also introduce non-traded goods in the model to see whether the results are different from those we obtained in the traded goods case.

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Functional Coefficient Regression Model with Longitudinal Data and Correlated Errors

This paper considers an efficient estimation approach for functional coefficient regression model with longitudinal data. In particular, we allow for the unknown within correlation structure of the errors and use the Cholesky decomposition to obtain an estimable form of the correlation matrix. We then propose a weighted profile least squares procedure to estimate the unknown functions as well as the correlation parameters. We derive the asymptotic properties of the proposed estimator and examine the finite sample performance via Monte Carlo experiments. Simulations results show that the proposed estimator performs quite well in finite (even quite small) samples. An empirical application using a large longitudinal data of the U.K. manufacturing firms is also presented to illustrate the usefulness of the proposed approach.

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Costly Political Action and Majority Decisions

We develop a two stage game with individually costly political action and costless voting on a binary agenda where, in equilibrium, agents rationally cast honest votes in the voting stage. We show that a positive but sufficiently low individual cost of political action can lead to a loss in aggregate welfare for any electorate size. When the cost of political action is lower than the signalling gain, agents will engage in informative political action. In the voting stage, since everyone's signals are revealed, agents will unanimously vote for the same policy. Therefore, the result of the ballot will be exactly the same as the one without prior communication, but for the aggregate cost of political action.

However, when agents have heterogeneous prior beliefs, society is large and the state of the world is sufficiently imprecise, a moderate individual cost of political action can induce informative collective action of only a subset of the members of society that is increasing ex ante aggregate welfare relative to no political action. This cost depends on the size of the electorate, the distance between the two proposed policies and the bias in agents' prior beliefs. We interpret the latter bias as a difference in prior political opinions. The size of the subset of agents engaging in collective action will depend on the dispersion of prior opinions.

This paper's results are based on the symmetric sequential equilibria in pure strategies of a simple two stage game, with agents sharing identical preferences but imperfectly informed about the state of the world. Firstly, agents decide whether to engage in a costly political action in order to signal their private information on the state of the world and afterwards, they decide to cast a costless vote on a binary agenda, having observed the number of agents that shared their private information.

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Does Early Education Influence Key Stage 1 (Age 7) Attainment? Evidence for England from the Millennium Cohort Study

There is a body of evidence that shows that early education improves cognitive and social development for children while they are still attending, but the longer-term impacts depend on the quality of early education. Much of this evidence in England relates to a period when attendance rates at early education were around 60 per cent. Since then, early education has expanded through the guarantee of free provision for three- and four-year-olds, such that attendance at early education is now almost universal. This paper uses data from the Millennium Cohort Study to consider whether, in an era of near universal provision, early education is still associated with detectable improvements in outcomes for children. The analysis focuses on attainment in Key Stage 1 assessments when children were aged seven and finds that the overall impact of early education on Key Stage 1 attainment is modest, but that the impact is generally greater for those children who experienced poverty when they entered early education. This suggests that the move to universal provision of early education in England has reduced some inequalities in the benefits of early education.

Yuan Zheng

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What Motivates Rural Households To Prepare for Climate Risks? A Case Study of Drought and Hailstorm Prevention as Proactive Adaptation in Lijiang, Yunnan, China

Climate change is likely to further the frequency and severity of climate variability, which has already affected many people in China. This necessitates self-protection to prevent potential losses. The present study examines private precaution adoption against climate hazards and how this relates to socio-psychological characteristics of a group of households residing in rural Lijiang, Yunnan, China. Data were gathered from 162 households in three mountain communities exposed to increasing hailstorm and drought risks by face-to-face interviews using a structured questionnaire. The results indicate a relatively low level of hazards protection among sampled households. Climate risk perception and perceived self-capacity to adapt prove useful in explaining protection against both hazards while first-hand experience and locus of responsibility are significant predictors only in the case of hailstorm. The study draws attention to the importance of various cognitive processes in motivating private protection, with important implications for efforts that address public risk communication as well as design and distribution of private precautionary measures. Place-based and tailored protection is further emphasized seen the significant role played by community context in driving protection. This requires active participation and integration of local households into adaptation planning.

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Demographic Transition in Rural China: Implications for Future Economic Growth

China's economic growth has enjoyed a large scale rural-urban migration for decades, and the speed of future growth may rely on whether the demographic transition will continue in the same pattern. Despite some 300-400 millions of rural laborers are considered to still work on farms average sized 0.5 hectare, industries in coastal areas have found increasing difficulties in hiring laborers. One reason behind the seemly controversy may rest with the changing demographic structure in rural China, and which may not be fully detected by normal sample survey of choosing households scattered over a big region. Therefore, this study tries to conduct a village-wide survey, covering all households in a village, to get more complete picture of demographic dynamics in rural China. The findings may provide better information for estimating future migration into the urban/industrial sectors, and the number and structure of laborers remaining in agriculture.

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China's Agricultural Trade Policy Mix Adjustments on Agricultural Products

More than ten years of WTO accession has brought in both opportunities and challenges for Chinese agriculture. China has fulfilled its WTO accession commitment with a wide range of policy changes taken place. The impact of the policy adjustment on the trade patterns of agricultural products has always been an issue of concern. What have been the policy changes and what are their impact? Has China's agricultural trade followed its comparative advantage and whether its comparative advantage has changed during the past ten years after the country's WTO accession? In this paper, we have systematically measured the effect of China's agricultural trade policy mix adjustments on agricultural products at both overall and category level, using the 1995-2011 data, and evaluated Chinese agricultural comparative advantage, with the Revealed Comparative Advantage (RCA) index, Domestic Resources Cost Coefficient (DRCC) index, Effective Rate of Protection (ERP) index to estimate the changes over the years. The research results show that the trade restriction effect of China agricultural trade policies has been significantly reduced, and the existing agricultural trade policy has provided reasonable and effective protection. It is also found that comparative advantage of different products have also changed significantly, while the production and trade patterns have been basically following the principle of comparative advantage. The study indicates that the changes in trade patterns for Chinese agricultural products is the mixed result of domestic policy adjustment, changes in international market, as well as changes in resource cost in domestic production, which provides important implications for future evaluation of comparative advantage of Chinese agricultural products with its continuing integration into the world economy.