2014

Economic Theory, Policy and Applications

Abstracts

Ninth Annual International Conference on Economic Theory, Policy and Applications, 21-24 July 2014, Athens, Greece

Edited by Gregory T. Papanikos

THE ATHENS INSTITUTE FOR EDUCATION AND RESEARCH

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Edited by Gregory T. Papanikos

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TABLE OF CONTENTS

(In Alphabetical Order by Author's Family name)

Preface

This abstract book includes all the abstracts of the papers presented at the 9th Annual International Conference on Economic Theory, Policy and Applications, 21-24 July 2014, organized by the Athens Institute for Education and Research. In total there were 25 papers and 33 presenters, coming from 16 different countries (Australia, Canada, China, Croatia, France, Germany, Italy, Kazakhstan, Montenegro, Poland, Portugal, South Africa, Sweden, Taiwan, UK and USA). The conference was organized into VIII sessions that included areas of European Economics, International Development, Banking and other relative disciplines. 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

Athens Institute for Education and Research
Social Sciences Research Division
Research Unit of Economics

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)

Organization and Scientific Committee

23. Dr. Chris Sakellariou, Associate Professor, Nanyang TechnologicalUniversity, Singapore.
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34. Dr. Birgul Cambazoglu, Lecturer, Gedik University, Turkey.
35. Dr. Janet Dzator, Lecturer, University of Newcastle, U.K.
36. Dr. Peter Herrmann, Adjunct Senior Lecturer, University College of Cork, Ireland & Adjunct Professor, University of Eastern Finland.
37. Dr. Kakha Nadiradze, Head, Innovations, Competitiveness and Sustainable Development Caucasus Institute, Georgia.
38. Dr. Codruta Simona Stoica, Associate Professor, Aurel Vlaicu University of Arad, Romania.
39. Dr. Dimitrios Syrrakos, Senior Lecturer, Manchester Metropolitan University, U.K.

Administration

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

Monday 21 July 2014
08:30-09:00 Registration
09:00-09:15 Welcome and Opening Remarks

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

09:15-10:30 Session I: European Economics
Chair: John Roufagalas, Head, Economics Research Unit, ATINER & Professor, Troy University, USA.

1. Beniamino Moro, Full Professor, University of Cagliari, Italy. Lessons from the European Economic and Financial Great Crisis: A Survey.
2. Ozren Pilipovic, Assistant Professor, University of Zagreb, Croatia, Miran Marelja, Teaching and Research Assistant, University of Zagreb, Croatia & Nenad Rancic, Assistant Professor, University of Zagreb, Croatia. Investment Promotion Agencies and FDI Attraction in Central European Countries.
3. Andrada – Alexandra Dumbraveanu, Ph.D. Student, West University of Timisoara, Romania. The More the Better: Life Satisfaction in the Bitter Welfare State.

10:30-12:00 Session II: Financial Economics
Chair: Kaj Gittings, Assistant Professor, Texas Tech University, USA.

1. Rymkul Ismailova, Professor, Kazakh Agrotechnical University, Kazakhstan & Nurgul Esmagulova, Associate Professor, Eurasian National University, Kazakhstan. The Venture Capital as a Source of Innovation's Financing.
2. *Shumei Gao, Lecturer, Heriot-Watt University, UK. When Are Real Options Exercised? An Empirical Study of Voluntary Liquidations.
3. *Marcin Senderski, Ph.D. Candidate, Kozminski University, Poland. Risk-Adjusted Performance of Pension Funds: Do Alternatives Assets Knock the Cover off the Ball?

12:00-13:00 Lunch

13:00-14:30 Session III: International Development, Legal Issues and Economics
Chair: Shumei Gao, Lecturer, Heriot-Watt University, UK.

1. Li Yan, Professor, University of Quebec Outaouais, Canada. Golden Periods of Anticorruption for Developing Countries: an Economic Model.
2. Alvaro Bustos, Assistant Professor, Catolica Pontificia University of Chile, Chile. The Dynamics of Litigation under the Negligence Rule: Optimal Frequency of Trials.
3. *Freddy Rojas Cama, Researcher, International Monetary Fund, USA & Marola Castillo Quinto, Researcher, International Monetary Fund, USA. Remittances and Sectorial Real Exchange Rate in Lower Middle-Income Countries.
4. Huichao Han, Ph.D. Student, Southeast University, China & Kangning Xu, Professor, Southeast University, China. The Political Game for U.S. RMB Currency Policy toward China.

14:30-16:00 Session IV: Labor Economics
Chair: Freddy Rojas Cama, Researcher, International Monetary Fund, USA.

1. *Kaj Gittings, Assistant Professor, Texas Tech University, USA & Ian Schmutte, Assistant Professor, Texas Tech University, USA. Getting Handcuffs on an Octopus: Minimum Wages, Employment and Turnover.
2. Thomas Rothe, Senior Researcher, Institute for Employment Research, Germany, Gianna Claudia Giannelli, Professor, University of Florence, Italy & Ursula Jaenichen, Senior Researcher, Institute for Employment Research, Germany. Doing Well in Reforming the Labor Market? Recent Trends in Job Stability and Wages in Germany.
3. Veselin Vukotic, Professor, University of Donja Gorica, Montenegro & Maja Drakic-Grgur, Associate Professor, University of Donja Gorica, Montenegro. Concept of Education in New Global Economy.

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

Tuesday 22 July 2014

09:00-10:30 Session V: Banking Issues
Chair: Weiqiu Yu, Chair of Economics, Department of Economics, University of New Brunswick, Canada.

1. Amina Mussina, Professor, Kazakh University of Economic, Kazakhstan & Saltanat Albekova, Ph.D. Student, Kazakh University of Economic, Kazakhstan. The Role of Financial Intermediaries in the Formation of Investment in Kazakhstan.
2. Yu-Li Huang, Associate Professor, Shih Chien University, Taiwan & Chung-Hua Shen, Professor, National Taiwan University, Taiwan. The Positive Ownership Effect on Bank Risk Disappears, When and Where? (Tuesday, 22 of July).
3. Tereza Fiserova, Ph.D. Student, Charles University in Prague, Czech Republic, Tomas Klinger, Ph.D. Student, Charles University in Prague, Czech Republic, Petr Teply, Senior Lecturer, University of Economics, Czech Republic & David Tripe, Senior Lecturer, Massey University, New Zealand. Do Macroeconomic Conditions in Host Countries Affect the Performance of Foreign-Owned Banks? Evidence from 17 Countries with Predominantly Foreign-Owned Banking Sectors.

10:30-12:00 Session VI: Welfare and Growth Economics
Chair: Amina Mussina, Professor, Kazakh University of Economic, Kazakhstan.

1. *Weiqiu Yu, Chair of Economics, Department of Economics, University of New Brunswick, Canada. Human Capital, Social Capital and Economic Growth.
2. Lukasz Tanajewski, Researcher, University of Nottingham, UK. Exploring Barriers to Pro-Health Behavior from Microeconomic Perspective: Adherence Effort and Decision Weighting.
3. Luis Nunes, Ph.D. Student, Minho University, Portugal. A Model on How the Agent's Relative Utility Perception may Affect Individual Income Transfers.

12:00-13:00 Lunch

13:00-14:30 Session VII: Resource Economics **Chair:** Gyula Laszlo Florian, Lector, Partium Christian University Oradea, Romania.
1. Jesper Stage, Professor, Mid Sweden University, Sweden. Connectivity at a Cost: Economic Dynamics of Connectivity Restoration. 2. <u>Ana Rodrigues</u>, Ph.D. Student, Azores University, Portugal, Tomaz Dentinho, Teacher, Azores University, Portugal, Livia Madureira, Teacher, UTAD, Portugal & Luis Nunes, Teacher, Nova University of Lisboa, Portugal. A Choice Model for Wind Power Management in Terceira Island. 3. Gustavo Bittencourt Machado, Professor, Federal University of Bahia, Brazil. Agro-Energy and Family Agriculture in the Semiarid of Northeast of Brazil.

14:30-16:00 Session VIII: Applied and Quantitative Economics **Chair:** Jesper Stage, Professor, Mid Sweden University, Sweden.
1. John Khumalo, Senior Lecturer, University of South Africa, South Africa. Business Confidence and Inflation in South Africa: Variance Decomposition and GIRF Analysis. 2. <u>Anna Rita Bennato</u>, Post Doctoral Research Fellow, University of East Anglia, UK, Franco Mariuzzo, Lecturer, University of East Anglia, UK & Paul Patrick Walsh, Professor, University College Dublin, Ireland. Differentiated Taxation in Imperfectly Competitive Markets. Evidence from the Irish Automobile Market. 3. *Gyula Laszlo Florian, Lector, Partium Christian University Oradea, Romania. Integration of Business Practices in the Contex of Supply Chains. Evidence Using a Romanian Dataset.

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

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

<u>Wednesday 23 July 2014</u>
Cruise: (Details during registration)

<u>Thursday 24 July 2014</u>
Delphi Visit: (Details during registration)

Anna Rita Bennato
Post Doctoral Research Fellow, University of East Anglia, UK
Franco Mariuzzo
Lecturer, University of East Anglia, UK
&
Paul Patrick Walsh
Professor, University College Dublin, Ireland

Differentiated Taxation in Imperfectly Competitive Markets. Evidence from the Irish Automobile Market

Vehicle Registration Tax (VRT) is an ad-valorem tax charged on the registration of all new cars in Ireland, which is differentiated according to the engine size of a car or CO2 emissions. Accounting for this type of taxation we develop a simple theoretical model to unravel the interaction between the taxation system and the combination product quality and cost efficiency in an oligopolistic market, studying the incidence of taxation on producers and consumers. Using a panel dataset on new cars sold in Ireland for the period 2004-2008, we test our theoretical predictions relying on the estimated primitives of demand and pricing. Then, a counterfactual simulation is used to numerically assess the impact of differentiated versus homogeneous ad-valorem taxation and the possibility of tax over-shifting. We show the importance of asymmetries and their relation to the two alternative types of ad-valorem taxation, revealing how their interaction determines the incidence of taxation on consumers.

Gustavo Bittencourt Machado
Professor, Federal University of Bahia, Brazil

Agro-Energy and Family Agriculture in the Semiarid of Northeast of Brazil

This paper is part of the research project called *Agro-energy and the public functions of agricultural family,* financed by brazilian research and technology development institution (Conselho Nacional de Desenvolvimento Científico e Tecnológico – CNPq) and tries to comprehend the social and economic formation of the Territory of Irecê, semiarid of State of Bahia, in Brazil, and compares the economic appraisals of the representative archetypes of the types of familial farmers of production and activity systems. To comprehend the impacts of the development of biodiesel politics in the region, in the research, the possible impacts of the Brazil without Misery Plan (Plano Brasil sem Miséria), of the federal government are analyzed with the payments by the environmental services for some categories of small farmers, and with the family increased income with the green payment of R$300,00 (150,00 US$) per three months, the types of rural families classes in the extreme poverty doesn´t leave this situation in the short term, and it is necessary the R$ 2.400,00 (almost 1.200,00 US$), destined to the productive projects.

The analysis of the evolution tendency of the production and activity systems is obtained, based on three criteria: the present situation according to the consumer/worker relation (C/UTF); the classification of the production and activity system (type) according to the reproduction level that the system is (amplified, simple and extreme poverty) and the endogenous environmental restrictions to the production/agrarian system (high, low).

A part of the CIDE, the federal contribution to the combustibles (fuels) can be destined to the direct payments fund by the Federal Union of Brazil and other part of the combat to the poverty fund of State of Bahia can be destined to pay the family agricultures because of the environmental services. The federal budget of the alcohol production between 2012 and 2016 is estimated.

Alvaro Bustos
Assistant Professor, Catolica Pontificia University of Chile, Chile

The Dynamics of Litigation under the Negligence Rule: Optimal Frequency of Trials

By now the literature understands fairly well which are the main differences between the private and social incentives to bring suit. However our understanding of the main differences between the private and social incentives to litigate disputes on their merits instead to settle them is much more limited. In this paper we introduce a dynamic tort model that allows us to find the explicit conditions under which Society faces too many or too few trials. The model considers that the optimal level of precautionary effort evolves with time and trials are instances that not only allow Courts to set or improve precedents but in addition they reveal public information that can be used by future potential tortfeasors to choose more efficient levels of effort. We show that the frequency of trials very rarely is efficient because: 1) each party in dispute faces only a fraction of the total trial costs (bias towards too many trials); 2) the parties in dispute don't internalize the impact of the information revealed by trials on the deterrence of future torts (bias towards too few trials); 3) the size of harm affects the private and social decisions to litigate very differently (bias towards too many or too few trials); and 4) privates and Society make their decisions to litigate as if the regulated context evolved at different speeds (bias towards too many trials). Ultimately these four private-social differences derive from the simple principle that while privates decide to resolve their disputes through a settlement or a trial Society would like to decide the optimal timing of trials. More specifically, we show that Society faces too many trials in any of the following situations: trial costs faced by defendants are low enough; total trial costs are low enough; expected harm suffered by plaintiffs is low enough or speed at which the regulated context evolves is high enough. Society faces too few trials in the opposite cases. We end by discussing options through which efficiency can be achieved and how results change when defendants have the option to invest on learning about the optimal levels of effort outside the legal system.

Andrada – Alexandra Dumbraveanu
PhD Student, West University of Timisoara, Romania

The More the Better: Life Satisfaction in the Bitter Welfare State

Given the current global economic turmoil the subject of the welfare state has been exposed to a critical debate regarding the true costs it comes with. Taking the Nordic countries as a baseline many European countries have adopted strong social protection programs to maintain the quality of life for their citizens. However, given the costs that come with these social benefits, there arises the question whether people truly thrive in the welfare state or are they better off without it. Recently, there has been a growing interest in measuring the quality of life using subjective well-being indicators in order to complement the perspective offered by objective well-being indicators. These indicators are perceived as being an increasingly important component of human welfare, as they are not only an assessment of a person's life, but can also serve as a means to improve one's life.

The objective of this research is to provide empirical evidence for the existence of a positive relationship between social expenditure and life satisfaction. Based on the happiness economics literature, the current paper distinguishes itself by examining the connection between life satisfaction, as a proxy for wellbeing, and social expenditure. The paper contributes by examining the link between well-being and social expenditure components to offer a more holistic view on the subject at hand.

Additionally, based on the hypothesis that countries seek out to maintain life satisfaction in periods of unfavorable economic conditions through increases in social expenditure, we calculate the optimal level of debt cost that should be supported by the respective countries. The rationale behind this approach is that countries are increasing their debt over a level that is considered to be sustainable.

We test on a sample of 15 European countries on a time span of ten years and our findings suggest that there is a non-linear relationship between life satisfaction and social expenditure. Furthermore, this evidence suggests that increases in social expenditure are likely to hamper life satisfaction if they are persistent over a long period of time. Moreover, we find a similar type of relationship between income and cost of debt. The latter result strengthens the argument that countries are increasing their government debt to maintain citizens' life satisfaction.

Tereza Fiserova
Ph.D. Student, Charles University in Prague, Czech Republic
Tomas Klinger
Ph.D. Student, Charles University in Prague, Czech Republic
Petr Teply
Senior Lecturer, University of Economics, Czech Republic
&
David Tripe
Senior Lecturer, Massey University, New Zealand

Do Macroeconomic Conditions in Host Countries Affect the Performance of Foreign-Owned Banks? Evidence from 17 Countries with Predominantly Foreign-Owned Banking Sectors

The paper is focused on the phenomenon of foreign ownership of banks which dominates countries like New Zealand and the Czech Republic and other countries of the Central, Eastern and South-Eastern region. We compile a unique balanced sample of more than 140 domestically-operating foreign-owned banks from 17 OECD or European countries with overall high share of total banking assets controlled by foreign individuals and entities. The primary data source - the BankScope database, is complemented by Bloomberg, the IMF, OECD iLibrary and World Bank databases, Eurostat and individual countries' national banks. Based on our knowledge, we use the largest data set in this respect compared to other researchers. We examine the determinants of bank performance in relation to host country conditions over the period of seven years between 2005 and 2011. Due to the fact that the main upswing in foreign-ownership in the selected countries took place between 1995 and 2005, this paper looks at the performance of foreign-owned banks without our results being subject to potential peculiarities of the sample employed. Performing analyses by means of System General Method of Moments and Fixed Effects Models, we infer that macroeconomic fundamentals of the host country affect the performance of foreign-owned banks. However, the analysis also shows that these factors are not entirely sufficient in explaining the determinants of the banks' performance. We find evidence of the fact that more capitalized banks and banks with higher operating efficiency are also better performing in comparison to other banks in the systems. Moreover, keeping cost of risk low is particularly important for

profitability. The results point out that sound banks with higher operational efficiency operating in growing economies with low inflation rate tend to perform better than their peers.

Gyula Laszlo Florian
Lector, Partium Christian University Oradea, Romania

Integration of Business Practices in the Contex of Supply Chains. Evidence Using a Romanian Dataset

In today's competitive business environment unrealized gains erode profits because sellers cannot adequately determine what customers are willing to pay for product features. Companies cannot capture their markets randomly nor can the product managers develop haphazard product decisions. Competitive advantage will be achieved by those firms able to develop and price their products according to market preferences following adequate evaluation of how people value different features of an individual product. In doing so, companies rely on categorical data modeling. Present paper, after presenting the methodology behind this technique uses SAS programming to exemplify it.

Shumei Gao
Lecturer, Heriot-Watt University, UK

When are Real Options Exercised? An Empirical Study of Voluntary Liquidations

In this paper, we study a well-known form of firm exit: voluntary liquidations. We present a real options model where voluntary liquidation is treated as an American put option and we derive an optimal voluntary liquidation rule. We then test the key predictions of the derived optimal liquidation rule using 132 voluntary liquidations cases in the USA in the period 1990-2013. The results suggest that variability in firm's performance is a key determinant in liquidation decision.

Kaj Gittings
Assistant Professor, Texas Tech University, USA
&
Ian Schmutte
Assistant Professor, Texas Tech University, USA

Getting Handcuffs on an Octopus: Minimum Wages, Employment and Turnover

Theoretical work on the minimum wage policy emphasizes labor market dynamics, but the resulting implications for worker mobility remain largely untested. We show that in the teenage labor market minimum wages reduce worker flows and increase job stability. In this regard, minimum wages are shown to have cooling effects on labor market dynamics similar to employment protection laws more generally. Furthermore, we find that the employment effects of the minimum wage vary considerably across markets that exhibit different degrees of labor market tightness. Our results help explain the small effects of minimum wages on employment commonly found in the aggregate data and are consistent with labor market involving search frictions.

Huichao Han
Ph.D. Student, Southeast University, China
&
Kangning Xu
Professor, Southeast University, China

The Political Game for U.S. RMB Currency Policy toward China

The currency issue toward China has become hot in the U.S. Capital Hill, which hinders the trade between the two biggest economies in the world. The RMB currency debate has complex background and inflects a multi-role political game involving congress, government, constituencies and interest group. With the perspective of Political Economics, this paper explores the U.S. RMB currency policy during this decade. One Probit model is set to analyze empirically the voting of Currency Reform for Fair Trade Act as a sample, and the empirical result has an accurate predict rate over 88 percent.

The empirical study shows how the contributory factors play their role in the issue. Firstly, The interest groups influence the parliamentarian policy altitude by providing political contribution, the business contributions, labor's contribution and ideological contribution all together intensify the tough position on the RMB currency policy. Secondly, the huge trade between U.S. and China has brought considerable impact on the constituencies especially for unemployment, the pressure is transferred to the constituency representative in the House and Senate which directs the parliamentarian position. With the increase of the unemployment rate and import volume from China in the constituency where the congressman comes from, the related parliamentarian tends to hold more tougher position on the RMB currency issue, however the export to China which bring benefit for the constituency weakens the impact. Thirdly, the demographic factors play significant role either, the younger the constituency population is, the less tougher for the parliamentarian altitude on the RMB currency issue, also the increase of Asian population alleviate the toughness. In conclusion, the special trade policy forming system of the U.S. is the endogenous cause of the RMB currency policy toward China.

Yu-Li Huang
Associate Professor, Shih Chien University, Taiwan
&
Chung-Hua Shen
Professor, National Taiwan University, Taiwan

The Positive Ownership Effect on Bank Risk Disappears, When and Where?

This paper uses Moody's individual and issuer ratings as proxies for bank operational risk and default risk and examines how rating agencies access the effects of bank ownership structure on these two risks. We consider government ownership and foreign bank ownership to measure bank ownership structure. The results include, first, when using the whole sample, government ownership adversely and neutrally affects bank operation and default risk and foreign bank ownership decrease bank operation and default risk. Second, in high development and governance countries, government ownership increases bank operation and default risk, by contrast, government ownership decreases bank default risk in low development and governance countries. Third, government ownership can reduce bank default risk pre global financial crisis but increases operation and default risk after financial crisis. The reducing default risk effect of foreign bank ownership does not change after financial crisis. Fourth, when considering both country governance and financial crisis, we find government and foreign bank ownership can decrease operation and default risk for banks form low development and governance countries pre financial crisis period. However, the government ownership increases operation and default risk for banks from high development and governance countries after financial crisis. Finally, government debt ratio worsens the positive effect of government ownership on bank default risk and especially after global financial crisis.

Rymkul Ismailova
Professor, Kazakh Agrotechnical University, Kazakhstan
&
Nurgul Esmagulova
Associate Professor, Eurasian National University, Kazakhstan

The Venture Capital as a Source of Innovation's Financing

Venture capital plays an important role in the formation of the national innovation system as a financial resource.

This aspect can be explained by the state providing favorable conditions for investors who are financing innovative business. Examples of good investment have been studied in Kazakhstan in the form of "Microsoft", "Google", "Samsung" and "LG" which have started business as small innovative companies. In Kazakhstan, the creation of venture institutions and the involvement of foreign capital in the technology innovation business were realized by the National Agency for Technological Development.

There are two main forms of venture capital: corporate venture business and venture funds with participation state. Corporate venture business allows the corporation to increase the inflow of new ideas, knowledge and technology that enhances its competitiveness in the market. Therefore, corporate venture structures are usually inside large corporations. The venture funds focused on finding and investing small innovative companies with high growth potential. Certainly, Kazakhstan needed primarily venture funds, which offer the possibility of the small innovative sector development.

In Kazakhstan venture financing is in the early stage of development, thus there are problems with the formation of venture infrastructure, the shortage of funds and the lack of qualified specialists for innovative companies as well as for venture capital funds.

Venture capital plays an important role in the development of innovation in Kazakhstan. Firstly, the venture investment is aimed at the commercialization of innovations, including the introduction of scientific results in production, the creation of new products and the evaluation of its commercial potential; initial batch production and the first sales; the expansion of production and the access to new markets. Secondly, in our country the creation of venture capital institutions should determine the background of the interactive system between science and business. Finally, Kazakhstan needs traditional venture

funds which offer the possibility of the innovative sector's development.

In conclusion, venture funds will help to attract private capital for innovation, reduce risks and sale innovations.

John Khumalo
Senior Lecturer, University of South Africa, South Africa

Business Confidence and Inflation in South Africa: Variance Decomposition and GIRF Analysis

The study empirically investigates the effect of inflation on business confidence and how business confidence responds to inflation shocks in South Africa using the quarterly time series data spanning the period 1993Q1 – 2013Q1. The results from the stationary tests indicate that the computed t-statistics (DF-GLS statistics), in models with intercept only and those with both intercept and trend, for the two variables BUSCO and INFL are lower than the critical values at all levels of significance implying that the hypothesis of unit root cannot be rejected. Ng-Perron test of stationary also confirms the presence of unit root. The variance decomposition revealed that although inflation accounted for about 2 percent in the initial stages, it did account for about 27 percent to shocks in business confidence at later stages. The Generalized Impulse Response Functions (GIRF) also confirmed that inflation does cause some negative shocks on how business managers/owners perceive the future of their business prospects. These results show that there is a negative relationship between business confidence and inflation in South Africa.

Beniamino Moro
Full Professor, University of Cagliari, Italy

Lessons from the European Economic and Financial Great Crisis: A Survey

This paper discusses several key issues regarding the current European economic and financial Great Crisis, which essentially is a twin sovereign debt and banking crisis. The shift of the recent world financial crisis into a European sovereign debt crisis is tackled by analysing how via the banking system the financial contagion was extended from the US to Europe. The explanation focuses on the imbalances of European Monetary Union (EMU) countries balance-of-payments. The European crisis has shown that it can spread quickly among closely integrated economies, either through the trade channel or the financial channel, or both. In this context, TARGET2 payment system of EMU countries became crucial, reflecting funding stress in the banking systems of crisis-hit European countries. The paper concludes that, in the medium term, a successful crisis resolution requires more political integration, which should include a fiscal union and a banking union. However, in the short run, a prompt recovery is essential to get out of trouble, and this requires that surplus countries (particularly Germany) expand aggregate demand and let domestic wages and the ensuing inflation rate increase.

Amina Mussina
Professor, Kazakh University of Economic, Kazakhstan
&
Saltanat Albekova
Ph.D. Student, Kazakh University of Economic, Kazakhstan

The Role of Financial Intermediaries in the Formation of Investment in Kazakhstan

Nowadays, one fields of financial intermediary activity is the formation of investment capital. There are many problems in this area of the economy both in Kazakhstan and in the world. Moreover, these problems have risen in recent years due the world financial crisis.

The aim of this paper is evaluate how financial intermediaries have influenced the form of investment and analyze how these financial institutions differ in Kazakhstan. These institutions have specific advantages and disadvantages in the way they create their assets and liabilities.

The main institutes, whose activities are directly linked to investments in the financial market and the real economy of Kazakhstan, are commercial banks and non-bank financial institutions.

Despite the differences of non-banks, these institutions still have similar kinds of assets. For example, for all financial institutions, a certain percentage of their financial resources are located in bank deposits. This is an advantage because these funds are used to replenish the potential resources of banks.

Another advantage nowadays is the competition between financial intermediaries and banks. Is it true that non-banking institutions may be competitive with banks both in Kazakhstan and in the world? It is known that non-banking institutions are trying to capture those market niches that historically are owned by banks in all developed countries.

The volume of transactions and the number of non-banking organizations declined significantly after the crisis despite the stabilization of the situation in the country, they are growing slowly. At the same time, there was observed an insufficient development of a range of joint products that could be used by banks and other financial institutions. Lastly, all financial intermediaries are characterized by the same problem: a lack of long-term financing sources.

Thus it can be concluded that the opportunities of the investment climate and investment potential, in fact, remain unfulfilled. Financial intermediaries provide only the current financing of the economy but

they yet not able to provide necessary long-term investments. This means that we need new mechanisms and financial market products in Kazakhstan that can be created based on the experience of developed countries.

Luis Nunes
Ph.D. Student, Minho University, Portugal

A Model on How the Agent's Relative Utility Perception may Affect Individual Income Transfers

The purpose of this paper is to develop a model in order to understand how individual income transfers may be affected by different variables such as government intervention, social income redistribution, individual altruistic preferences and the relative utility perception of the different agents.

Income transfers may occur through income redistribution policies designed by governmental authorities, or they may be an individual choice. Given some relevant previous literature on the subject, this paper will analyze the possible variables that may influence the individual choice of giving in order to build a model that is able to describe the microeconomic behavior of giving. Furthermore, the model will also take into account some other aspects, particularly the individual perception of the agent's relative utility towards other individuals.

Finally, bearing in mind the individual decision process and the individual perception concerning the complex interaction of different variables it is expected that the paper sheds some light on the income transferring microeconomic phenomena.

Ozren Pilipovic
Assistant Professor, Faculty of Law (Zagreb), Croatia
Miran Marelja
Teaching and Research Assistant, Faculty of Law (Zagreb), Croatia
&
Nenad Rancic
Assistant Professor, Faculty of Law (Zagreb), Croatia

Investment Promotion Agencies and FDI Attraction in Central European Countries

The aim of this paper is to examine a) the importance of institutional infrastructure in fostering economic development by making the source country attractive for FDI, b) to determine empirically the factors that influence FDI attraction C) to examine the role and importance of action by investment promotion agencies to encourage foreign investment as a vital instrument that encourage new FDI inflows and contribute to the acquisition of new technologies. The following countries will be included in this study: Lithuania, Latvia, Estonia, Croatia, Slovenia, Hungary, Czech Republic, Slovakia and Poland. Their legal codes will be analysed and we will use the following econometric model to test the factors that encourage FDI attraction.

FDIij,t =βj GDP Hostj,t +βi GDP Sourcei,t +γ RIAij,t + t+ +δ Inflationj,t +σ BITij,t +ρ XMHj,t + ujt

FDIij,t stands for bilateral FDI flows (from country i to individual Central European country j) at time t. as .

GDP Hostj,t is the logarithm of the real GDP of the host country(individual Central European country).

GDP Sourcei,t is the logarithm of the real GDP of the source country namely the most important FDI source countries for selected countries.

RIAij,t is a country dummy variable, which will take the value of 1 if the host country is the member of CEFTA, BAFTA or EU, otherwise it will be 0.

Inflationj,t is the annual inflation rate in the host country at period t, to control for macroeconomic instability. We should expect a negative relation between inflation rates and FDI flows.

XMHj,t is the logarithm of the sum of the host country's exports and imports. It is a proxy of the openness of the host economy. We should expect a positive relation between this variable and FDI inflows.

BITij,t Bilateral Investment Treaties: this is a variable that takes a value of one if both countries (host and source) have a bilateral investment treaty signed and in force at time t, and zero otherwise. This variable captures the average impact of these treaties on the FDI flows. We should expect a positive relation to FDI inflows. We will test the model for years from 1995-2012.

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A Choice Model for Wind Power Management in Terceira Island

The benefits of producing renewable energy from wind are well known. Relative to other nonfossil fuel sources, the technology does not require the same high level of investments as nuclear, tidal or thermal power. Besides, wind energy investments also have the potential to enhance economically depressed rural areas. Nevertheless, it is important to encourage customers into active participation in the energy sector.

Nevertheless, supply needs to suit demand in order to reach equilibrium in the market. This leads to the need to explore end users' preferences with regard to relevant electricity production and supply attributes, in order to determine effective and efficient energy policies, engaged in a multidisciplinary strategy framework for the regional development, including as much as possible stakeholders in the decision process.

With this approach we will be able to determine optimized designs of energy systems which satisfy the demand side, thereby engaging in a new relationship between customers, generators and network operators.

The methodology of this research is based in a choice experiment in Terceira Island, where respondents (population responsible to pay electric bills) receive a set of policy options (profiles), characterized by different attributes. Choice experiment generates data such that an individual's utility over different profiles can be estimated as a function of attributes as well as characteristics of the individual decision maker. Attributes comprise % of wind in the energy mix, size of each wind farm, number of wind farms and price to pay per kWh in the electric bill. The questionnaire has other sections with socioeconomic and preferences questions.

The expected outputs of this paper are the assessment of the WTP for different energy generation scenarios by the electricity end users in Terceira Island, Azores. It is important to encourage customers into active participation in the energy sector, thereby giving them the opportunity to choose the most desired characteristics of the energy mix, over the possible options from the technical point of view. In this way, it is easier to attain flexible, reliable, environmentally friendly, social and economic sustainable solutions in the power sector. Besides it is concluded that electricity consumers are sensitive to the chosen attributes, and are very much interested in participating in the decision process. It is found that electricity consumers, responsible for paying electricity bills, are willing to pay, in Terceira island to increase wind energy in the electricity mix, and to change number of wind farms and to change size of the wind farms.

This methodology has proven to be suitable to the objectives of this work.

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Remittances and Sectorial Real Exchange Rate in Lower Middle-Income Countries

This paper investigates the effects of remittance inflows on production, labor and relative prices via adjustments in the real exchange rate of tradable and non-tradable goods in Lower-Middle Income (LMI) countries. Given the highly dependence of LMI countries on remittances, we explore how they these flows impact on boosting total output and consumption, by assuming that they a) move counter cyclically to output fluctuations in the home countries of migrant workers, and b) finance consumption expenditure of family members in the home country (the so-called altruistic consumption-smoothing motive). Although the link between economic growth and remittance-inflows has been empirically debated and mixed, it is however acknowledged that remittance-inflows have been broadly used as a macroeconomic stabilizer, due to its potential to turn into an important tool to boost consumption and investment. Nonetheless, large remittance inflows, must be tackled carefully since as any foreign currency inflows, it may cause a real exchange rate appreciation ("Dutch Disease" effects) increasing imports and decreasing exports, likely affecting more to small economies which are concerned about the effects of large remittance inflows on currency appreciation which unleashes a loss of competitiveness for some export and import substitute goods. This paper, grounded in a New-Keynesian General Equilibrium framework, contributes to the literature by measuring fluctuations of consumption and welfare to reforms and remittance-inflows shocks, breaking down effects through tradable and non-tradable sectors. The impact of reforms and remittance-inflows shocks may be summarized in terms of lost and gained units of consumption through the convergence to equilibrium. We calibrate a model that involves matching theoretical and empirical moments. Also, this model has interesting features showing heterogeneous labor skills, home-bias consumption, international risk sharing, standard monetary policy (i.e. Taylor rule), nominal rigidities, intermediate and final producers, and

tradable and non-tradable sectors. We present our results using impulse-response analysis.

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Doing Well in Reforming the Labor Market? Recent Trends in Job Stability and Wages in Germany

The German "employment miracle", with a weak decline in employment and low unemployment during the great recession, seems to be a good example for a successful labour market reform. Nevertheless, there are concerns about rising inequality in the labour market. In this paper we analyze the quality of newly started jobs between 1998 and 2010 using a huge administrative data set which allows us to look at job durations and earnings for different groups of workers. We discuss changes in the distributions of job durations and earnings over time, and present microeconometric models controlling for individual, firm and regional characteristics. Our results point to overall stable job durations for men and even somewhat longer durations for women. There are clearly shorter durations for groups of workers likely to be disadvantaged: temporary agency workers, unskilled workers and workers unemployed before the job. The analysis of the wage distributions shows both a decrease in real wages over time and an increase in overall wage dispersion. For selected groups of disadvantaged workers, evidence of disproportionate wage losses is found. In summary, the labour market reforms in Germany do not seem to have had a strong influence on job durations. With respect to wages, the reforms have conceivably reinforced an already existing tendency towards lower wages and greater wage inequality.

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Risk- Adjusted Performance of Pension Funds: Do Alternatives Assets Knock the Cover off the Ball?

The paper builds upon one of the most arresting interrelation in today's pension universe, namely the interplay between the level of regulatory strictness and future pensioners' projected wealth. The research question that emerges here is whether enriching pension funds' portfolios with more alternative assets (e.g. hedge funds, commodities, venture capital), restricted or prohibited in many European jurisdictions, is advantageous from the perspective of their beneficiaries.

As Barber and Wang (2013) indicated in their recent study, top US educational endowments perform well relative to public stock and bond benchmarks because of large allocations to alternative investments. These allocations explain the majority of the superior financial result of top-performing vehicles in the last two decades.

Business research suggests that hypothetical strategies that include alternative securities may be superior to conventional portfolios. For example, the so-called 60/30/10 (i.e. 60% equity, 30% bonds, 10% alternatives) allocations are typically superior to conventional 60/40 (i.e. 60% equity, 40% bonds) allocation.

The research method employed here is relatively uncomplicated. Based on the existing data on asset allocation (OECD Global Pension Statistics), a share of alternative investments and data on returns and volatility are extracted. Since most alternative investments are truly globalized, for simplicity, uniform benchmarks are used for each jurisdiction. Throughout the whole study, both Sharpe ratio and Sortino ratio are used as indicators of risk-adjusted performance. The analysis embraces the 2001 to 2012 period, as this the period for which detailed figures are available for most countries.

The conclusion of the paper instructs whether alternatives made or would make investors better off and which threshold is optimal. The set of control variables is modest due to the shortage of time series and scarcity of reliable observations.

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Connectivity at a Cost: Economic Dynamics of Connectivity Restoration

The ecological literature shows that there is a species-area relationship between habitat size and the equilibrium number of species that will thrive in a habitat. There is also a literature on habitat fragmentation showing that, if a larger habitat is broken up into smaller fragments, the long run equilibrium species number will decline in each of the remaining fragments according to the same relationship. Both in the United States and in Europe there is ongoing work on reversing habitat fragmentation in river systems, with fish ladders and other measures being introduced to restore connectivity in river systems that have previously been subdivided into smaller habitats by hydropower and other developments. However, even if connectivity is restored, the new and higher equilibrium species number will be reached only after extended periods of time. This means that measures to restore connectivity entails incurring one-time investment costs (and possibly continuous long run increases in maintenance costs as well) in order to gain habitat improvements that will generate increasing value over time up to the point where the new, better equilibrium is reached. In this paper, we set up a theoretical model to investigate what the conditions are for such an investment to be socially profitable, and link the model to empirical data from measures to restore river system connectivity which show how quickly this recovery tends to occur in practice. We find that even in cases where it would have been socially preferable not to build a hydropower installation in the first place, connectivity-restoring measures affecting the installation are not necessarily socially profitable. Under a wide range of plausible assumptions about discount rates, investment costs and productivity losses, decommissioning the hydropower plant once its economic lifespan is past is a better option, from the social planner's perspective, than carrying out measures while the plant is still economically viable.

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Exploring Barriers to Pro-Health Behavior from Microeconomic Perspective: Adherence Effort and Decision Weighting

This study seeks to explain an individual's non-adherence to accepted pro-health recommendations (e.g. undertaken treatment or prevention), exploring the optimal choice of effort to adhere. Given an individual's preferences for health state and effort to adhere, expected utility maximization over lifetime, incorporating death rate and time discounting factor (σ), is applied. The perceived probability of achieving promised (effort-dependent) health gains, $\pi(p)$, i.e. objective probability, p, and decision weights, $\pi(\cdot)$, is employed. With perceived probability $1 - \pi(p)$, do-nothing health state and death rate, independent of adherence effort, are considered.

The model reveals that optimal effort to adhere, and the positive effect of higher $\pi(p)$ on adherence effort, are stronger when promised reduction in death rate (life-years gain) or health-state improvement is larger, when do-nothing death rate (health state) is worse, and when σ is lower. Adherence effort is higher for failure-emphasizing message $\{ 1 - \pi(1 - p), \pi(1 - p) \}$, comparing to success-emphasizing information $\{ \pi(p), 1 - \pi(p) \}$. For high p, decision weighting ($\pi(\cdot) \neq \cdot$) decreases adherence effort. However, in the case of failure-emphasizing message, for moderate p, weighting may increase adherence effort.

Insights from economic theory can contribute to improving the effectiveness of public health policies: if recommended actions are undertaken by an individual (decision is made), exploring and understanding further barriers to pro-health behavior are crucial for policy design. Particularly, higher effort to adhere is desired to reduce non-adherence behavior. This study shows how and why an individual's effort to adhere may be affected a posteriori by decision-problem parameters. Policy tools inferred from behavioral economics are proposed to induce higher adherence effort (clarifying health gains, failure-emphasizing message, decision-weight modifying), and target populations are suggested.

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Concept of Education in New Global Economy

We live in the time when collective entities of all kind are being crashed, when they go through invisible substantial transformation. The dominant social paradigm is changing - the focus is being put to an individual. Instead of material wealth, physical goods, and property importance is given to the quality of living, experiences, enjoyment, pleasure, and highly estimated leisure. As Jeremy Rifkin wrote in his book "The Age of Access" - "intellectual capital is driving force of the new era... Concept, ideas, images, not material things are considered to be valuable object in new concept of economy. Wealth is not in material, physical capital any more, but in human imagination and creativity." This means that human capital is the most important asset of a company. This transition to new paradigm is not just a mechanical change, but comprehensive, long and demanding process of social change, which requires development of individualistic culture and new way of thinking. This change requires significant changes of education system. Problems of education system are more visible in transition countries where collectivistic spirit from socialism is still very strong, however education system in all countries worldwide are facing the same challenges. This paper is looking for answers about the influence of the change of the dominant social paradigm on education system and overall implications on economic development.

Current education system is based on passive knowledge, memorizing facts, "warehousing" information, the importance of formal achievements (diploma is important by itself) and strong division between theoretical knowledge and practical problems. The new era requires education system which will develops skills and competences, change student's way of thinking, and improve innovative and creative capacity of a student. This means that the transformation of current education system should be oriented to the development of critical thinking and empirical imagination, which is completely opposite from current model of our universities which are based on one single topic, one single subject, not on paradigm of free skills.

Current education system is focused on profession, well-behaving, neat and starchy citizen, which is a part of social collectivity - it is

education for the state. Should it be abandoned in new era? What reforms of education system are needed in order to efficiently overcome changes induced by the change of dominant social paradigm? Are there any directions we should follow in order to foresee future developments in this area? What are directions for future development of education system? How can education system become focused to an individual, its personality and character? How can it educate people to be creative and to accept challenges of real life game? Is there any "formula" which can explain all of this and enable transfer from one to another education model?

Why education is not passive adoption of facts and cultural traditions? Why education system has to be designed to provoke student's mind and make his/her spirit active, competent and critical in the complex world? Will such education model suppress current model within which students sit in their classrooms, absorb and memorize facts, and then just reproduce what have been served to them?

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Golden Periods of Anticorruption for Developing Countries: An Economic Model

In spite of its universal prevalence, corruption is perceived generally more severe in developing countries and has proven to be particularly harmful to the sustainable development. While many previous studies have confirmed the existence of strong negative correlation between the corruption severity and the national economic prosperity level of a country, a certain number of cross-country comparisons show that some country-cultural characteristics can considerably affect anticorruption effectiveness. The present paper proposes an economic model based on the idea of "probity production" with certain social resources in order to reveal the most effective or "golden anticorruption periods" in the economic development. Using the Transparency International's corruption perceptions index (CPI) 2012 and 2013, as well as GDP (PPP) per capita of 60 countries published by the International Monetary Fund, we compute the model as a stochastic frontier regression and find an explicit functional relation between the corruption index (CPI) and the average revenue level in a country. This efficient frontier allows us to derive the "golden anticorruption periods" as most elastic corruption degrees with respect to the per capita revenue. China, for example, may need another decade to get into the he golden periods for anticorruption. Our empirical studies also suggest that a developing country should enter its golden anticorruption periods if it can avoid the middle income trap. Besides, the model allows to measure inefficiency of anti-corruption effort arising from country-cultural factors. At this stage, the Geert Hofstede's cultural dimensions are incorporated into the model. The major qualitative findings in the second part of this paper are, (i) Individualism favors anticorruption while collectivism is the biggest cultural obstacle to anticorruption since collectivist cultures may take nepotism as normal and (ii) Femininity favors anticorruption while masculinity disadvantages anticorruption, as femininity stands for a preference for cooperation and less material things.

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Human Capital, Social Capital and Economic Growth

Keeping track of the performance of a nation's economy and analyzing the factors that determine economic growth and its fluctuations are among the main objectives of economic research. This paper presents an analytical framework connecting human capital and social capital to economic growth. It adds to the existing literature in three areas. First, the existing literature focusing on a narrow definition of human capital misses some crucial aspects of human capital policy. The proposed research provides a broader framework to evaluate both economic and social policies on human capital. Second, while various economic and social indicators related to human capital exist in the literature there does not exist a comprehensive list of indicators for human capital only. The proposed research will develop these indicators for the purpose of monitoring economic growth and making comparisons across countries or regions. Finally, we identify policy channels through which human capital formation interacting with social capital can be strengthened in the new knowledge-based economy.