NEW ZEALAND ASSOCIATION OF ECONOMISTS (INC.)
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ASymmetriC information

A newsletter to promote the exchange of information, news and ideas among members of the New Zealand Association of Economists (Inc).

CONTENTS

Change, change and more change

EDITORIAL

Well, another year has gone by and we are just entering the new millennium (again). This is the fourth issue that Gary and I have put together. Like Topsy, it just "growed", and we are very grateful for the efforts of all the willing contributors. It makes our job both easy and enjoyable.

In this issue we give some attention to network economics and law and economics. Both are rapidly expanding and relevant areas. We would be happy to include more on these. Other possible areas include environmental and health economics. There must be something for economists to say about the organization of health care, given all the changes in recent years. Area Health Boards were established in 1983 and a contracting system introduced. They were replaced by four Regional Health Authorities in 1993. A Transitional Health Authority then managed the transition to a Health Funding Authority, established in 1998. Now we see the introduction of a system of District Health Boards.

The NZAE annual conference included a stream on teaching economics. There appear to be a lot of changes occurring in methods of teaching at the tertiary level, with "talk and chalk" considered less than satisfactory. We include a small piece on "interactive" teaching in this issue. This is the new buzzword, as pedagogic experts refer to attention spans and participation as an aid to learning. It is also more enjoyable, in our opinion. More ideas would be welcome.

Anyway, happy reading, and a happy festive season to you all.

by Stuart Birks and Gary Buurman, Massey University

We invite members to submit a brief article on any issue of interest to NZAE members, and/or comments and suggestions. Enquiries and contributed articles should be sent to Stuart Birks and Gary Buurman [K.S.Birks@massey.ac.nz]. Views and opinions expressed in these articles are those of the authors, and do not represent the views of the New Zealand Association of Economists.

Law and Economics Association of New Zealand
Wellington Seminars, January-March 2001

Time: Every second Monday evening from 6-7pm

Please note that the times and the dates of these seminars are subject to change.

Location: Lecture Theatre 4, Victoria University of Wellington Law School, Old Government Buildings (opposite the Beehive)

22 January 2001 - Dan Veits, Arthur Andersen, “Banking Regulation in Korea”
5 February 2001 - Bill Wilson QC, The Role of Economists as Expert Witnesses”
19 February 2001 - Sir Geoffery Palmer, Chen & Palmer, “The High Court decision in the *Timberlands* case”
6 March 2001 (N.B. This is a Tuesday) - Darwin Hall, California State University, "The Regulation of Water and Wastewater Supply"
19 March 2001 - Julian Ludbrook, Ministry of Foreign Affairs & Trade, “The Incorporation of International Law into New Zealand Law”

For catering purposes, if you wish to attend, **RSVP** to: Nathan Strong, Secretary, LEANZ
Tel. 0-4-470 1819 Email: nathans@nzier.org.nz

Economics and Queen's Counsel

By Veronica Jacobsen, President, Law and Economics Association of New Zealand
veronica.jacobsen@nz.arthurandersen.com

A new book by David Friedman, *Law's Order*[1] provides a spirited exposition of the importance of economics to the analysis of law and legal issues. The economic analysis of law began with antitrust and indeed this area of Law and Economics remains important, if only because "that's where the money is" as rival firms seek expert evidence in support of their positions in competition cases. Law and Economics has moved beyond this traditional area and encompasses common and statute law.

Economic analysis is useful in thinking about the law because economics, like law, is fundamentally about human behaviour. But unlike law, economics provides a rigorous framework that allows us to assess the effects of different 'rules of the game', laws, regulations or institutional arrangements.

Economic analysis can provide a framework for addressing the current debate about abolishing Queen's Counsel.[2] Being appointed as a QC is a kind of celebrity endorsement of a lawyer.[3] Initially, appointed QCs were expected to act on behalf of the sovereign, but by the 18th century, appointment as a QC involved a recognition by the Crown of a superior status to ordinary counsel.

The number of QCs is limited, giving them opportunity to extract monopoly rents from their clients. QCs clearly derive private benefits from appointments they apply for. The ability of QCs to derive higher incomes than other barristers seems to be generally acknowledged, but I am not aware of any statistical analyses. These monopoly rents impose social costs, but the social benefits of QCs are by no means clear. Arguments against abolishing QCs emphasise the importance as a mark of excellence and a 400 year tradition, but have very little to offer by way of explaining why the Queen confers the statutory ability to extract monopoly rents from clients on a small group of lawyers.

One explanation for retaining QCs is that they are provided an opportunity to build up a nest egg before some are called to the bench, where they are paid less. If the objective of having QCs is therefore to remunerate judges, it is a very poor mechanism indeed. It is inefficient, since there are fewer judges than QCs, only some of the monopoly rents are transmitted to judges. Nor is it equitable, since the burden of having to pay judges a competitive salary is borne by the clients of QCs, rather than by taxpayers.

Another argument is that QCs help to secure the proper administration of justice and to uphold the rule of law. This argument is vague about how QCs make this contribution and does not consider the counterfactual. Several provinces in Canada, for example, do not have QCs, but there is no indication that the administration of justice is impaired as a result.

A further argument is that the rank of QC conveys information about the quality of the services provided. However, this argument is undermined by the secretive process of appointment and the lack of criteria. Other professions have mechanisms for recognising excellence and transmitting this information to consumers that do not involve Crown appointments. The market itself is a powerful mechanism for developing and protecting reputations that convey information about quality to potential clients.

So it appears that the institution of QCs conveys private benefits and imposes social costs without counterbalancing social benefits. In short, if we didn't have QCs, it would be hard to argue that they should be introduced. The current debate provides us with the opportunity to apply economic analysis to a legal institution and address the path dependency of an archaic tradition.

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[1] Friedman, D. (2000) *Law's Order: What Economics Has to Do with Law and Why It Matters.* (Princeton NJ: Princeton University Press). The book also has a webpage (http://www.best.com/~ddfr/laws_order/) which contains the text and all the web links to which to book refers.

[2] Office of the Attorney-General (2000) "Discussion Paper: Appointment of Queens' Counsel." Office of the Attorney-General, Wellington, September.

[3] See Klein, D. (1997) *Reputation: Studies in the Voluntary Elicitation of Good Conduct.* (Ann Arbor: University of Michigan Press).

Culture and Tradition

Is there no Treasury department to act as watchdog over the public purse? Are there no regulations framed to check extravagance and waste? All these safeguards undoubtedly exist. That they are futile is manifest from the known results. The reasons for their futility are less obvious, however, and are perhaps worth investigating, both as curious in themselves and as affording the clue to possible improvement. Briefly, the answer is that the accounts are meaningless, the Treasury ineffective and the regulations so contrived as to make economy not so much difficult as impossible.

To deal first with the accounts and estimates presented to the House of Commons and available to the public, it is interesting to learn that a procedure of Exchequer receipts, dating from about 1129 and involving a Teller, a Tally Cutter, an Auditor, a Clerk of the Pells, a Scriptor Talliar and several Chamberlains, survived until 1826. Apart from this, however, the basic fact to learn is that the accounts, such as they are, were designed for use during one particular period of history. Introduced during the Second Dutch War (in 1666), their primary object was to prevent money from the Navy Vote being spent by Charles II on the aptly entitled Duchess of Portsmouth. Even for this strictly limited purpose the method chosen met with no startling success. The system was revised, therefore, so as to assume its present form in 1689, from which year it more or less prevented William III from spending the money on his friends—who were not even girls.

Devised originally to guard the till, the public form of accounting dates from a period before book-keeping by double entry was generally known except among nonconformists like Defoe. It dates, moreover, from an age when few gentlemen knew even the arabic numerals, the clock face in the stable yard showing only the roman figures which the classically educated might be expected to understand. The result is that these public accounts, not of the latest pattern even in 1689, are now beginning to verge on the obsolete. They were revised, it is true, as a result of an inquiry held in 1828-29, but the minority report of the professional accountant was set aside in favour of the civil servants' recommendations; these were against double entry and left untouched the previous confusion between liabilities and assets, between capital and current. In 1904 Mr Thomas Gibson Bowles, M.P., could therefore describe the national accounts as 'unsystematic, unscientific, complicated, and so presented as to conceal and even to falsify the facts'. In 1957 Mr John Applebey remarked that those responsible for the public accounts seem to confuse themselves as well as everyone else.

It is fair to conclude, in short, that the British public accounts are not quite in line with current methods of accountancy. As a means of control, as a system of imparting information, they are scarcely worth the paper they are printed on. Accounts which would disgrace and discredit a third-rate dog-racing company are solemnly presented each year to the nation, and often presented by a business man who ought to and does know better. So far from being improved in form, these accounts have become more complex and muddled as the sums involved have proliferated and swollen. They are not true and they do not balance. It is the business of the accountant to give the facts of the financial position in the language of business, which is money. In that language he is to tell the truth and the whole truth. But those who present accounts to the nation do nothing of the kind. They present only a picture of archaic and dignified confusion.

From: C Northcote Parkinson (1963) *The Law and the Profits*, London: Murray, pp.12-14

Structures, context and all that…. by Stuart Birks (K.S.Birks@massey.ac.nz)

Why is it that many of those without economics training fail to see things the way we do? Perhaps it is because we are not seeing things clearly ourselves. One clue to this is given by Avinash Dixit, considering traditional views on markets and market failure:

"…the traditional dichotomy of markets versus governments, and the question of which system performs better, largely lose their relevance. Markets and governments are both facts of economic life, and they interact in complex ways. We cannot find feasible improvements by wishing away one of the components."[4]

Similar issues have been identified in psychology, especially building on the work of Urie Brofenbrenner, who recognized the impact of wider social factors on individual behaviour. As one illustration, Brofenbrenner challenged the idea that we can net out the effects of certain factors so as to analyse interactions between others:

"[Brofenbrenner] went on to explain that it made no sense at all to control for ethnicity, social class, or household composition in an attempt to isolate "pure" process. No processes occur outside of a context. And if we want to understand context, we need to take it into account, not pretend to control it away."[5]

Do we really "allow for" the effect of a variable simply by tacking it on to the end of a regression equation? Once again we have cause to be wary of additive separability, for example.

More generally, we should note that transformations are not neutral. Consider the transformation from nominal to real values, where the inflation adjustment measure may be inaccurate, and behaviour may be affected by actual or perceived inflation rates. Or transforming from one currency to another using exchange rates, which are likely to reflect the effects of international trade and currency movements rather than differences in internal values in different countries. Or seasonal adjustment of data where assumptions are made about the structural form of seasonal impact.

Desai also questions the use of transformations when discussing Granger causality:

"…time series analysts prefer to eliminate trends separately from each series before operating with them. While this avoids spurious correlation, in economics the size of the trend may be related across two (or more) variables. Indeed what would the theory of economic growth be worth if the trend in every economic variable was taken to be a feature not worth explaining!" [6]

Economic analysis is based on compartmentalizing, separating out aspects, systematic analysis. Perhaps we should look carefully at this process to check for relevance and consistency.

For example, there is pressure for, and general agreement about the desirability of, freeing up international trade and international capital movements, but we do not see the same calls for unrestricted international movement of population (developments within the EU aside). Doesn't this suggest that there are non-economic factors that are considered important? If this is the case, might the same factors also be relevant for trade and capital movements? If so, then the approach taken by the application of economic theory in isolation is oversimplified and partial. Should policy analysis really be done in a piecemeal way with no attempt to identify and reconcile the conflicts arising from such simplifications?

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[4] P.xv of Dixit, Avinash K (1996) *The Making of Economic Policy: a Transaction-Cost Politics Perspective*, Cambridge, MIT Press.

[5] P.424 of Steinberg L, Darling N E and Fletcher A C, "Authoritative Parenting and Adolescent Adjustment: An Ecological Journey", chapter 13 of Moen P, Elder G H and Lüscher K (eds) (1995) *Examining lives in context: perspectives on the ecology of human development,* Washington: American Psychological Association

[6] P.131 of Desai M (1981) *Testing Monetarism*, London: Frances Pinter

From the *2BRED* File

By Grant M. Scobie (grant.scobie@treasury.govt.nz)

A couple of issues back I suggested some great reads on the broad sweep of history and human development. I'll start this column with a very new entrant to that field. For something a bit zany you might want to try Robert Wright's ***Nonzero: The Logic of Human Destiny*** (Pantheon Books: 2000). Yes, you guessed it – this is game theory explaining the world! I wonder if Von Neumann and Morgenstern would have ever imagined this application of their invention. Wright balks at nothing; he relentlessly applies the model of a non-zero sum game to biological evolution and human society. At first I was reminded of an old professor of mine who chided the economics profession for its slavish application of tools. "If all they have in the tool box is a screwdriver, economists will file slots in the heads of nails before thinking of looking for a hammer" he would regale us. But Wright's applications are fascinating, and the range of examples breathtaking. In the Introduction, Wright argues that "interactions among individual genes, or cells or animals, among interest groups, or nations, or corporations, can be viewed through the lenses of game theory". In short, this is a readable romp that takes you from the primordial soup to the Internet. For Wright, globalisation was always in the cards. It was just another step toward cooperation in which all can be made better off – another non-zero sum game.

Who would have thought that the humble potato would make a good story (Larry Zuckerman, ***The Potato***: Pan Books, 1998)? From the Andes to the fish and chips in greasy newspaper, here is all you will need to know. Every nuance on the biological, social, political and economic history of the spud is explored. (By the way, you did know that when first it crossed the Atlantic the English were so repulsed and convinced this was not fit for human consumption that they formed the Society for the Prevention of Unhealthy Diets, or, you guessed it, SPUD for short –but that is one Zuckerman). Whether you subscribe to a vegetable dominated view of history or just want a fascinating blend of history and economics, then this one is good anyway you like it served.

Glancing along the bookstore shelves, you could be forgiven for thinking ***Frozen Desire*** was misplaced from the Mills and Boone section. But once you read the subtitle you will realize that this is not what it appeared (James Buchan, ***Frozen Desire: An Inquiry into the Meaning of Money***: Picador, 1997). The title of course alludes to money as a store of value, but the book covers all aspects of the history of money. Nothing of the dry Victorian treatise that the subtitle might convey. Rather a fascinating journey through history from salt and beads to Keynes. Stories from Rome, of Columbus of China and Greece are woven into a rich tapestry that is humanity itself.

Biodiversity is a topic of the day. Stephen Keller's ***The Value of Life: Biodiversity and Human Society*** (Island Press, 1996) is a biologist's view of why diversity is a "good thing". Much of the story of the interdependence of life forms fits comfortably into an economist's view of the general equilibrium nature of things. Messing around with one bit of the system will have ramifications far beyond the immediate environs. Keller's thesis is built around nine so-called basic values. In the end, however, the message is that preserving biodiversity is integrally linked to our future well being – often in ways we cannot know. This, of course makes trade-offs rather difficult, and it is the lack of a strong theme of opportunity cost that will strike some economists as a weakness. But the book is sensitively written and addresses many issues across a broad sweep of disciplines.

Web-sites for economists

Like all good economists, let me begin by stating the key assumption upon which this review is based. All agents are assumed to be identical environmental economists with a particular interest in the challenge of co-ordinating international responses to global pollution problems. The web-sites selected for this review must be seen in the light of this assumption.

Before wading into battle, one should always size up the enemy. Therefore, I suggest four sites which, even given their anti-growth and anti-development bent, are worth a look: www.envirolink.org, www.greenpeace.org, www.worldwatch.org, and www.clubofrome.org. For those who are hungry for more, it is possible to access any number of reports, documents and publications from each site. Even the famous, or is it infamous, "The Limits to Growth" can be ordered on-line.

On the other side of the coin, one can visit www.worldbank.org, www.wto.org and www.rff.org for a more pro-development spin. The World Bank site is an outstanding source of data on a wide range of topics related to world development including environmental economics and environmental indicators. The World Trade Organisation site has some coverage of environmental issues, with emphasis on the questions of whether trade damages the environment and whether WTO rules prevent environmental protection.

The Resources for the Future site is one my favourites. Some the world's leading economists produce research for RFF, and it is all available through their on-line library. The research is focused on the environment and natural resources, and though it tends to have an American bias, it is usually well-grounded in economic theory. There are also a number of useful "methods, tools and techniques" papers on-line which can be useful teaching aides.

The vast network of the United Nations can be accessed at www.un.org or one can cut to the chase and visit the United Nations Environment Programme directly at www.unep.org.

At the risk of offending any of the local bureaucrats[1], there is really only one government web-site worth mentioning when looking for information on the environment. The United States Environmental Protection Agency site at www.epa.gov is a bottomless source of information and data. In addition, from this site one can download a number of interactive and educational software packages. Finally, the EPA has made available a number of economic models which can be "used to increase the level of understanding about natural systems and the way in which they react to varying conditions."

Finally, I must include the International Centre for Island Studies web-site www.islandstudies.org. This site has excellent coverage of environment issues which are of particular concern to island nations. It also has thousands of links to other sites of an environmental nature. I can only imagine how valuable the information on "how to buy an island" could be to a group of New Zealand economists …

[1] www.mfe.govt.nz and www.environment.gov.au are the government sites for New Zealand and Australia.

web-site review by Ian MacDonald
Macdonai@lincoln.ac.nz

CONFERENCE 2001

PRELIMINARY NOTIFICATION

DATES: **Wednesday 27th – Friday 29th JUNE inclusive**

VENUE: Avon River Centra Hotel, 356 Oxford Street, **CHRISTCHURCH**

(*If booking accommodation with Avon River Centra hotel please state it is for the 'Economists Conference' – to receive the negotiated room rate of $90.00 plus gst per night for either single or twin share.)*

REGISTRATION FEE and other charges will be detailed in our registration form which will be sent to all members in January.

The programme is at the planning stage but we will be aiming to inform and foster a dialogue between economists and others interested in economic issues.

REQUEST FOR PAPERS:

You can help by:

1. organising a themed session
2. reporting on completed research
3. reporting on work in progress
4. offering to chair sessions or discuss papers
5. encouraging postgraduates to attend and present papers
6. encouraging recent graduates to enter for the Jan Whitwell Prize

The format for Themed Sessions is up to the organisers.

At this Conference it is planned to introduce a session for postgraduates which is entirely "Work in Progress". We would therefore encourage postgraduate supervisors to get their students to present at this session.

The formal Announcement and Call for Papers together with Procedures for the Submission of Abstracts will be mailed to members in January.

Please address preliminary enquiries to:

Val Browning
Administrator

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111 Cuba Mall
P O Box 568
WELLINGTON

Phone: **04 801 7139**
Fax: **04 801 7106**
E-mail: economists@nzae.org.nz

Application forms for NZAE membership can be obtained from the Administrator

Network Economics

By John Small (jp.small@auckland.ac.nz) and Julian Wright (jkwright@auckland.ac.nz),
CRNEC and Department of Economics, University of Auckland.

In common with all interesting fields of study, the body of economic knowledge is constantly evolving in response to questions raised by real world observations. When rapid social and industrial change generates many economically challenging observations, whole new branches of the discipline may be required to aid our understanding. Network economics, which is one such branch, can be thought of as arising from the wave of deregulation and privatisation activity over the last couple of decades.

Network economics is a collection and refinement of theories that have been developed in many different areas, with the main contributors being IO, regulatory, anti-trust, legal and financial economics. The models used by network economists attempt to explain competition that occurs over physical, electromagnetic and virtual networks. The influence of these networks, which carry telecommunications, broadcasts, energy, payment orders and transport of all types, pervades many aspects of our everyday lives.

As these previously closed industries have been corporatised, privatised, regulated and exposed to competition, economists have been called upon to examine a new set of problems. While some aspects of these problems have cost and pricing implications that are well understood in other environments, the simple solutions are rarely applicable in network economics. To a large extent, this is because the industries are complex structures in which co-operation in a necessary pre-requisite to competition.

To convey some of the flavour of the subject, consider the supply of electricity to your house. You could not receive electricity service unless the retailer that invoices you had first negotiated an "access" agreement with the firm that owns the power lines leading to your house. This agreement sets out the terms and conditions on which electrical energy can be transported across the relevant power lines, and the price of "access" is an important determinant of the retailer's cost structure. The access contract is just one of several in the chain of production that leads from generation to your house however. The wholesale electricity market, studied at CRNEC by Frank Wolak (a Stanford University based associate) and John Small, is a central and rather complex link in this chain.

If we think back just a few years (to before 1998) there was no distinction between a lines company and an electricity retailer – one vertically integrated firm performed both functions for us. These firms had control over a natural monopoly (the lines network in our locality) that was required to deliver a basic service (electricity). By any reasonable assessment, they had a substantial degree of market power. Competition from gas was only feasible in those parts of the country fortunate enough to have reticulated gas and even there, the long service life of appliances (such as water heaters) weakened the extent of direct competition.

Throughout the 1990s we had a policy aimed at curtailing the abuse of market power by these local electricity companies. Known as light-handed regulation, it had three limbs. First, each firm was required to disclose information about its network, including cost, usage and reliability data. Secondly, the Commerce Act (1986) precluded certain anti-competitive practices, such as price-fixing and deliberate foreclosure of markets to competitors. Third, we threatened to introduce more direct regulation if necessary.

Towards the end of the 1990s, it was observed that there was no retail competition, even though firms had been legally allowed to move into each others' territories and compete for customers for some time. It was suspected that at least some of the companies were using a "vertical price squeeze" to protect their retail customers from being lured away by competitors. Broadly speaking, a price squeeze occurs when the price of third party access (by a competing retailer) is set so close to the network owner's retail price for electricity that no other firm can buy access from and compete with the incumbent's retail price. Such a strategy would violate the Commerce Act.

If the disclosed data were sufficient, it would have been possible to establish fairly conclusively whether this was actually happening. Unfortunately they were not, and the existence or otherwise of this practice has never been established. Even given the paucity of data, if the Commerce Commission had been able to inquire into the industry, they could have collected adequate data, isolated the worst culprit from the nearly 40 power companies, and prosecuted them. Ever since Telecom won a high court case against the Commission in 1992, however, it has refrained from conducting such inquiries on its own initiative.

With the primary goal of introducing competition into retail electricity, the previous government forced all local power companies to divest either their retail functions or their lines business. This certainly avoided any suspicion of a price squeeze but did not address the underlying market power issue. Lines companies still control the bottleneck over which all electricity must pass before reaching your house. Recognising this, the most recent policy statement gave the Commerce Commission the task of developing and applying a method of "targeted" price control in this sector. Effectively, this will require the construction of a regulatory model for all lines companies since otherwise the selection of the targets will be based on a biased sample.

This example shows up an important paradox. The extent to which we benefit from retail competition depends on the price (and other conditions) of access to the network. And since a pure network monopolist can be expected to set this price well above cost, the benefits of competition depend on whether and how we control this market power. The "whether" and "how" aspects of this problem, and similar ones in many other industries, are part of the everyday work of network economists.

There is no room here to properly explore the "how" question, which would lead us into the details of regulatory economics. We would need to define the cost of the access service. John Panzar, a regular visitor to CRNEC, is our expert in this area and has taught many Auckland students about the multiproduct cost concepts that are needed. For practical purposes, we also need a valuation of the regulated asset, an estimate of the user cost of capital, depreciation schedules, asset stranding risk factors, tax issues and many other delights. Having isolated a cost, we'd then need to consider how to induce the firm to set prices that are consistent with that cost. This may involve price or revenue caps, dynamic rate-of-return models, or earning-sharing schemes. Alternatively, we might consider one of several auction based regulatory models.

In short, the subject of "how-to-regulate" includes a very extensive and growing body of research. Good regulation is not easy (indeed, some would argue that it is impossible!), though well trained economists can certainly learn the fundamentals quite quickly. Somewhat more difficult is the prior question of "whether-to-regulate" a given service.

This requires us to consider the important trade-off between securing allocative efficiency gains by removing monopoly rent, and providing sufficient incentive for firms to undertake dynamically efficient investment projects. The theory of investment can help us to some extent, and network economists at CRNEC are active in the development of this theory, but some aspects of network pricing complicate the analysis.

To take a concrete example, consider the mobile telephony industry which has been studied at CRNEC by Julian Wright. Every time a call is made to a mobile phone from a fixed line, the mobile network receives a "termination payment" in return for completing the call. Most people agree that termination payments currently exceed the cost of call completion. But in order to estimate the allocative efficiency gains from regulating these termination payments, we need to take into account the other aspects of the mobile phone business.

Each time a mobile network signs a new customer (including a pre-pay customer) they secure what we can loosely describe as a "walking subsidy". This is because other people phone this customer, and when they do so, the mobile network receives a termination payment that exceeds the termination cost. As a result, mobile networks compete more vigorously for customers, using prices that are more attractive than would be the case without the "subsidy".

Eliminating the subsidy would almost certainly slow the growth of mobile penetration by existing suppliers. In addition, the construction of any new mobile network may become uneconomic. Both of these would be dynamic costs of regulating mobiles. Together, they are likely to require that we continue regulating mobiles. But if additional networks are built, competition may well achieve the allocative gains we seek without the need for regulation. This suggests (though it is well short of a proof) that regulating mobiles may be a poor strategy. CRNEC was recently required to confront such issues while under contract to the Ministerial Inquiry into Telecommunications.

Similar pricing practices, in which some users pay more than their directly attributable costs and others pay less, are apparent in many networks. For example, merchants pay most of the costs of credit card services, but cardholders receive many of the benefits. Sellers typically pay an entry fee at car fairs, though buyers clearly benefit as well. Classified advertisers pay most of the costs of newspaper ads, which benefit readers. In each case, network effects mean that both sides of the market benefit from the existence of many participants on the other side – the "thick market" effect. One-sided pricing policies help to create large networks and share the benefits among users.

This brief survey has only covered a few of the issues covered by network economics. The subject is largely motivated by observation of modern business practice, and by a desire to understand its implications for social welfare. Almost inevitably, problems that arise from these sources motivate new theoretical and empirical research topics. And this, of course, is what makes it so interesting.

For further information, see the CRNEC website at http://www.crnec.auckland.ac.nz

Grant Scobie, Mythbuster

Time is too short for us to challenge all our opinions. It might be safest to follow Socrates and decide that we know very little. Failing that, we are reliant on other questioning minds to throw fresh light on the confident pronouncements of the incautious. A "knowledge economy", such as our politicians envisage for us, will be based not on assumptions but on rigorous and ongoing questioning. Economists have a part to play in this process. Of course, if we do it really well it will also raise our status and possibly our incomes, not that any of us are driven by such base motives. With these two contributions Grant Scobie, for one, has provided this service for free for the benefit of *Asymmetric Information* readers. Grant is on email at: grant.scobie@treasury.govt.com

FORGIVE US OUR DEBTS: JUBILEE 2000

The June issue of *Development Forum*, carried an announcement that New Zealand will contribute to a fund for debt cancellation by the Heavily Indebted Poor Countries (HIPCs). The move was applauded by Jill Hawkey, coordinator of Christian World Service.

It seems such a decent and charitable thing to do, that I have no doubt that merely by questioning it, I will be labelled as un-charitable, un-Christian and uncaring. After all, have I not seen the images of wide-eyed, hungry children on the television? And if the debt of their governments is not forgiven, can there ever be any hope for them to escape the poverty in which they are trapped?

Together with all those who have supported the Jubilee 2000 programme to forgive debt, I share the concern for the plight of poor people in the Third World. The issue is not the goal: I am sure we all agree that improved human well-being for all those with miserable lives is a fundamental and proper objective. The real question is: will forgiving debt contribute to the soundly based, widespread development that must eventually underpin the improvement of the human condition? I think not. Let me explain.

There are four reasons which lead me to have severe reservations about the Jubilee 2000 Programme:

1. The HIPC countries already receive in external assistance much more than the cost of debt cancellation. There is a real risk that by cancelling the debt the net amount they receive could be reduced. They could easily finish up with less credit for health or education - i.e. for investments that really matter in the long run. The burden of debt cancellation will not be borne by the rich North - it will fall on other poor countries of the South.
2. By assigning funds to debt cancellation, donor countries will more than likely cut contributions to other countries. In particular the poor countries that have battled to repay loans will be penalised, and those who are in default rewarded. This would indeed be a perverse signal for the donors to send. Why should the poor in those countries be penalised? That, would hardly seem morally defensible.
3. Cancelling debt does nothing to address the underlying lack of sustainable and equitable development polices that lead to bankruptcy in the first place. To achieve real economic growth in the poorest nations will need much more than debt forgiveness. Taiwan and India had the same GDP per capita in 1950. Today millions of Indians struggle in poverty with an income of US$350 per capita while in Taiwan incomes exceed US$25,000. Sound policies, not luck, natural resources or debt forgiveness explain this difference. Some will argue that what is needed are strict conditions on the terms of the cancellation; "we will forgive if your debt if you do a), b) and c). The World Bank and IMF hold half the debt of the HIPCs. Yet the history of conditionality in their lending would do nothing to instil confidence that real changes in a country's anti-development policies would flow from such clauses.
4. If we allow countries to walk away from their obligations, then their chances of becoming credit worthy in future is reduced. And the ability to tap international capital markets is a key building block in real economic development and improved human welfare. Surely we want the HIPCs to move off public charity and become attractive destinations for capital inflows. Sending a signal to international lenders that these countries are allowed to default is no recipe for building a reputation as responsible borrowers who invest the funds productively and pay their loans in a timely manner. These characteristics are essential if the HIPCs are ever to attract the capital they need to develop. It is regrettable when corrupt rulers capture the loan money or invest it unwisely or spend it on the military or monuments to themselves. Lending agencies

should make every endeavour to avoid repeating mistakes of the past. But it is hardly just to now penalise other poor countries to reward the profligate and immoral.

In short, even if the aid funds that will pay for the Jubilee 2000 programme did not come from rearranging existing funding, debt cancellation does nothing to correct the very problems that lead to being a HIPC. Sadly it will reward those whose very behaviour and policies caused the problem in the first place.

I would not argue for a complete ban on ever providing debt relief. All lending agencies must make provision for this. I see a genuine case being made for countries that suffer disasters and need emergency relief - the aftermath of Hurricane Mitch in Honduras of the floods in Mozambique may well constitute a very real case for debt relief. But let us look closely at what the long term effects of the Jubilee 2000 programme might be and who really will bear the cost, before we applaud it as a charitable and Christian act.

- Readers are referred to a forum on debt forgiveness published in ISSUES ANALYSIS, No 8, 28 September, 1999 by the Centre for Independent Studies in Australia.
- Grant Scobie spent over 25 years involved in international development, including as Director General of the International Centre for Tropical Agriculture (CIAT) in Cali, Colombia. He currently serves on the Overseas Programmes Advisory Committee of Save the Children, NZ.

An A-Peel to the Data (or Empirical Musing)

In New Zealand, a small trading nation, we are want to benchmark our performance against that of others. This seems like a fairly sensible thing to do.

You will have noticed, especially during the recent fall in value of the New Zealand dollar, that frequent use is made of the "***banana republics***" as a benchmark. Comments such as "the New Zealand economy is becoming a banana republic" (or some variant) are almost a daily part of fodder for the media.

Actually this cry has been around for years (can anyone give me early citations?). And for years I have wished that we ***would*** perform like a banana republic - if only we could do as well. But I had never troubled myself to check the data - that is until lunchtime today, when I decided that an important role of the economics profession is to provide solid underpinnings for informed public debate on key issues of the day.

So I did the sums ... and I am pleased to confirm that those politicians and media commentators who constantly compare us to a banana republic are on to something. The growth performance of the world's top ten banana exporting countries would be a useful goal to which we might aspire (Table 1).

So I am confident you'll join with me in hoping we *are* becoming a banana republic - not only would we be richer if we could have had their rates of growth, but the climate is a whole lot better too! Does this a-peel to you?

[forthcoming in the Journal of Inconsequential Issues]

Table 1: A Comparison of the Real Annual Average Growth Rates of GDP (%) in the World's Ten Leading Banana Exporting Nations with New Zealand

	1980-1990	1990-97	Simple Average for the 2 periods
Simple Average	2.3	3.8	3.1
Weighted Average	2.2	3.5	2.8
NEW ZEALAND	1.7	3.1	2.4
NZ as % of Banana Republics	73.9	81.5	77.4

Notes:

1. Export data from FAO
2. GDP Growth from World Development Report 1998.
3. The weighted average growth rates are weighted by the share of each of the 10 countries in the total banana exports of these 10 countries (Ecuador,Costa Rica, Colombia, Philippines, Panama, Guatemala, Honduras, Cote D'Ivoire, Thailand and Mexico).

TEACHING TIP?
AN INTERACTIVE GROUP METHOD

By Gary B. Buurman, G.B.Buurman@massey.ac.nz

This tip concerns an interactive method for teaching economics that Stuart Birks and I have recently introduced. It can be used as a supplement to traditional lecture-based teaching. Educationalists frequently say that lectures are one of the least efficient forms of teaching, but have given few clues as to what might serve as more suitable approaches for economics. While interactive teaching methods are not original, we were not aware of this form and have been more than pleased with the results. The approach grew out of the authors' experiences in presenting economics to mid-career policy analysts at the Ministry of Health.

In the past, our attempts at student participation in economics teaching have involved presentation of theory, followed by applications or questions on the theory. More recently we have reversed this process. We have encouraged students to think of possible structures by using class participation at the initial stage, before presenting the theory. An understanding can sometimes be gained by first considering an analogous system, after which the findings can be translated into the environment of interest. Care must be taken to ensure that the analogy is appropriate. This approach can free students from preconceived views on the area and is useful for identifying general principles and issues.

Take the principle that given a zero out of pocket price, consumers will continue to consume until extra units no longer provide them with additional satisfaction. An interactive example used in our Health Economics course that relates to moral hazard and insurance in health care markets is on the Web at http://econ.massey.ac.nz/cppe/papers/sbnzae.htm. Briefly the class (group) is divided into two group members who own a restaurant, the remainder comprising their customers. After the whole group select and put prices on a range of items to form an *a la carte* menu, the customers state what they would buy. We then tell the restaurateurs that they are going to offer a smorgasbord option, so that for some set price, customers can have as much as they want of the items from the menu. Although many variations are possible, the main problem for the restaurateurs is to decide a suitable price to charge. Once the price is set, the customers list the items that they would select from the smorgasbord option.

Invariably the restaurateurs set a smorgasbord price that results in a loss. In making changes to the smorgasbord option to correct for the loss, they end up replicating many policies adopted by insurance companies to deal with the problem of moral hazard (including adverse selection, specific coverage, co-insurance and deductibles).

We thought at first that it would be hard to get such examples, but found that it is actually much easier than anticipated. Similar sessions have been run in a research methods course by first setting up small group brainstorming about data and analysis for problems such as how to identify market structure, or measure income distribution. The students discuss the problem among themselves, then report back. They are then aware of the issues by the time we look at the standard approaches. With principles' material, we have applied the supply/demand model by first discussing topics like jury selection and gender pay equity. In these latter examples, some care has to be taken in structuring group discussion.

We found this approach to be very enjoyable and have been encouraged by the enthusiastic participation of students. This interactive method has added variety to the predominant method of lecturing students and has resulted in livelier sessions which, we believe, improves attention and retention. The standard theory-application approach often gets little response because thinking is already narrowly focused and a right/wrong situation has been created.

It has been particularly interesting to see that students who have completed many standard economics courses are not particularly advantaged. There is a difference between knowing economic theory and determining what economics has to offer in the context of a particular problem. This approach challenges them to identify relevant theory and to recognize the restrictions and simplifying assumptions that the application of theory often imposes.

THE A R BERGSTROM PRIZE IN ECONOMETRICS, 2001

Applications are now being sought for the fifth A R **Bergstrom Prize in Econometrics.**

The objective of the Prize is to reward the achievement of excellence in econometrics. as evidenced by a research paper in any area of econometrics. The Prize is open to New Zealand citizens or permanent residents of New Zealand who, on the closing date of applications, have current or recent (i.e within two years) student status for a higher degree. It is intended that the awardee will utilise the proceeds to assist in financing further study or research in econometrics in New Zealand or overseas.

The Prize can be awarded once every two years. with its value currently being $1000. The selection committee will consist of Professors PC B Phillips, V B Hall and their nominees.

Applications/nominations must include:

- a formal letter of application and, in the case of students, a letter adviser or chairperson
- of nomination by their research
- 4 copies of a research paper written by a single author, reporting original research in any area of econometrics
- a CV and relevant academic transcripts

Applications should be sent, by 15 **March 2001,** to:

Professor V B Hall
School of Economics and Finance
Victoria University of Wellington
P 0 Box 600
NEW ZEALAND

The Prize is supported by funds generously provided by the following sponsors:

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In addition, royalties from the Festschrift Volume Models, Methods and Applications of Econometrics: Essays in Honor of A R Bergstrom, P C B Phillips (ed.), Blackwell, Cambridge MA and Oxford UK. 1993. are being used to support the Prize.

From our foreign correspondents

SASE Conference 2000
London, July

By Lesley Haines
(lesley.haines@treasury.govt.nz)

In July I attended the 12th annual meeting of Society for the Advancement of Socio-Economics' (SASE) in London.

'Socio-economics' sees economics as being embedded in society, polity, and culture. Competition is a subsystem encapsulated within a societal context that contains values, power relations, and social networks.

The 350 strong conference attracted economists, political scientists, geographers, historians, psychologists, philosophers, lawyers and sociologists from continental Europe, the UK, North America and a smattering from elsewhere including 2 other members of NZAE. The uniting theme was "Citizenship and Exclusion".

Papers were wide-ranging, from Garry Lyn of Nebraska's theories of multiple utilities, to Amitai Etzioni on his book "The Limits of Privacy" and David Levi-Faur from the University of Haifa, Israel on global telecoms and electricity regimes. Here I focus on three themes of pertinence to New Zealand, reflecting of course my own sampling biases.

One theme explored was that of increasing employment insecurity in the 1990s. Interestingly, data across the developed countries shows the reverse, with average job tenure increasing in almost all countries, whilst tenure of less than one year decreased. So the very common perception that employment insecurity has increased is not borne out by the aggregate data.

Another theme was the blurring of the labour/capital distinction. In the US, along with the decline of union power and central bargaining, the labour/capital boundary is blurring. Richard Freeman, of Harvard quoted estimates that a quarter of the private non-agricultural US workforce has some stock ownership interest in their business. In addition, many workers have ownership interests in their business via pension funds – he estimates over 50%. Further, 30% of US equity is owned by pension funds. In all these ways, the interests of workers are increasingly aligned with the interests of businesses. This blurring would likely encourage parties to pursue a win/win approach to industrial relations. I suspect the current situation looks very different in New Zealand – and note that much industrial relations debate seems to be premised on zero-sum game assumptions.

Prominent throughout the conference, was the contest between the European and the Anglo-American model. The Anglo-American model has certainly dominated in terms of employment, whilst the European model has generated less income inequality. Peter Hall, from Harvard, asked whether it was finally time to accept the liberal orthodoxy.

Hall approached this using the new economics of organisations, arguing that the core competencies of firms derive from the quality of relationships with stakeholders and staff, and that the character of those relationships is fundamentally determined by the institutional structure of society. He distinguished two ideal types: the liberal market economy, with very flexible factor markets and formal training; from the coordinated market economy, where firms take a longer term perspective made possible by institutional conditions such as extensive cross shareholding, long tenure jobs and industry training.

Hall sees the two types as complementary, with each set of institutions likely to specialise in different types of activity – fluid factor markets giving a capacity for radical innovation since they afford greater managerial autonomy, whereas more rigid markets have real advantages for continuous improvement, where firm specific knowledge really matters.

Discussion centred on whether the 'ideal types' were local maximums, and whether the middle ground (the direction in which most centre-left politicians would like to move), was inferior to both. Some argued that the UK could achieve both jobs and greater equality by following an upskilling strategy, although Hall himself was doubtful.

The 13th Annual Meeting on Socio-Economics will be held at the Faculty of Economics of the University of Amsterdam from June 28 - July 1, 2001. The theme of the meeting will be "Knowledge: the New Wealth of Nations?". For further information see www.sase.org, or contact lesley.haines@treasury.govt.nz for a fuller write up of the 2000 conference.

NABE
Chicago, September 10-13

By Donal Curtin
(economicsnz@xtra.co.nz)

This year's annual meeting of the National Association for Business Economics (NABE) was held in Chicago on Sept 10-13 on the general theme, "The Challenge of Affluence", which looked at the various issues surrounding the record-breaking expansion of the US economy. For this attendee, the title was rather ironic – paying for a Chicago hotel and other conference costs in New Zealand pesos was more the challenge of penury – but the conference was nonetheless worthwhile.

A highlight were the sessions around the existence or significance of the "New Economy". Many of us more traditional macroeconomic types tend to be sceptical of "this time it's different and there is no NAIRU anyway" stories, and I certainly went into the conference subscribing to the view that the recent stunning US productivity record was no more than might be expected from traditional "old economy" relationships between surging investment spending and subsequent output. I came away less sure, and more inclined to at least part of the "new economy" story, based in particular by presentations from Robert McTeer, president of the Dallas Fed (who argued that the new economy paradigm successfully explains benign inflation in sub-NAIRU territory and supports the "benefit of the doubt" stance of monetary policy in the US), and from two authors on technological change, Northwestern's Prof Joel Mokyr (*The Lever of Riches: Technological Creativity and Economic Progress*) and the Dallas Fed's chief economist Michael Cox (*Myths of Rich and Poor*).

As the new joke puts it, what does NAIRU now stand for? Nothing About Inflation is Related to Unemployment. Indeed, incoming NABE president Richard Berner, chief US economist for Morgan Stanley Dean Witter, suggested that if anything the causation runs the other way – exceptionally low unemployment (he instanced companies recruiting outside jails as prisoners are released) is what is driving companies to productivity-enhancing and inflation-subduing investment. Berner was presenting the results of NABE's consensus forecast (it has a forecasting panel of 30 US forecasters), which predicts the proverbial "soft landing" for 2001. Mind you, it made the same (mistaken?) forecast the previous year, too, underestimating – like everyone else – the actual strength of the economy. In response to some scepticism from more bullish attendees, Berner recalled comedian Richard Prior's line, "Who are you going to believe – me, or your own lying eyes?"

Still on the theme of the "new economy", Prof Steven Kaplan of the University of Chicago's Graduate School of Business, was excellent on quantifying the cost savings of new business-to-business ("B2B") technologies, as was his Business School colleague Prof Dennis Carlton on "Old Antitrust Laws for a New Economy". Folks attending the November 3-5 conference on "The Commerce Act at the Turn of the Century" being run by VUW's Institute for the Study of Competition and Regulation will be able to hear Carlton for themselves on two topics (monopolisation, and vertical contracting).

There was a lot more, including sessions on meaningful statistics for the 21st century; a session each on China, Mexico, and Japan; skills seminars on getting your message across when dealing with the media; a cameo appearance by Alan Greenspan (by video, with a eulogy for the economist and commentator Herbert Stein); a keynote speech from 1993 Nobel laureate Robert Fogel on income distribution; a very professional presentation on the policy challenges facing the US administration from Martin Baily, chair of the US Council of Economic Advisers; and, in the "breakfast with a CEO" session, stimulating ideas from Jamie Dimon (CEO, BANK ONE) and David Glass (chairman of the executive committee of the Board, Wal-Mart).

For light entertainment, attendees had the choice of going to the ball game (at US$22 for a good seat, one of the few relatively affordable deals in NZ peso terms), where sadly the local and otherwise in-form White Sox lost to Detroit (as an aside, you can tell the level of speculation in US equities has reached unhealthy levels when the closing levels of the various share market indices are displayed on the baseball scoreboard).

Attendees could also take part in a mock trading session on the floor of the Chicago Mercantile Exchange. Despite excellent tuition from local traders who make a living in the options pits, many of the attendees appeared to suffer instant Possum in the Headlights syndrome and failed to trade, but us Kiwis (even relatively recently arrived ones like your correspondent) are made of sterner stuff. Trading S&P500 options, your correspondent made steady profits in the first trading session, but in the second session went massively short the S&P500 in anticipation of a weaker than expected jobs report…..proving once again how easy it is to make consistently wrong forecasts of a slowing US economy.

Though it provides a good service, NABE's not especially well known out this part of the world: anyone interested, have a look at www.nabe.com or get in touch with me, and I'll be happy to provide some more detail.

research in progress...

Continuing our series on the research projects currently underway in Economics Departments and Economics Research Units throughout New Zealand, in this issue we profile the research currently being undertaken by economists at **Lincoln University**. The objective of this section is to share information about research interests and ideas **before** publication or dissemination - each person was invited to provide details only of research that is **new** or **in progress**.

... in the Economics Department of Lincoln University as at October 2000.

Put together by Caroline Saunders. For further information email addresses go to: http://www.lincoln.ac.nz/comm/

Lincoln has, of course, a vibrant and enthusiastic research programme in theoretical and applied economics ranging from work into natural resource and environmental issues through to macro economics, trade and behavioural economics. There are a lucky thirteen economists profiled below, three of whom arrived in the last year from North America and are broadening our research capacity.

So here goes alphabetically...

First is **Katie (Dr Katie Bicknell)** who is into production economics having this year produced a gorgeous little lady, so congratulations Katie. But Katie is also into economics of bovine TB control and the economics of hazard mitigation (quite appropriate say some older parents!)

Hugh (Dr Hugh Bigsby) is working in the area of forest economics. He is involved in international research relating to risk assessment of quarantine arrangements and also forest valuation, the environmental certification of forest and trade in forest products.

Ross (Associate Professor Ross Cullen) works at a number of research projects in environment and resource economics, often in collaboration with other researchers on campus, or in a CRI. He is currently Director of the AERU (www.lincoln.ac.nz/aeru/). His FoRST funded economic research on threatened species management is now in its third year. Work to date has focused on development of a Cost Utility Analysis and Cost Effectiveness Analysis methodologies to evaluate the productive efficiency of New Zealand threatened species programmes and projects. Ross has recently visited South Australia (check out www.esl.com.au), and Sarawak investigating different modes of delivery of threatened species management. (Just ask Ross about threatened species after his midnight sojourn with a crocodile!)

Fisheries management is a second research focus. A team of Ken Hughey, Ross Cullen, Geoff Kerr and Ali Memon are near completion of an MFish funded project which has developed Decision Support Software to aid in the selection of mechanisms to achieve internalisation of externalities associated with marine fishing. Research Reports from this project can be obtained from (http://www.lincoln.ac.nz/aeru/).

A nationwide survey of 2000 New Zealanders was conducted by Ross, Ken Hughey and Geoff Kerr during February to obtain information on New Zealanders views about the environment, causes of change to the environment and quality of environment management. Data analysis of the 900 plus responses is near to completion.

Peter (Professor Peter Earl) is of course well known internationally for his work in behavioural economics. His most recent publication is a volume jointly edited with Stephen Frowen of UCL: *Economics as an Art of Thought: Essays in Honour of GLS Shackle* (Routledge). Around Easter 2001 his next edited volume will appear: *The Legacy of Herbert A. Simon in Economic Analysis* (2 volumes of reprinted articles selected and introduced by Peter, published by Edward Elgar).

Recently he has, with Simon Kemp from the Canterbury Psychology Department, taken over the editorship of the *Journal of Economic Psychology*, previously based in Bath, UK. This is published by Elsevier and has six issues per year. Peter and Simon are trying to speed up the refereeing process by moving to electronic submissions. They are also increasing the size of the reviews section. The learning curve here is taking unexpected twists: Peter was trying to place a review copy with a seemingly obvious reviewer before the package arrived from Germany, and the potential reviewer accepted the invitation. On receiving the book Peter had a look inside and found that the person in question had a comment in the book on one of the chapters! On writing to him to say that in the circumstances it didn't seem right for the review to come from him, Peter got the reply that the would-be reviewer had no idea his paper was in the book and that it must have been lifted from a conference discussion he'd done of a paper that was also in the book. Ultimately it turned out that the situation had arisen due to a change of editorship mid stream: the original editor had fallen ill and the new one had not been sure where all the correspondence had go to. Book editors and review editors be warned!

Other work Peter is involved with is with Jason Potts at Queensland on consumer behaviour from the behavioural/evolutionary standpoint. Watch out for their joint first paper 'Latent Demand and the Browsing Shopper' soon to appear in Managerial and Decision Economics.

Lana (Dr Lana Friesen) arrived at Lincoln from Simon Fraser in January. Lana has added her expertise on microeconomics and environmental economics to Lincoln. Her main research focus is the economics of law enforcement. Current projects include: creating incentives for industry self-policing of environmental regulations, and evaluating New Zealand's criminal justice system. Lana is also working with Caroline on the trade model in particular the specification of the model to simulate constraints on production and environmental variables... more on that later.

Chris (Dr Christopher Gan) is involved with a number of projects which include; A discrete choice modelling on Environmentally friendly products in New Zealand with Lucie Ozanne (Marketing); Economic growth and development in the Greater Sub-Mekong Region; and Asia Economies focusing on Corporate Governance in Post Asian Crisis, Exchange Control in Asian Economies and Financial Discipline.

Ian (Dr Ian Macdonald) again a recent arrival from Simon Fraser, Vancouver (is there anyone left in Simon Fraser?), he is currently into acquisitions and mergers. Ian will be getting married over the Christmas holidays to Laura Meriluoto (a University of Canterbury economist) - this is a merger NOT an acquisition. He has also purchased a section upon which a well insulated home will be built (the acquisition). In his spare time, Ian's primarily been looking at the optimal design and implementation of environmental treaties.

Minsoo (Dr. Minsoo Lee) also arrived this year from Washington State. Minsoo is working on trade issues in particular free trade agreements between Korea and NZ; estimating elasticities for NZ exports and imports in a model of pricing-to-market; and evaluating the impact of NZ reforms on capital investment especially foreign investment and its impacts on NZ employment. Minsoo also has two articles under review: "On the Duration of Self-Employment: The Impact of Macroeconomic Conditions" at the *Journal of Development Study* and "Duration of self-employment in developing countries: Evidence from small enterprises in Zimbabwe" at *Small Business Economics*.

Amal (Dr Amal Sanyal) is currently working on two areas: corruption and political economy. Most recent publications include Corruption, Tax Evasion and the Laffer Curve in *Public Choice*, (Volume 105, Issue 1/2, October 2000, pp 61-78); Audit Hierarchy in a Corrupt Tax Administration in the *Journal of Comparative Economics*, (Vol. 28, No. 2, June 2000, pp. 364-378); and *From Closed to contestable markets: Product differentiation in Indian durable consumer goods industry*, with M.Patibandla Working paper BPP-70, Haas School of Business, U of California at Berkeley.

Amal also has a couple of titles under review: 'Corruption in Supply Lines', submitted at *Journal of Public Economics* and Multinationals and Spillover: A Study of Post-reform Indian Industry, submitted at *Journal of Economic Behaviour and Organization*.

Right now Amal is trying to model the necessary and sufficient conditions for the emergence of a 'developmental state' in a corrupt economy, however funny that may sound!

Caroline Saunders (author of this) is busy writing submissions to Royal Commission on GMO and wondering if it is modifying her at all! The LTEM (Lincoln Trade and Environmental Model) trade model has been reconstructed to enable it to simulate various scenarios relating to different consumer preferences towards and production impacts of GM against different proportions of GM/GM free production around the world. The trade model is also being developed to do the same for organic and non-organic production.

The main long term focus of Caroline's work, the trade and the environmental model is being expanded to include more... more commodities; more countries; and more environmental factors... the environmental factors which seem to get everyone excited at the moment are greenhouse gas emission and the impact of carbon trading permits on these... any ideas for other commodities; countries or environmental factors are welcome....

Other work Caroline has on the boil (well simmer) are estimating the impact of transaction costs on the optimal policy (a long term project based on EU funding); the development of rural micro business in NZ and the UK (a joint project between Lincoln and that warm place Newcastle University in the UK; ongoing trade policy analysis such as modelling impact of Hungary and Poland entering EU and the impact of EU agricultural policy on WTO and NZ.

Bert (Dr Bert Ward) our resident econometrican is continuing his valuable work on macroeconomic modelling and financial econometric analysis. For example, he recently published a paper on the demand for money in Fiji, has two other papers on macroeconometric modelling of business cycles in Indonesia under review, and is completing an empirical analysis of the relevance of the Lucas Critique for models of the NAIRU in NZ

One of the special achievements this year is **Jason Potts**' book *The New Evolutionary Microeconomics: Competition, Competence and Adaptive Behaviour* (Elgar, Nov 2000) based on his Lincoln PhD which shared the 2000 Schumpeter Prize.

And of course we are terribly proud of **Wai Kin Choy** winning the Jan Whitwell prize... although he did leave to work for Treasury!

...about NZAE

The New Zealand Association of Economists aims to promote research, collaboration and discussion among professional economists in New Zealand. Membership is open to those with a background or interest in economics or commerce or business or management, and who share the objectives of the Association. Members automatically receive copies of New Zealand Economic Papers, Association newsletters, as well as benefiting from discounted fees for Association events such as conferences.

Membership fees: full member: $90
graduate student: $45

If you would like more information about the NZAE, or would like to apply for membership, please contact:

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email: economists@nzae.org.nz

[NOTE THE NEW EMAIL ADDRESS]

W*elcome!* *to the following people who have recently joined* ***NZAE...***

Adrian Slack (Health Services Research Centre); **Joanna Smith** (NZ Institute of Economic Research); **Wai Kin Choy** (The Treasury); **Sarah Box** (The Treasury); **Benedikte Jensen** (The Treasury); **John West** (Christchurch College of Education); **Allan Rae** (Massey University); **David Rea** (Ministry of Social Policy); **Dominick Stephens** (Reserve Bank of NZ); **Dean Minot** (Reserve Bank of NZ); **Christopher Plantier** (Reserve Bank of NZ); **Anna Kulhavy** (Reserve Bank of NZ); **Christian Hawkesby** (Reserve Bank of NZ); **Paul Dickie** (Victoria University of Wellington).

WEB-SITE

By the time you read this newsletter NZAE should be on-line!!

The web-site address is: http://nzae.org.nz/