ECONOMICS

REPORT ON THE
25th PhD CONFERENCE IN
ECONOMICS AND BUSINESS

by

Kenneth W Clements

and

Izan H Y Izan

Business School
University of Western Australia

DISCUSSION PAPER 13.05
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1 We thank Grace Gao for her help in preparing this report.
CONFERENCE REPORT

The PhD Conference in Economics and Business is an annual event that brings together students and academics from most Australian universities, as well as some overseas institutions. It was first initiated in 1987 by the Business School of the University of Western Australia. The conference is currently co-organised by the Australian National University, the UWA Business School, the School of Economics, University of Queensland and the Faculty of Business and Economics, Monash University. The location of the conference alternates between these four universities.

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

The format of the conference has remained true to the original concept whereby each student is assigned a discussant to comment on their research paper. The discussants include an impressive list of senior academics with extensive experience in supervision as well as senior staff from the Treasury and the Reserve Bank. They are specially chosen to match the subject matter of the papers. This highlights an important feature of the conference which is the outstanding quality of the feedback given to the students by the discussants. Additionally, the conference is a productive combination of research in both economics and finance.2

The 25th PhD Conference was held at the UWA Business School in November 2012 and involved 30 students from 15 different universities and 30 discussants from 11 different universities and government institutions throughout Australia and New Zealand. A number of extremely interesting papers were presented and it was clear from the quality of the students and discussants that the future of research in economics and finance is indeed exciting.

The detailed program and abstracts are given later in this report.

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

- **Best Student Presentation – Economics:**
  Jason Collins (University of Western Australia)

- **Best Student Presentation – Finance:**
  Jue Wang (University of Sydney)

- **Best Discussant-Economics:** Shared between:
  Rodney Strachan (Australian National University)
  Deborah Cobb-Clark (University of Melbourne)

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• **Best Discussant-Finance:** Shared between:
  Susan Thorp (University of Technology, Sydney)
  Terry Walter (SIRCA)

Two special prizes were awarded to the student with the most potential chosen by Harry Clarke (La Trobe University) and Izan (University of Western Australia). The winners were:

• **The Student with Most Potential – Economics:**
  Jason Collins (University of Western Australia)

• **The Student with Most Potential – Finance:**
  Zhangxin (Frank) Liu (University of Queensland)

Table 1 gives the prize winners from the earlier conferences.

Mei Han was the Conference Coordinator and she did an outstanding job in dealing with all aspects of the arrangements and ensuring that the conference participants were well catered for. Mei Han was assisted by Siew Hong, and Grace Gao, Liang Li, Tom Simpson and Yuewen Xiao. We would like to extend our sincere thanks to all members of the conference team for their hard work.

The Conference would not have been possible without the generous financial support of a number of sponsors to whom we are most grateful. The names of the sponsors are listed below. On behalf of the organisers, we would like to acknowledge the sponsors.

The PhD Conference Hall of Fame was created in November 2007 on the occasion of the 20th anniversary of the Conference to acknowledge people who have made outstanding contributions to the conference over the long term. Ken Clements was inducted in 2009, and at the 25th Conference, a further five members were inducted: Stephen King, Paul Frijters, Paul Kofman, Tom Smith and Izan. Current members of the Hall of Fame are listed below and we would like to thank them for their devotion to the Conference.

<table>
<thead>
<tr>
<th>Ken Clements</th>
<th>Richard Heaney</th>
<th>Jonathan Pincus</th>
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<tr>
<td>University of Western Australia</td>
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<td>Robert Gregory</td>
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The Australian National University will host the 2013 Conference.

Izan
Ken Clements
Conference Convenors
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<tr>
<th>Prize</th>
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<tr>
<td>Best Presentation in Economics</td>
<td>Collins, J.</td>
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<td>The Student with Most Potential in Economics</td>
<td>Collins, J.</td>
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<td>Liu, F.</td>
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<td>Strachan, R.</td>
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<td>Fiuza de Raganca, G.</td>
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PROGRAM

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Phil Dolan
Dean, Business School
University of Western Australia

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Jason Collins, University of Western Australia
Sexual Selection, Conspicuous Consumption and Economic Growth

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Gigi Foster, University of New South Wales

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On Market States and the Value of the Actively Managed Mutual Fund Industry

Davin Wang, Monash University
Do Diversified and Focused Firms Have Different Growth Options? Evidence from Total Asset Growth

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Wayan Arsana, University of Western Australia
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Yingying Lu, Australian National University
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Simon Grant, University of Queensland

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Egon Kalotay, Macquarie University

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Ghaith Al-Eitan, Curtin University
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Rodney Strachan, Australian National University

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Mohd Tanvir Ansari, Queensland University of Technology
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Luciana Fiorini, University of Western Australia

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Varang Wiriyawit, Australian National University
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**Xingang (Singa) Wang**, University of Auckland
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Deborah Cobb-Clark, University of Melbourne

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**Yang Chang**, University of Technology, Sydney
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**Lucille Wong**, Griffith University
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Ranjan Ray, Monash University

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**Zhangxin (Frank) Liu**, University of Queensland
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Mohd (Ismail) Khan, La Trobe University
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Jue Wang, University of Sydney
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Zhanar Akhmetova, University of New South Wales
ABSTRACTS

Sexual Selection, Conspicuous Consumption and Economic Growth

Jason Collins
University of Western Australia

The evolution by sexual selection of the male propensity to engage in conspicuous consumption contributed to the emergence of modern rates of economic growth. We develop a model in which males engage in conspicuous consumption to send an honest signal of their quality to females. Males who engage in conspicuous consumption have higher reproductive success than those who do not, as females respond to the costly and honest signal, increasing the prevalence of signalling males in the population over time. As males fund conspicuous consumption through participation in the labour force, the increase in the prevalence of signalling males who engage in conspicuous consumption gives rise to an increase in economic activity that leads to economic growth.

The Impact of Time Consistent Emissions Taxes on Investment in Clean Technology: An Experiment

Soo Keong Yong
University of Queensland

This paper uses laboratory experiments to examine the effects of two different approaches to implement an emission tax on inducing firms to invest in clean technology R&D: a time consistent tax, and a precommitment tax. For both forms of tax regime, we consider noncooperative and cooperative research arrangements. Also, we incorporate R&D spillovers across all treatments. We find that R&D investment is significantly higher under time consistent tax in both forms of research arrangement. However, allowing for such non-binding chat communication is sufficient for firms to converge towards R&D cooperation under both emission tax regimes.

On Market States and the Value of the Actively Managed Mutual Fund Industry

George Jiaguo Wang
University of Melbourne

This paper presents a novel approach that can be used to quantify the economic value of mutual funds’ conditional performance in bear market states. After accounting for the value of fund managers’ insurance-like conditional performance in bear states, this study finds that the extra benefit arising from active mutual fund management in bad times offsets its cost at the aggregate level. Further, in terms of overall utility, no evidence is found that mutual fund investors, as a group, are suffering significant losses relative to CAPM, Fama-French-three-factor, or Carhart-four-factor benchmarks.
Do Diversified and Focused Firms Have Different Growth Options?  
Evidence from Total Asset Growth

Davin Wang  
Monash University

Do diversified and focused firms have different growth options? Focused firms yield economically and significantly higher returns than diversified firms in periods of low growth, with little difference in returns during periods of high growth. The findings are robust to alternative diversification measures and persistent across portfolio variations. Overall, the evidence suggests that diversified firms have growth options with lower systematic risk, thus resulting in lower future returns. Differing growth options between diversified and focused firms may explain the diversification discount, and more generally, the negative relationship between total asset growth and stock returns known as the asset growth effect.

Efficiency, Technical Change and Productivity Growth in Indonesian Regions

Wayan Arsana  
University of Western Australia

This paper aims to examine productivity growth across different Indonesian regions by extending the conventional Malmquist productivity index (MPI) into the meta and sequential production frontier concepts. These approaches use data envelopment analysis (DEA) technique to estimate productivity growth and its components. The metafrontier index can be decomposed into efficiency, best practice and technology gap changes, while the sequential index can be broken down into efficiency and technical changes. The empirical estimation is based on Indonesian regional data of twenty six provinces between 1985 and 2010. In order to estimate the metafrontier, the provinces are grouped into three different clusters. The results estimated through these multiple approaches are then compared. Moreover, a simple framework is proposed to describe the dynamic of Indonesian regional productivity growth and examine how the DEA-MPI concept can be related to innovation-based economic growth theory.

Private Externalities and Environmental Public Goods:  
Politico-economic Consequences

Yingying Lu  
Australian National University

We study an overlapping-generations model in which private decisions have externalities on a public good—e.g. the environment. We show that inefficiently excessive outcomes for the environmental good may emerge, as a result of political distortion. Further, the politico-economic equilibria imply that the relationship between average income and the environment may be positive, negative, or neither. These depend on the emergent politico-economic equilibria, which in turn depend on model primitives (e.g. the size of the externality effect). These equilibria provide a possible cross-country interpretation for existing disagreements in empirically estimated relationships between average income and environment.
The Effect of Substantial Holdings on Capital Structure and Dividend Policy
Rowan Clarke
University of Western Australia

This paper analyses size and dispersion in a firm’s substantial holders and its impact on capital structure and dividend policy. In an agency relationship, substantial holders have the potential to influence decision-making by management. Prior evidence has demonstrated an association between the presence of a substantial holder and corporate policies of management. Recently, the size and dispersion of a firm’s substantial holders has been shown to affect firm value (Konijn, Kraeussl and Lucas, 2011). This paper extends the literature on substantial holders by examining whether this impact on a firm’s monitoring environment also affects capital structure and dividend policy of management.

Equity Home Bias - A Global Perspective
Raja Mukherjee
University of Western Sydney

This paper provides a global perspective on equity home bias using MSCI country and world index (returns) data for 39 countries for the period 2000-2009. Two measures of home bias, namely, diffuse priors based I-CAPM measure, and, Bayes-Stein shrinkage based mean-variance measure are used. The I-CAPM is tested and holds for the country sample. The estimated optimal equity investment weights arising from the single factor ICAPM prove highly sensitive to the world market excess returns. The Bayes-Stein shrinkage estimator reduces parameter uncertainty through Bayesian shrinkage of the equity investment allocation parameters. Shrinkage estimation results in more acceptable values of home bias, particularly for the USA. We find that developed economies in the Euro zone display lower equity investment home bias compared to the emerging economies. Australia displays moderately high equity home bias which is similar to that of Canada, Japan and USA, and higher than that of the developed Euro zone economies. The system GMM procedure of panel analysis reveals that country idiosyncratic risk, country financial structure and country institutional quality constitute the three most important determinants of global equity home bias over the last decade. Policy options and their implications are discussed.

A Dynamic Model for Determining Inward Foreign Direct Investment in Jordan
Ghaith Al-Eitan
Curtin University

Foreign direct investment has become an increasingly important channel for developing countries to enhance their economic and financial systems. A significant part of economic and financial research is the view that a host country's risks affect investment inflows. The purpose of this paper is to test the argument that Jordan’s country risk, stock market price and macroeconomic variables determine inward FDI in Jordan. Models are formalised based on the theory of foreign direct investment and the missing gaps in the literature. This study covered the period from 1996 to 2010. Monthly data of collective country risk, macroeconomic variables and the price of stock market sectors were obtained from risk rating agencies, Central Bank of Jordan and the Jordan Securities Commission respectively. Moreover, the following methods are applied: Ordinary Least Squares (OLS) regression analysis (unlagged monthly data), Co-integration and exogeneity analysis based on multivariate models (lagged monthly data) such as vector autoregressive (VAR) and Granger Causality. Based on the analysis, the results showed that Jordan economic risk, the price of stock market sectors and two of the macroeconomic variables (inflation and GDP) significantly caused inward FDI in Jordan. Also, the variables appear to have a long run relationship. Some strategic implications have been drawn in conclusion for FDI attraction policy in Jordan.
Do Policy-Related Shocks Affect Real Exchange Rates of Asian Developing Countries?

Taya Dumrongrittikul
Monash University

This paper examines real exchange rate responses to shocks in its determinants and monetary policy for eight Asian developing countries. The analysis is based on a panel Bayesian structural vector error correction model and the shocks are identified using sign and zero restrictions. We find that trade liberalization generates depreciation and higher government spending causes persistent appreciation. Traded-sector productivity gains induce appreciation; however, their effect is short-lived. Real exchange rate response to unexpected monetary tightening is consistent with the Dornbusch overshooting hypothesis and long-run neutrality of monetary policy. Strong evidence suggests that trade policy is a powerful device for driving exchange rate movements.

Bank Opacity and Information Asymmetry around Quarterly Earnings Announcements

Mohd Tanvir Ansari
Queensland University of Technology

This study examines the relationship between information asymmetry (bid-ask spread) and various activities that are widely thought to be responsible for bank opacity. Using a sample of 275 U.S. commercial banks listed on the NASDAQ/NYSE/AMEX from Q4-1999 to Q2-2012, I find various on- and off-balance sheet activities of banks to be positively related to information asymmetry – suggesting these are sources of bank opacity. Banks’ off-balance sheet (over-the-counter) derivative exposure stand out as particularly important – their economic impact on information asymmetry is significantly higher than for on-balance sheet activities. The evidence found in this study supports regulatory efforts to push banks into moving their on- and off-balance sheet trading activities onto clearinghouses, where prices can be monitored.

CEO Turnover, Earnings Management, and Big Bath

Chia-Feng Yu
Monash University

This paper provides theoretical explanations for a 'big bath', a phenomenon where an incoming CEO manipulates a company's income statement to make poor results look even worse. In a game among an outgoing CEO, an incoming CEO, and outside investors, we show that a big bath can be sustained as an equilibrium outcome under some conditions. One central result is that when earnings report issued by the outgoing CEO is sufficiently low, the incoming CEO's reporting strategy will feature a big bath. A big bath, on one hand, has a direct adverse effect on the incoming CEO's payoff from reported earnings and stock price. On the other hand, it can save risk premium paid to investors. If the saving on risk premium outweighs the direct drop in payoff from reported earnings and stock price, a big bath will be induced in equilibrium. The model contains several empirical predictions, including (1) public regulations that increase earnings management cost for the incoming CEO reduces the likelihood of a big bath provided that the CEO compensation is not totally stock-based; however, the effect of public regulations can be muted if the CEO compensation is totally stock-based (2) a big bath is more likely to occur under stock-based incentive schemes than under accounting based incentive schemes (3) a big bath is most likely to occur when the outgoing CEO is forced to leave and the incoming CEO is promoted internally, and it is least likely to occur when O peacefully leaves the firm and N is recruited externally.
Implications for Welfare Analysis of Structural Parameter Estimation Bias: An Example of a Simple RBC Model

Varang Wiriyawit
Australian National University

Welfare estimates are sensitive to calibrated or estimated parameter values. Significant biases in structural parameter estimates may lead to biases in welfare estimates and subsequently affect policy conclusions. Using a simple RBC model, we investigate the relationship between the bias in welfare cost estimates and the biases in structural parameter estimates and find the bias varies over the parameter space. We show that, by calibrating some parameters and estimating others, there is not a simple relationship. In our model, the bias in welfare estimation is increased if we assume too high a depreciation rate or too low a capital share.


Jasmine Zheng
Australian National University

This paper analyses the role monetary and fiscal policy shocks play in explaining US macroeconomic fluctuations using a Factor Augmented Vector Autoregression (FAVAR) framework. Identification is achieved via the sign restrictions methodology as in Dungey and Fry (2009) and Fry and Pagan (2007), with the federal funds rate ordered last. Several findings emerge from this study. The impact of the government spending shock on output is longer lasting and explains more variability in macroeconomic variables compared to a government taxation revenue shock or monetary policy shock. There is also evidence of an increase in government spending crowding out private activity, leading to an overall decline in output. The potential of the crowding out effect taking place suggests that more government spending does not necessarily stimulate greater economic activity, emphasising the need for well thought out fiscal packages.

Government Ownership, Regulation, Economic Development and Bank Stability-International Evidence

Linh Nguyen
Monash University

This paper examines the association between government ownership and bank stability over 1997-2010 across a sample of 103 countries. With a continuous variable to proxy for government ownership, our system GMM estimates indicate that the association between government ownership and bank stability depends on a country’s economic development and regulatory quality. In developed, high income countries, degree of government ownership is positively associated with bank distance to default. Contradictory findings are reported for developing, middle and low-income countries. Irrespective of country classification used, bank liquidity and interest margin are negatively associated with bank stability. In contrast, bank distance to default is positively associated with efficiency and bank capitalization.
Pick Your Poison: Systemic Risk and Banking Activity

Sidharth Sahgal
University of New South Wales

Using an international sample of large banks over the years 1996-2010, this paper investigates the relationship between systemic risk and bank activity while considering the concentration of the banking system. We find that although banks in countries with highly concentrated banking systems derive a greater proportion of their revenue from traditional interest income, they have higher levels of systemic risk overall. Non-interest income for these banks is correlated with lower levels of systemic risk. In less concentrated banking environments, non-interest income has the opposite effect and is correlated with higher levels of systemic risk. While improving the risk-adjusted profitability of banks before the financial crisis, these activities failed to provide diversification benefits during and after the crisis. Our results show that both traditional and non-traditional banking pose their own risks, and regulation of non-interest income by itself is not a panacea to decrease the systemic riskiness of banks.

The Political Economy of Migration in China

Debayan Pakrashi
University of Queensland

Large differences in hourly compensation exist between the natives (urban hukou holders) and rural to urban migrants of the Chinese cities, a third of which cannot be explained by any variation in observable characteristics. This paper attempts to explain the differences using a Tiebout-esque political economy model of migration in which rents are appropriated from the migrants by the rent-seeking bureaucrats and redistributed among the politically influential groups - the urban hukou holders. We derive conditions under which the competition between regions for rents tend to lead to a bias against migrants and those that induce better treatment than their urban counterparts with the same characteristics.

Longitudinal Analysis of Assimilation, Ethnic Capital and Immigrants’ Earnings: Evidence from a Hausman-Taylor Estimation

Xingang (Singa) Wang
Auckland University

In this paper we examine the economic performance of immigrants using a panel/longitudinal approach. We extend the literature by incorporating the effect of ‘ethnic capital’ in our analysis in the Australasian setting. To construct social and resource networks for immigrant groups, we adopt the ‘spatial model approach’ to account for ethnic concentration and networks. We incorporate different measures of ethnic capital, in particular, ethnic group economic resources and spatial concentration. Moreover, we employ the Hausman-Taylor estimation method (1981) to account for potential endogeneity in the panel setting to examine the effects of ethnic capital and human capital using an eight-year Australian panel data set (HILDA). We find that immigrants tend to assimilate over time, but this effect is significantly affected by immigrants’ ethnic group local concentration and resources. We further show that controlling for ethnic capital enhances the analytical explanation of the assimilation model.
Carry Trade and Liquidity Risk: Evidence from Forward and Cross-Currency Swap Markets

Yang Chang
University of Technology, Sydney

This study empirically examines the effect of foreign exchange (FX) market liquidity risk and volatility on the excess returns of currency carry trades. In contrast to the existent literature, we construct an alternative proxy of liquidity risk - violations of no arbitrage bounds in the forward and currency swap markets. We also use volatility smile data to capture FX-market specific volatility. The sample data cover periods both before and after the Global Financial Crisis (GFC). Both proxies are significant in explaining the abnormal returns of carry trades, particularly after the GFC. Our findings provide substantial evidence that uncovered interest parity (UIP) puzzle can be resolved after controlling for liquidity risk and market volatility.

Macroeconomic Risk Factors and Momentum Profits

Yaqiong (Chelsea) Yao
University of Melbourne

Macroeconomic risk continues to be proposed as a source of stock price momentum. For instance, Liu and Zhang (2008) claim that the growth rate of industrial production “plays an important role in driving momentum profits”. This paper shows that the growth rate of industrial production is not the source of momentum profits. Because recent winners and recent losers have nearly identical loadings on the growth rate of industrial production outside of January, there is essentially a net zero factor loading in the 11 months a year when momentum does exist—and a difference only in January, when losers massively outperform winners. We also document the fact that the growth rate of industrial production is not a priced risk factor outside of January. Moreover, application of the same methodology to all factors reveals no evidence that an explanation for momentum profits lies in macroeconomic risk.

Australian Retirees' Preferences between Consumption, Government Pension, Bequest and Housing

Jie Ding
Macquarie University

This paper model the financial preferences of Australian retirees with a life-cycle utility model, incorporating Australia's age pension means testing, bequest motive and housing decision. The model has a semi-analytical solution and its parameters are calibrated to the ABS data of household expenditure survey and survey of income and housing. The calibrated model reasonably explains the financial behavior of surveyed households.
An Analysis of Australian Consumption Patterns

Lucille Wong
Griffith University

The objective of this paper is to analyse the consumption patterns of ten broad groups, food, beverages, clothing, health, housing, durables, transport, education, recreation, others, spanning the period 1986 to 2010, for Australia as a whole and for the six Australian states. This study will also consider the conditional demand of the sub-groups within the broad group of food utilizing different demand systems and estimate the demand elasticity for those goods. Using simulations and other measures, a comparison and evaluation of the performance of these demand systems will be made to determine the best system(s) to model Australian consumption patterns.

Estimating the Value of Patent Rights in Australia

Changtao (William) Wang
University of New South Wales

This study consolidates the original patent renewal data in Australia, which is essential for estimating patent values using the patent renewal framework initiated by Pakes and Schankerman (1984). Also, improvements to the model have been made to fit the data characteristics and ensure quality of results. Finally, it successfully estimates the value of patent rights in Australia, and finds evidence of inter-cohort, international and inter-sector differences in patent values, and structural changes in the patterns of patent values over time among sectors. As a secondary achievement, this study demonstrates a way of estimating the depreciation rate for intangibles in Australia.

Volatility Indices and State-Preferences Pricing

Zhangxin (Frank) Liu
Australian National University

This paper is the first to use a state-preference pricing approach with Black-Scholes analytic second derivatives to develop a forward-looking volatility index (FIX), as a forecast of the next 30-day market risk-neutral volatility. Using S&P 500 index (SPX) option prices from 1996 to 2010, we find that FIX is 99% correlated with the current CBOE volatility index (VIX) and it is a better estimator for the short term realized volatility of SPX returns than VIX. Our result is robust to different measures of realized market volatilities. We argue that VIX is not a model-free measure and due to the potential noise issues from the thinly traded deep out-of-the-money (OTM) options, VIX may over-estimate the future volatility. This is supported by our results. Moreover, unlike VIX which is affected by the availability of strike prices and may be manipulated by trading deep OTM put options, we show that FIX is more difficult for manipulation and less data dependent. We also show that FIX provides a better volatility forecast than other alternative measures, such as the squared root of GARCH (1, 1) variance. Our results reinforce previous findings in the literature that at-the-money Black-Scholes implied volatility is an efficient and more superior forecast of subsequent realized volatility.
A General Equilibrium Analysis of Alternative Scenarios for Food and Energy Subsidy Reforms in Iran

Mohd (Reza) Gharibnavaz
La Trobe University

In 1996 the government of Iran submitted its application to join the World Trade Organization (WTO). To meet WTO obligations, the government has launched several market-oriented reforms to deal with existing distortions such as heavily subsidized food and petroleum products. From the beginning of 2002, the Iranian government committed itself to implementing subsidy policy reform intended to adjust distortions and structural imbalances. However, the impact of the reform on needy and vulnerable households was a source of concern. In this paper we use the GTAP7inGAMS static CGE model with 20 household types in rural and urban areas, grouped according to income, to simulate the welfare impacts of subsidy policy reform in Iran. The static GTAP7inGAMS model is calibrated using the GTAP 7 database representing the world economy for 2004. Subsidy rates were adjusted by incorporating protection data prepared by Iranian statistical centers, and the Petroleum and Coal Products (p-c) sector in the GTAP7 database was disaggregated into four energy commodities: gasoline, diesel, kerosene and fuel oil, since the initial level of subsidies on these energy commodities reported by Iranian statistical centers are quite different from each other. Results indicate that removing food and energy subsidies and introducing compensating direct income payments to all income groups would yield welfare gains in all income households reflecting the high level of distortions.

Optimal Water Allocation for Rice Production under Climate Change

Mohd (Ismail) Khan
La Trobe University

Climate change exacerbates the water allocation decisions that affected rice production and consumption in Bangladesh. A dynamic irrigation and rice production model (DIRPM) is developed based on stochastic dynamic programming to investigate the optimal water use decision for rice production considering climate change and increased population. The main objective of this paper is to apply the DIRPM to make water use decisions that maximize net social return in the Chandpur Irrigation Project (CIP) of Bangladesh for a 30 years planning horizon. Results from the model suggest that net social return from rice production can be increased using the given amount of irrigation water even in the context of climate change. Moreover, the net social return will be increased with the high population growth rate or considering a low discount rate.

Auction versus Posted Price and the Informed Seller Problem

Peyman Khezr
University of Sydney

This paper studies and compares some commonly observed selling mechanisms for a seller of an item who has private information that is payoff relevant to prospective buyers but where the seller is unable to credibly reveal her information to the buyers at no cost. We first study the static context in which there is a fixed number of buyers. We give conditions under which it is optimal (within the class of mechanisms we study) for the seller to sell via an auction with a secret reserve price. Second, we study a dynamic model with finite horizon one, in which prospective buyers arrive over time. We give conditions under which a posted price can result in a higher payoff than an auction.
A Structural Approach to Estimate Market-Assessed Sovereign Credit Risk

Jue Wang
University of Sydney

This paper explores the economic determinants of market-assessed sovereign risk of members of the European monetary union. The Merton structural model provides a theoretical background and we make use of publicly available government financial statistics as well as national stock market volatility. We show a high degree of association between our modelled spreads and credit default swap spreads using volatility estimates based on option implied and generalized Pareto distribution. The non-linear model derived from structural theory is shown to outperform a benchmark linear regression model. These results provide policy makers and regulators with a set of insights into the factors which influence credit market activity enabling them to take an informed approach to policy and regulatory settings.

Equity Weighting in the Economic Evaluation of Healthcare

Richard Norman
University of Technology, Sydney

Outcome measurement in economic evaluation of healthcare considers outcomes independent of to whom they accrue. This paper reports on a discrete choice experiment eliciting population preferences regarding the allocation of health gain between groups of potential patients. A random-effects probit model is estimated, and converted into equity weights for use in economic evaluation. On average, the modelling predicts relatively high social value on health gains for non-smokers, carers, those with a low income and those with an expected age of death less than 45 years. For decision-makers, whether a formal equity weighting system represents an improvement on more informal approaches to weighing up equity and efficiency concerns remains uncertain.

A Structural Analysis of the Mining Activities at a South African Vanadium Mine

Colette Marais
University of Melbourne

Natural resource studies have dwindled in recent years with little attention being paid to this industry despite its pivotal role on the world’s financial exchanges and its ability to thrive while the rest of the economy falters. Economics has not developed a model of mining that both captures the economic constraints on mining firms, as well as the geological nature of ore reserves. In this paper I propose a structural model of firms per period decisions regarding where to mine, how much to produce, and the optimal levels of inventory to maintain. I perform this analysis with the use of detailed firm level data relating to a Vanadium mine in South Africa. This paper is unique in the way that it incorporates both geological and economic uncertainty into the firms decision making process with the use of structural techniques. This paper is the first to develop a framework to consider the inventory behaviour of a firm with endogenous inputs.
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