



THE UNIVERSITY OF
WESTERN AUSTRALIA



THE
AUSTRALIAN
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UNIVERSITY

ECONOMIC RESEARCH CENTRE
Department of Economics
University of Western Australia

CENTRE FOR ECONOMIC POLICY RESEARCH
Research School of Social Sciences
Australian National University

GRADUATE SCHOOL OF MANAGEMENT
University of Western Australia

REPORT OF THE 2001

PHD CONFERENCE IN ECONOMICS AND BUSINESS

7-9 November, 2001
UWA, Perth

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Conference Convenor: Ken Clements

Conference Coordinator: Sandra Pollock

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THE REPORT

The 2001 PhD Conference in Economics and Business was held at the University of Western Australia in Perth from 7-9 November, 2001. It was the fourteenth in this series of conferences and is a joint venture between the Economic Research Centre at the University of Western Australia and the Centre for Economic Policy Research at the Australian National University. This year, for the first time, the Graduate School of Management at the University of Western Australia also participated, with students in Marketing and Management presenting papers at the conference. Financial support was also obtained through the ARC-ANZAM research initiative to support the extension of the conference to include such students.

The objective of the PhD Conference series is to help with the training of promising doctoral students in economics and business 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. Furthermore, it acts as an informal job market in which the students can demonstrate their abilities and attract attention to their prospects.

This year 40 students presented papers, 33 from Australian universities, two from the University of Nottingham in the UK, one from the University of Chicago, USA, one from Queen's University in Canada, one from SungKyunKwan University in Korea and two from Victoria University of Wellington in New Zealand. The papers covered a diverse range of topics including monetary policy, frontiers of finance, marketing and management, international finance, productivity, finance and emerging markets, public economics, micro modeling, pricing in financial markets, exchange rates, labour economics, macro modeling and banking, development economics, valuation and information, corporate value and financial decisions, applied econometrics, and investment and CGE modeling. Overall, the papers were of a very high standard and all the students are to be congratulated for their efforts.

As in previous years, each student was assigned a discussant who read the student's paper in advance and prepared a written set of comments. The discussants were drawn from a wide range of Australian universities, with one discussant coming from SungKyunKwan University in Korea. Senior economists from the Productivity Commission and the Reserve Bank of Australia also acted as discussants. We would like to extend our thanks to all the discussants whose participation and hard work contributed greatly to the success of the conference. Thank you also to their institutions for providing staff with time to attend.

In addition to the students, discussants and chairpersons, the conference was attended by a number of representatives from sponsoring organisations. From the feedback received, these delegates enjoyed the conference and found it to be an interesting and worthwhile experience.

The conference began with a very enjoyable barbecue on the Wednesday evening and was officially opened the following day by the Executive Dean of the Faculties of Economics & Commerce, Education and Law, Paul McLeod. Lisa Cameron from the University of Melbourne gave the Invited Lecture. Lisa delivered a very interesting presentation entitled "Staying Sane While Doing Economics: Enlivening the Dismal Science" which stimulated considerable debate. The conference concluded with a dinner on the Friday evening at Tawarri Reception Centre. The after dinner address was given by Ken Clements from UWA who spoke on the challenges of fundraising for the conference.

Several prizes were awarded to participants. Poynton and Partners sponsored prizes for the Best Papers in Finance, with \$700 for the winner and \$300 for the runner up. A prize of \$500 for the Best Paper in Industrial Economics was sponsored by NERA. An additional prize of \$100 worth of books was donated

by McGraw-Hill Australia for the student with the most potential. In keeping with tradition, the prizes for best student presentation and best discussant were decided by a ballot.

The prize for the Best Paper in Finance was awarded to Paul Duncan from the University of Newcastle for his paper entitled “The Pricing of High Yield Equity Notes”. The award for runner up went to Peter Pham from Monash University for his paper entitled “Optimality in Ownership Structure of Newly Listed Companies – Evidence from Director and Substantial Shareholder Trades in Australia”. The Poynton and Partners prizes were presented by Tracey Horton of Poynton and Partners, and a UWA economics graduate. Stefan Dodds, from Queen’s University, Canada, was the winner of the Best Paper in Industrial Economics for his paper entitled “Monitoring and Privacy: When Private Information is a Public Good”.

The prize for the Best Student Presentation was awarded to Remy Cottet from the University of Sydney for his paper entitled “Bayesian Modeling and Forecasting of Intra-Day Electricity Load”. The runner up was Gudrun Meyer-Boehm from Griffith University for her presentation “Has Convergence been Replaced by Divergence? Labour Productivity in Specific Industries of the States of the USA, 1982-1998”. The Best Discussant award went to Heather Anderson from Monash University, and the runner up was Richard Heaney from ANU.

Choosing the Student with the Most Potential proved to be a difficult decision. After much deliberation by Bob Gregory, the field was narrowed down to Alex Joiner from Monash University (for his paper “Monetary Policy Effects in an Australian Bayesian VAR Model”), Yihui Lan from the University of Western Australia (“The Long-Run Value of Currencies: A Big Mac Perspective”), Tomoya Suzuki from ANU (“Is the Lending Channel of Monetary Policy Important in Australia?”) and Deok-Ki Kim from University of New South Wales (“Did Animal Spirits cause the 1997-98 Economic Crisis in Southeast Asia?”). As there was nothing to separate these students, the name of the winner, Alex Joiner, was drawn from a hat.

Congratulations to all prize winners on a job well done.

Sandra Pollock was the Conference Coordinator for 2001. Sandra did an outstanding job in dealing with all aspects of the arrangements and ensuring that the conference participants were well catered for. She was assisted by Elisa Birch, James Fogarty, Peter Johnson, Yihui Lan, MoonJoong Tcha, Patricia Wang, Juerg Weber, Yanrui Wu and Gina Yoon. I would like to extend my thanks to all members of the conference team. Thanks also to Janette Barrett for her continued interest in and assistance with the conference.

The PhD Conference plays a unique role in economic and business research in Australia. Overall, about 390 students have now been involved in the conference series and it has made a major impact on graduate training in Australia and beyond. For details of previous conferences, see Ye Qiang and K.W. Clements “Ten Years of the PhD Conference”, Economic Record 75 (1999):301-12.

The conference would not have been possible without the generous financial support of a number of sponsors to whom we are most grateful. On behalf of the organisers, I would like to acknowledge the assistance of the following institutions:

ACILConsulting
Agricultural and Resource Economics, UWA
Agriculture Western Australia
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AlintaGas
ANZ Bank
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WA Department of Mineral and Petroleum
Resources
WA Office of the Auditor General
Westpac Banking Corporation
Westralia Airports Corporation
Woodside Offshore Petroleum

Kenneth W Clements
Conference Convenor

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THE PROGRAM

Wednesday 7 November

6.30pm *Registration and Reception – BBQ at University House*

Thursday 8 November

8.30 - 8:45am *Late Registration*

8.45 - 9.00am Opening Address
Paul McLeod
Executive Dean, Faculties of Economics & Commerce, Education
and Law, UWA

9.05 - 10.35am Session 1: Monetary Policy

Session 2: Frontiers of Finance

Session 3: Marketing and Management I

10.35 - 11.00am *Tea/Coffee*

11.00 - 12.30pm Session 4: International Finance

Session 5: Productivity I

Session 6: Marketing and Management II

12.30 - 2.00pm *Lunch in the Tropical Grove*

2.00 - 3.00pm Invited Lecture
Lisa Cameron, Departments of Economics, University of Melbourne

3.00 - 3.30pm *Tea/Coffee*

3.30 - 5.00pm Session 7: Finance and Emerging Markets

Session 8: Public Economics

5.15 - 6.45pm Session 9: Micro Modelling

Session 10: Pricing in Financial Markets

Friday 9 November

- 8.45 - 10.15am** Session 11: Exchange Rates
 Session 12: Labour Economics
- 10.15 - 10.45am** *Tea/Coffee*
- 10.45 - 12.45pm** Session 13: Macro Modelling and Banking
 Session 14: Development Economics
 Session 15: Valuation and Information
- 12.45 - 2.00pm** *Lunch on the Matilda Bay Foreshore*
- 2.00 – 3.30 pm** Session 16: Corporate Value and Financial Decisions
 Session 17: Productivity II
- 3:30 - 4.00pm** *Tea/Coffee*
- 4.00 - 5.30pm** Session 18: Applied Econometrics
 Session 19: Investment and CGE Modelling
- 7.00 for 7.30pm** Conference Dinner at the Tawarri Reception Centre, The Esplanade,
 Dalkeith. Author and discussant prizes to be awarded.

Details of the sessions follow.

Session 1: Monetary Policy

Chairperson: Bob Gregory, Research School of Social Sciences, ANU

Alex Joiner, Department of Econometrics and Business Statistics, Monash University
“Monetary Policy Effects in an Australian Bayesian VAR Model”

Tomoya Suzuki, School of Economics, ANU
“Is the Lending Channel of Monetary Policy Important in Australia?”

Discussants: Alexandra Heath, Economic Analysis Department, Reserve Bank of Australia
Peter Stemp, Department of Economics, University of Melbourne.

Session 2: Frontiers of Finance

Chairperson: H Y Izan, Graduate School of Management, UWA

Greg Costello, Department of Accounting and Finance, UWA
“Price-Location Segmentation and Information Diffusion in Housing Markets”

Michael Tuan Shew Chng, Department of Finance, University of Melbourne
“From Floor Trading to Screen Trading: Effects on Price Discovery and Transparency”

Discussants: Kim Sawyer, Department of Finance, University of Melbourne
Doug Foster, AGSM, Universities of Sydney and New South Wales

Session 3: Marketing and Management I

Chairperson: John Cordery, Department of Organisational and Labour Studies, UWA

Tim O'Shannassy, School of Management, Monash University
“A Study of the Strategy Process in Australian Organisations”

Rian van der Merwe, School of Marketing, Curtin University of Technology
“Social Network Theory and Strategic Alliances: A Study of B2B Links in a Virtual World”

Discussants: Aron O'Cass, School of Marketing and Management, Griffith University
Les Johnson, Mt Eliza Business School

Session 4: International Finance

Chairperson: Nicolaas Groenewold, Department of Economics, UWA

Rosa Abrantes, Department of Economics and Finance, University of Chicago
“The European Monetary Union - Could there be any "Winners" and "Losers"?”

Iris Claus, School of Economics and Finance, Victoria University of Wellington
“A Benchmark Model for Evaluating the Importance of the Credit Channel in New Zealand”

Discussants: Jeff Sheen, Department of Economics, University of Sydney
Graeme Wells, School of Economics, ANU

Session 5: Productivity I

Chairperson: Yanrui Wu, Department of Economics, UWA

Bronwyn Howell, School of Economics and Finance, Victoria University of Wellington
“Information, Technology and the Productivity Paradox”

Joanne Loundes, MIAESR, University of Melbourne
“The Dynamic Performance of Australian Enterprises”

Discussants: John Forster, Department of Economics, Griffith University
Harry Bloch, Curtin School of Business, Curtin University of Technology

Session 6: Marketing and Management II

Chairperson: Leonie Still, Graduate School of Management, UWA

Barbara Wood, Graduate School of Management, UWA
“Organisational Spontaneity: A Model to Assess the Antecedents and Outcomes in a University Setting”

Kate Shacklock, School of Marketing and Management, Griffith University
“Sex in Selection”

Discussants: Aron O'Cass, School of Marketing and Management, Griffith University
Les Johnson, Mt Eliza Business School
Geoff Soutar, Graduate School of Management, UWA
John Cordery, Department of Organisational and Labour Studies, UWA

Invited Lecture

Chairperson: Bob Gregory, Research School of Social Sciences, ANU

Lisa Cameron, Department of Economics, University of Melbourne
“Staying Sane While Doing Economics: Enlivening the Dismal Science”

Session 7: Finance and Emerging Markets

Chairperson: MoonJoong Tcha, Department of Economics, UWA

Kyungae Ahn, Department of Economics, SungKyunKwan University
“Testing for the Efficiency of Korea's Currency Futures Market”

Viseth Kem Reat, NCDS, ANU
“Currency Substitution and Financial Sector Development in Cambodia”

Discussants: Richard Heaney, School of Finance and Applied Statistics, ANU

Inchul Kim, Department of Economics, SungKyunKwan University

Session 8: Public Economics

Chairperson: Anh Tram Le, Department of Economics, UWA

Stefan Dodds, Department of Economics, Queen’s University
“Monitoring and Privacy: When Private Information is a Public Good”

John Wilson, School of Economics, University of Adelaide
“The Influence of Lobby Groups on Public Opinion: The Case of an Environmental Tax”

Discussants: Jonathan Pincus, School of Economics, University of Adelaide

Stephen King, Department of Economics, University of Melbourne

Session 9: Micro Modelling

Chairperson: David Butler, Department of Economics, UWA

Lixin Cai, Economics Program, RSSS, ANU

“Observations on the Growth of the Disability Support Pension (DSP) Program”

Jo Rao Voola, Curtin School of Business, Curtin University of Technology

“The Role of Technology in Industry Structure: A Case Study of the Petroleum Industry”

Discussants: John Mangan, School of Economics, University of Queensland

Vivek Chaudhri, Melbourne Business School, University of Melbourne

Session 10: Pricing in Financial Markets

Chairperson: Dave Allen, School of Finance and Business Economics, Edith Cowan University

Ruttachai Seelajaroen, School of Economics, ANU

“Superannuation Fund Misclassification: Evidence from the Retail Sector”

Paul Duncan, Department of Accounting and Finance, University of Newcastle

“The Pricing of High Yield Equity Notes”

Discussants: Ray da Silva Rosa, Department of Accounting and Finance, UWA

Richard Heaney, School of Finance and Applied Statistics, ANU

Session 11: Exchange Rates

Chairperson: Darrell Turkington, Department of Economics, UWA

Yihui Lan, Department of Economics, UWA

“The Long-Run Value of Currencies: A Big Mac Perspective”

Liam Lenten, School of Business, La Trobe University

“The Cyclical Behaviour of Exchange Rates”

Discussants: Geoff Kingston, School of Economics, University of New South Wales

Heather Anderson, Department of Econometrics and Business Statistics, Monash

Session 12: Labour Economics

Chairperson: Paul Miller, Department of Economics, UWA

Stephen Cheung, School of Economics and Political Science, University of Sydney

“Labour Market Outcomes of Australian Graduates: The Role of Institutional Characteristics”

Mehtap Hisarciklilar, School of Economics, University of Nottingham

“Differences in Educational Attainment of Boys and Girls in Turkey”

Discussants: Jeff Borland, Department of Economics, University of Melbourne

Bob Gregory, Research School of Social Sciences, ANU

Session 13: Macro Modelling and Banking

Chairperson: Juerg Weber, Department of Economics, UWA

Renee Fry, Department of Economics, University of Melbourne
“A Multi-Country SVAR Factor Model”

Deok-Ki Kim, School of Economics, University of New South Wales
“Did ‘Animal Spirits’ Cause the 1997-98 Economic Crisis in Southeast Asia?”

Ilias Skamnelos, School of Economics, University of Nottingham
“Contagious Information-Based Bank Failures: Policy Dilemmas”

Discussants: Ron Bewley, School of Economics, University of New South Wales
Nilss Olekalns, Department of Economics, University of Melbourne
Warren Hogan, Faculty of Business, University of Technology, Sydney

Session 14: Development Economics

This session is generously sponsored by AusAID

Chairperson: Abu Siddique, Department of Economics, UWA

Tikiri Agalewatte, Department of Economics, University of Wollongong
“Development Problem in Sri Lanka and Competitive Industry Policy”

Niramon Sutummakid, Department of Economics, Macquarie University
“Economic Growth and the Environment: Does Economic Growth Degrade Land Quality in the Central Thailand?”

Discussants: Richard Pomfret, School of Economics, University of Adelaide
Peter Warr, Division of Economics, RSPAS, ANU

Session 15: Valuation and Information

Chairperson: David Woodliff, Department of Accounting and Finance, UWA

Martin Bugeja, School of Business, University of Sydney
“Independent Experts' Reports and Takeovers”

Philip Lee, School of Business, University of Sydney
“Signalling through Retained Ownership and Subsequent Equity Issues in Initial Public Offers”

Sarah Taylor, School of Accounting, University of Technology, Sydney
“Voluntary Forecasts and Earnings Management: Ex-Ante and Ex-Post Considerations”

Discussants: Bob Officer, Melbourne Business School, University of Melbourne
Robert Faff, Department of Economics and Finance, RMIT
Steve Easton, Graduate School of Business, University of Newcastle

Session 16: Corporate Value and Financial Decisions

Chairperson: Ray da Silva Rosa, Department of Accounting and Finance, UWA

Peter Pham, Department of Accounting and Finance, Monash University
“Optimality in Ownership Structure of Newly Listed Companies - Evidence from Director and Substantial Shareholder Trades in Australia”

Hung Tuan Chu, School of Finance and Economics, University of Technology, Sydney
“Value of Dividends: Evidence from a New Method”

Discussants: Terry Walter, Discipline of Accounting and Business Law, University of Sydney

Dave Allen, School of Finance and Business Economics, Edith Cowan University

Session 17: Productivity II

Chairperson: Paul Crompton, Department of Economics, UWA

Paul Jensen, AGSM, Universities of Sydney and New South Wales
“Theoretical and Empirical Observations on Outsourcing”

Gudrun Meyer-Boehm, School of Economics, Griffith University
“Has Convergence been Replaced by Divergence? Labour Productivity in Specific Industries of the States of the USA, 1982-1998”

Discussants: Robert Kerr, Productivity Commission

Denzil Fiebig, School of Economics, University of New South Wales

Session 18: Applied Econometrics

Chairperson: Michael McAleer, Department of Economics, UWA

Darrian Collins, School of Economics, University of Queensland
“Trends in Outbound Australian Business Travel Demand”

Remy Cottet, Econometrics and Business Statistics, University of Sydney
“Bayesian Modeling and Forecasting of Intra-Day Electricity Load”

Discussants: Peter Forsyth, Department of Economics, Monash University

William Griffiths, Department of Economics, University of Melbourne

Session 19: Investment and CGE Modelling

Chairperson: Yew Liang Lee, Department of Economics, UWA

Colin Richardson, School of Economics, University of Tasmania
“Profitability Gap Theories of Investment”

Ashley Winston, Centre of Policy Studies, Monash University
“Developing a Cost of Capital Function for a Computable General Equilibrium Model”

Discussants: Mardi Dungey, RSPAS, ANU

Matt Benge, School of Economics, ANU

THE ABSTRACTS

THE EUROPEAN MONETARY UNION - COULD THERE BE ANY “WINNERS” AND “LOSERS”?

Rosa Abrantes
University of Chicago

This paper analyses some benefits and costs of monetary integration in the context of a two-country general equilibrium liquidity-effect model, with inflexibility in production, trade in goods, immobility of labor, and partial mobility of capital. Markets are incomplete. Nominal inertia in savings together with price flexibility lead to nonneutrality of an unexpected change in the credit available to firms. I consider two models, the first with national currencies and a fixed exchange rate with cooperative national monetary authorities, and the second with a single currency and a common monetary authority. I assume totally identical countries. In the presence of a negative idiosyncratic shock in country *A*, ex-post country *A* is better off with a policy response under the national currencies case than with than in the case of a single currency. In the national currencies case, there is an international redistribution of wealth from country *B* to *A*, therefore utility in country *A* improves at the expense of country *B*. However, for both ex-post Social Welfare and ex-ante lifetime individual utilities, policy response under the single currency regime is preferred to the national currencies, which in turn is preferred to the absence of policy.

DEVELOPMENT PROBLEM IN SRI LANKA AND COMPETITIVE INDUSTRY POLICY

Tikiri Agalewatte
University of Wollongong

Sri Lanka has a long history of various economic policy regimes. At independence, it had a unique place among developing nations in terms of economic and social development as an open economy. In the early 1960s it began following an import substitution strategy as a solution to growing economic problems. The period 1970-77 witnessed a culmination of these policies with dismal results. In 1977 it opted for an outward-oriented strategy through drastic reforms. Since then, measures have been gradually taken to enhance the role of market mechanisms. The study reveals that even with two decades of reforms, Sri Lanka still remains a developing country whereas some of its contemporary East Asian LDCs such as Korea and Taiwan have achieved NIC status. It identifies the strategy they used as competitive industry policy (CIP) and examines to what extent their model can be used for tackling Sri Lanka's development problem.

TESTING FOR THE EFFICIENCY OF KOREA'S CURRENCY FUTURES MARKET

Kyungae Ahn
SungKyunKwan University

To test the efficiency of Korea's currency futures market, three criteria -- the unexploited profit criterion, predictability criterion, and the basis arbitrage criterion are applied. The unexploited profit criterion is designed to test whether there is a room for unexploited profit in the currency futures market. The predictability criterion is designed to test whether the currency futures rate is an unbiased predictor of the future spot rate. The basis arbitrage criterion is designed to check whether the theoretical relationship between the current spot rate and the current futures rate holds valid empirically. The results of empirical testing indicate that for a monthly futures product, some degree of unexploited profit opportunity may exist during the high-interest rate period. Whereas the currency futures predictability of the future spot rate is sufficiently high. In addition, the result of testing basis arbitrage indicates that the magnitude of the basis is equal to the cost of foreign currency borrowing. So it can be concluded that despite the short history of currency futures, the market efficiency has rapidly increased and will increase further within a short period.

INDEPENDENT EXPERTS' REPORTS AND TAKEOVERS

Martin Bugeja
University of Sydney

Section 640 of the Corporations Law requires a target firm in a takeover to provide an independent expert report where the bidding firm is entitled to 30% or more of the shares of the target and/or there is a common director. The expert report must provide an opinion on whether the offer price is 'fair and reasonable'. Although this requirement has existed since 1981 the provision of independent expert reports has not been extensively researched. This paper develops hypotheses on the impact of the requirement to obtain an expert opinion on target and bidder share returns at the time of the takeover announcement, as well as the time of the release of the expert report. Concerns over expert independence where the expert has previous business dealing with the target are addressed by developing hypotheses that relate the type of opinion provided to previous business dealings between the expert and the target. An independent expert fee model is also developed to assess whether expert fees are being cross-subsidised through the provision of other services. This fee model is extended to investigate whether quality experts earn a fee premium.

OBSERVATIONS ON THE GROWTH OF THE DISABILITY SUPPORT PENSION (DSP) PROGRAM

Lixin Cai
Australian National University

Over the last three decades the number of disability support benefits recipients has been growing rapidly in Australia. In 1971 the ratio of DSP recipients to the age eligible population, defined as the population over 15 years old and under age pension age was 1.73 percent. By 1999 the DSP-population ratio had increased to 4.78 percent. The number of DSP recipients is determined by inflows and outflows. Variations of inflows and outflows over the last three decades suggest that growth is determined to a greater extent by inflows than by the outflows. This paper looks at the factors that determine inflows, focusing on the impact of labor market conditions, policy and demographic changes. The examination of these factors suggests that the impact of population structure changes (population aging) and the changes in benefit values have been unimportant and that policy changes and labor market conditions play important roles in the growth of the program. When inflows are looked at in more detail for the last few years, it turns out that more than half of the inflows consist of former income support recipients (other than DSP), of which most are unemployment benefits recipients. This finding further demonstrates the close link between the growth of DSP recipients and unemployment.

LABOUR MARKET OUTCOMES OF AUSTRALIAN GRADUATES: THE ROLE OF INSTITUTIONAL CHARACTERISTICS

Stephen Cheung
University of Sydney

This paper canvasses issues involved in studying the relationship between the characteristics or 'quality' of higher education institutions and the earnings of their graduates in an Australian context. It is primarily methodological and somewhat open-ended in character. A review of US literature highlights the importance of modelling strategies to correct for selection bias. A distinction is drawn between selection behaviour on the part of institutions versus selection by students, and the latter is argued to be of greater import in an Australian setting. In the absence of specialised data enabling direct control for unobserved endowments, some explicit modelling of student choice is required. The Longitudinal Surveys of Australian Youth are identified as a suitably rich data source, although its use is also likely to be hampered by comparatively small sample sizes.

FROM FLOOR TRADING TO SCREEN TRADING: EFFECTS ON PRICE DISCOVERY AND TRANSPARENCY

Michael Tuan Shew Chng
University of Melbourne

Price discovery is a crucial and essential function that is performed by any futures market. Accordingly, the ability to aggregate and incorporate information into prices to ‘derive’ the spot asset’s underlying fundamental value is a key objective of market design. We conduct a twofold modification of the Glosten-Hasbrouck model of price discovery to establish a link between the design and performance of a futures market. First, we extend the model to consider a richer dynamic interaction between quote price, quote size, trade price and trade size. Second, we formalise the relationship between two criteria of market performance in price discovery and transparency by considering aspects of market design that are generally related to the extant trading platform. These aspects include hidden orders, delayed trade publication, trader identity, extent of the limit order queue, tick size and execution cost. In doing so, we derive an ‘application-version’ of the Glosten-Hasbrouck model which, despite the complex debate surrounding floor versus screen trading, provides a reasonable guide for a futures exchange that is contemplating full automation.

VALUE OF DIVIDENDS: EVIDENCE FROM A NEW METHOD

Hung Tuan Chu
University of Technology, Sydney

We infer the value of dividends in Australia from the contemporaneous trading of shares with differential dividend entitlements following rights issues. Since the new share and the old share are identical in all respects, except for the entitlement to the current dividend payment, the difference in the contemporaneous prices of the old and new shares reflects the market value of the dividend. Using this research design, we are able to obtain a relatively clean measurement of the value of dividends. Our evidence shows that under the Australian imputation tax system, one dollar of fully franked dividends is worth significantly more than one dollar. We estimate that \$1 of fully franked dividend is worth of the order of \$1.50.

A BENCHMARK MODEL FOR EVALUATING THE IMPORTANCE OF THE CREDIT CHANNEL IN NEW ZEALAND

Iris Claus
Victoria University of Wellington

Macroeconomic models currently used by policy makers generally assume that the Modigliani and Miller (1958) irrelevance theorem holds. These models hence disregard the potential impact of asymmetric information and other credit market frictions on real economic activity. This paper develops a benchmark model of a small open economy (with no credit channel). The model is calibrated for New Zealand. The steady state is derived and the dynamic properties of the model in response to an unanticipated monetary policy shock are evaluated. In further work, the benchmark model will be extended to incorporate a credit channel. Comparison of the benchmark and credit channel models will allow evaluating the quantitative significance of asymmetric information and other credit market frictions.

TRENDS IN OUTBOUND AUSTRALIAN BUSINESS TRAVEL DEMAND

Darrian Collins
University of Queensland

This paper develops a theoretical model of business travel demand in order to provide insight into its important long run determinants. The basis for the theoretical construction is a firm that operates in a Cournot industry that chooses, *ceteris paribus*, the optimal demand for outbound travel by a marketing resource hired by the firm. Aggregating over all firms in a symmetric equilibrium allows the derivation of an aggregate demand function for business travel. The demand function is contingent upon a number of long run determinants, including domestic and overseas economic activity, domestic and overseas goods prices, the price of air travel, export prices, exchange rates and domestic wage rates. The theoretical construct is then estimated using a single equation residual regression approach for Australian outbound business travel to Japan, New Zealand, United Kingdom and United States of America over the quarterly timeframe 1982:1 to 1999:4. The Australian and foreign income, export prices, effective prices of tourism goods and services and competitor airfares are important long-run determinants of business travel.

PRICE-LOCATION SEGMENTATION AND INFORMATION DIFFUSION IN HOUSING MARKETS

Greg Costello
University of Western Australia

This study develops a method for disaggregation of a housing market according to joint price-location criteria. Variables are constructed for different price-location segments to focus upon issues of housing market efficiency. Results indicate that for the aggregate housing market, relative differences between price-location segments are consistent over time. Selling price criteria can provide useful specifications for relevant housing submarkets although this will vary through the hierarchy of price-location segments. There is strong evidence of a filtering influence. Cheapest price-location groups have the lowest and most volatile relative rates of price change and higher levels of price correction behaviour.

BAYESIAN MODELING AND FORECASTING OF INTRA-DAY ELECTRICITY LOAD

Remy Cottet
University of Sydney

This paper employs a multi-equation regression model and a first order vector autoregressive error process with a parsimonious disturbance for modeling and forecasting electricity load data. The model is flexible and can be applied to several years of data, or a running window of several weeks. Long-term load, short-term load, time of peak load and peak load level forecasts can all be obtained from the one model, and meteorological effects can be included or excluded depending on the availability of reliable forecasts. The model is estimated using Bayesian Markov chain Monte Carlo methods, and full finite sample posterior and predictive distributions are obtained. This is challenging, because the models employed can have thousands of parameters and the number of intra-day observations can number in the tens of thousands. The method is applied to half-hourly New South Wales system load and meteorological data from the period 1988 to 2000 and extensive forecasting results obtained. Forecasts with a six month horizon and without meteorological inputs are obtained with an average absolute percentage error of 3.3%.

MONITORING AND PRIVACY: WHEN PRIVATE INFORMATION IS A PUBLIC GOOD

Stefan Dodds
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This paper examines the effect of individual *privacy* on economic outcomes. By identifying particular agents from a population of n , the government can produce more of a public good. All agents must report their type to this government – truthfully or not – unsure if they or others are being monitored. If n is small, and monitoring is incomplete, many equilibrium outcomes are inefficient. If n is large, and agents can vote over monitoring levels, outcomes are efficient but suboptimal from the government's perspective. However, a benevolent government may not wish to implement taxes and penalties even when these options are available. The government may therefore prefer “slack” (low monitoring and frequent cheating) to “control” (no privacy and full compliance), even when monitoring is costless.

THE PRICING OF HIGH YIELD EQUITY NOTES

Paul Duncan
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High Yield Equity Notes are securities that provide the noteholder with a cash flow stream that comprises a fixed yield and a short position in a European put option on the shares of an Australian company. This paper examines the pricing of these securities and finds apparent overpricing compared with expectations given standard pricing relationships. This apparent overpricing is consistent with the low transaction costs incurred by purchasers of High Yield Equity Notes.

A MULTI-COUNTRY SVAR FACTOR MODEL

Renee Fry
University of Melbourne

Models of Australia proxy international linkages using the US, despite Japan being an equivalent trading partner. This paper uses a Kalman filter to extract US and Japanese latent factors which, in turn, are used in a SVAR model of the Australian economy. The US and Japanese shocks are interpreted to be aggregate demand and interest rate shocks respectively. The results show that US shocks are dominant for Australian outcomes, but the model is misspecified if Japan is excluded. The role of Japan is to dampen expansionary US shocks. Further, Australian monetary policy responds to domestic conditions, rather than international monetary policy.

DIFFERENCES IN EDUCATIONAL ATTAINMENT OF BOYS AND GIRLS IN TURKEY

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This study aims to analyse the effects of family background characteristics on the differences in the educational achievement of boys and girls in Turkey. The model estimated is based on an extension of an intra-household allocation model, which allows us to analyse the gender-based differences. Using 1988 Household Survey Data, a sequential logit modelling approach is used to estimate enrolment regressions for boys and girls and the gender differential is examined. The results suggest that family background characteristics have a significant effect on the education of individuals and that these effects are different for boys and girls.

INFORMATION, TECHNOLOGY AND THE PRODUCTIVITY PARADOX

Bronwyn Howell
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The advent of computers and associated information storing, processing and transmission technologies has promised great improvements in productivity. Yet the evidence of productivity improvements to date as a result of the implementation of these information processing technologies has been somewhat equivocal. While there is growing evidence that improvements are present in the industries which produce computers, for a variety of reasons, evidence of gains is yet to be seen in the majority of computer-using industry sectors. This paper contends that the conventional focus on measuring productivity improvements in terms of investment in capital (purchases of computers) and labour fails to account for many of the other crucial technology changes associated with the widespread use of computers and Internet technologies – principally the ways in which computers and communication technologies have altered the use of information as an input to, and output of, production processes. This paper examines the growing importance of information as an input, and the ways in which it is beginning to substitute for other inputs. In addition, it examines ways in which current productivity measurement techniques may be failing to correctly capture many of the changes resulting from these substitutions, to the extent that current productivity measurement techniques based upon index numbers maybe more misleading than informative in assessing the performance of information-based production processes.

THEORETICAL AND EMPIRICAL OBSERVATIONS ON OUTSOURCING

Paul Jensen
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Despite its ideological foundations, the use of outsourcing has gained widespread acceptance in both the public and private sectors around the industrialised world. Yet, many fundamental questions remain about the efficacy of this policy instrument. For instance, the question of whether the private sector is necessarily a more efficient service provider than the public sector still remains unanswered. Furthermore, while economic theory postulate that any observed savings should be sustainable over time as long as there remains an effective competitive process, this has not been empirically substantiated. This research paper present a detailed critique of the theoretical and empirical literature relating to outsourcing and the relative efficiency of different modes of service provision in general. In addition, a case study is presented on the outsourcing of maintenance services at two of Melbourne's water retail businesses with a view to determining whether any observed savings have been sustainable over several contract periods and to draw some preliminary conclusions on the impact that contract design mechanisms have on contract performance.

MONETARY POLICY EFFECTS IN AN AUSTRALIAN BAYESIAN VAR MODEL

Alex Joiner
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The objective of the structural VAR model developed in this paper is to identify the effects of Australian monetary policy on the economy, within a small open economy framework. The methodology applied is the Bayesian techniques of Sims and Zha (1998) and Waggoner and Zha (2000) to incorporate prior information into the VAR model. Results consistent with economic theory are achieved by employing a block exogeneity assumption combined with additional contemporaneous and lagged linear restrictions. It is then sought to examine the effects of introducing a mark-up pricing model restriction in to the monetary policy environment. A summary of the effects of restricting the model with this assumption, in comparison to the base model, was to lengthen, but not deepen, the negative output gap produced by a wage inflation shock. Conversely, a price inflation shock induces a relatively larger fall in real wages that subsequently leads to a more pronounced above trend phase in output. The effect of a cash rate increase in the mark-up restricted model is to cause a longer and deeper period below trend GDP than the unrestricted case.

CURRENCY SUBSTITUTION AND FINANCIAL SECTOR DEVELOPMENT IN CAMBODIA

Viseth Kem Reat
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The tendency to substitute domestic for foreign currency (as a way of holding wealth and a means of transaction for goods and services) is common throughout the world, and particularly so in countries attempting to overcome thin financial institutions or errant monetary policy. This paper uses monthly data to analyze the phenomenon of currency substitution in Cambodia during the recent economic and financial reform process, 1993-2001. Results show that there is a significant long run relationship between the expected rate of depreciation in market exchange rates and holdings of US dollars. The implications of this result for macroeconomic policy and broader financial sector developments in Cambodia are also examined.

DID ‘ANIMAL SPIRITS’ CAUSE THE 1997-98 ECONOMIC CRISIS IN SOUTHEAST ASIA?

Deok-Ki Kim
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This paper extends Farmer and Guo's (1994) indeterminacy model of business cycle to a small open economy and applies the model to Southeast Asian data. While Guo and Sturzenegger (1998) considered a two-country version of the Farmer and Guo model to account for observed international correlations, no explicit consideration in this vein has been given to the case of a calibrated quantitative model of a small open economy. The extended model is then applied to examine whether the belief shocks can account for recent business cycle fluctuations in Malaysia. In particular, this paper attempts to assess the quantitative importance of 'non-fundamentals' in the recent economic fluctuations in this region characterised by the East Asian Financial Crisis.

THE LONG-RUN VALUE OF CURRENCIES: A BIG MAC PERSPECTIVE

Yihui Lan
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The aim of this paper is to derive long-run equilibrium values of currencies using the Big Mac data from The Economist magazine. As there are only ten years of data available, we have to use a parsimonious approach to modelling the evolution of exchange rates. The stationarity of real exchange rates is tested using recently-developed panel unit root tests with modifications. Through Monte Carlo methods, we analyse the whole distribution of the estimated equilibrium exchange rates and derive the adjustment paths of actual rates into the future. The new approach we propose for equilibrium exchange rates seems to have a number of attractive features including its modest data requirements (Big Mac prices), the minimal economic structure on the problem and its simplicity. Interestingly, our estimate of the speed of adjustment of real exchange rates to shocks and of the equilibrium exchange rates are quite close to those of other studies using more complex methodologies.

SIGNALLING THROUGH RETAINED OWNERSHIP AND SUBSEQUENT EQUITY ISSUES IN INITIAL PUBLIC OFFERS

Philip Lee
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Initial public offerings of equity have three known anomalies - abnormal initial returns, cycles in both the volume and timing of IPOs, and under-performance in the aftermarket. A similar set of anomalies occurs with subsequent (or seasoned) equity issues. Researchers have been puzzled by the market reactions to announcements of SEOs and their subsequent market performance. The study provides a better understanding of these two new issue puzzles by integrating them in a multiple issue framework. Empirical tests are conducted to discriminate between the various competing multiple equity issue theories (e.g., signalling, market feed-back and reputation acquisition hypotheses) by recognising that they have opposing theoretical predictions.

THE CYCLICAL BEHAVIOUR OF EXCHANGE RATES

Liam Lenten
La Trobe University

The objective of this paper is to test for the cyclical nature (or otherwise) of the exchange rates of the G-7 countries from the collapse of the Bretton Woods system to 1998. The testing is carried out, first of all, by taking a small number of macroeconomic reference variables, and examining their respective correlations to national income, using only the cyclical components of the series. The components are derived by both Harvey's (1989) structural time-series model (STM) and HP filter. Secondly, some conventional exchange rate models are tested using a trend/cycle split, to ascertain which of the two approaches give the better results.

THE DYNAMIC PERFORMANCE OF AUSTRALIAN ENTERPRISES

Joanne Loundes
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This paper investigates the interaction of discretionary investments (R&D, capital investment and advertising), innovation, productivity and profitability in Australian firms using a four-year balanced panel from the *Business Longitudinal Survey*. The results indicate that R&D, intangible assets and advertising are complementary discretionary investments, and expenditure on tangible assets is heavily reliant on the profitability of the firm. The likelihood of innovating depends on investment in intangible assets in the previous year and utilising a business strategy that incorporates a business plan and a comparison with other firms. Productivity changes predominantly with past values of itself and factor inputs (including R&D). Profitability is influenced by past changes of itself and productivity changes.

HAS CONVERGENCE BEEN REPLACED BY DIVERGENCE? LABOUR PRODUCTIVITY IN SPECIFIC INDUSTRIES OF THE STATES OF THE USA, 1982-1998

Gudrun Meyer-Boehm
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Previous studies have found quite robust convergence trends during the 1970s and 80s for the US States at the aggregate level. By contrast, more recent findings suggest that the convergence trend may have ceased during the last decade. In this study an industry by industry approach is undertaken to examine the driving forces of economic growth and convergence among these state economies. Beta and sigma-convergence will first be investigated in a conventional cross section analysis. In addition, this paper will also investigate convergence with more recent time series techniques. Due to the short time-span of the data available a panel data approach as proposed by Levin and Lin (1992) will be applied. The time series approach does not only provide another econometric technique, but also offers a slightly different interpretation of convergence.

A STUDY OF THE STRATEGY PROCESS IN AUSTRALIAN ORGANISATIONS

Tim O'Shannassy
Monash University

The evolution of the strategy paradigm from strategic planning in the 1970s to strategic management in the 1980s into strategic thinking in the 1990s reflects the economic, technological and social changes that have taken place over this 30-year period. In the 2000s we are again searching for emerging trends and metaphors. Previous industry based studies in the strategy field in Australia have focused on strategic planning (Christodolou, 1984) and strategic management (Bonn, 1996). This research investigates the relationship between manager's perceptions of environmental uncertainty and strategy process sophistication – specifically the activities of strategic thinking and strategic planning triangulating data collection methods using a structured survey (quantitative) and unstructured interview (qualitative) approach.

OPTIMALITY IN OWNERSHIP STRUCTURE OF NEWLY LISTED COMPANIES - EVIDENCE FROM DIRECTOR AND SUBSTANTIAL SHAREHOLDER TRADES IN AUSTRALIA

Peter Pham
Monash University

This study examines the influence of ownership structure on firm value by focusing exclusively on stock market reaction to announcements of secondary market transactions by directors and large shareholders. This approach should avoid the ambiguous direction of causality and endogeneity problems encountered in previous research. In addition, the sample is limited to only newly listed companies since the problems of agency and information asymmetries should be relatively more pronounced for these firms than more established ones. The results show that the direction and magnitude of market reaction to a transaction by a key shareholder depend upon the existing level of shareholding. This finding supports the presence of optimality in ownership structure and suggests a non-linear relationship between this variable and firm value.

PROFITABILITY GAP THEORIES OF INVESTMENT

Colin Richardson
University of Tasmania

The key structural-form equation in my thesis relates farmers' annual investment in seedcorn (I sacks pa) to a *gap* between the expected ($re\%$ pa) and the normal ($n\%$ pa) profit rates on capital stock: $I = (1 + \phi [re - n]) I_0$, where " ϕ " is their reaction-coefficient and " o " indicates a one-year time-lag. By way of justification, this paper demonstrates that similar "expected profitability gaps" are implicit in every influential theory of investment behaviour. These comprise theories descended from Brainard/Tobin ("q-ratio"), Jorgenson/Eisner/Strotz ("user-cost"), Harrod/Samuelson/Hicks ("multiplier-accelerator"), Keynes/Kalecki ("marginal-efficiency"), and Smith/Ricardo/Marx ("uniform-profitability"). Thus the $[re - n]$ explanator constitutes a kind of "genome" that is present in all investment functions.

SUPERANNUATION FUND MISCLASSIFICATION: EVIDENCE FROM THE RETAIL SECTOR

Ruttachai Seelajaroen
Australian National University

We study issues surrounding fund classification by applying Sharpe's (1992) style analysis on a sample of Australian retail superannuation funds. On a group level, we find that funds from different objective groups follow distinct investment strategies. However, some individual funds do deviate from their declared investment styles. In general, returns and risks of misclassified and well-classified funds from the same objective group are significantly different. This suggests that holding the misclassified funds can expose investors to unwanted levels of risk and return. Therefore, misclassification is a real and serious problem needed to be addressed.

SEX IN SELECTION

Kate Shacklock
Griffith University

Research is being conducted into the possible relationship between selection and its dimensions, the influence of physical attractiveness (PA) in a selection interview and the notion of a sexualised workplace. There is ample evidence concerning the impact of physical attractiveness on selection decisions, but as yet, no explanation as to why it might be that selections still advantage PA applicants, even when there is no commercial rationale (eg: face-to-face contact with customers). One of the main hypotheses to be investigated is that the greater the level of workplace sexualisation, the greater the impact on selection decisions of PA. In addition, the research will investigate whether the level of the vacant job will affect the sexualisation or not of the selection process and that age (of selectors, of applicants and of colleagues of the successful applicant) will affect the outcome of the selection process. Finally, the research is designed to explore the hypothesis that employment selection based on merit is an illusion.

CONTAGIOUS INFORMATION-BASED BANK FAILURES: POLICY DILEMMAS

Ilias Skamnelos,
University of Nottingham

We focus on suspending deposit convertibility, when the acting authorities are faced with contagious information-based bank failures. The main result of our study is the exposition of a policy dilemma, which arises when the policy maker considers optimal reaction to a regional bank run. We show that suspending convertibility may save the region from contagious panic effects, associated with an assumed positive correlation in the returns of investments in the region, but the banks of the rest of the economy become more vulnerable to bad information about their portfolios, due to the one-way bet nature of a policy of suspending deposit convertibility, which protects deposits in the long-run, but allows speculation in the short-run.

ECONOMIC GROWTH AND THE ENVIRONMENT: DOES ECONOMIC GROWTH DEGRADE LAND QUALITY IN THE CENTRAL THAILAND?

Niramon Sutummakid
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This study examines the contribution of agricultural sector on economic growth and the factors affecting soil quality depletion. Economic factors affecting soil quality are economic growth, composition of input endowments (land-labour ratio), technical progress (via the change in income), and relative price. The empirical results show that the agricultural sector has a positive impact on economic growth and the expansion of land use area has a negative impact on economic growth. However, the expansion of the economy and the increase in land-labour ratio as well as the increase in relative price have a positive impact while the income has a negative impact on soil pollution index.

IS THE LENDING CHANNEL OF MONETARY POLICY IMPORTANT IN AUSTRALIA?

Tomoya Suzuki
Australian National University

A long-standing macroeconomic issue is how monetary policy affects the real economy. The lending view is that tight money affects aggregate demand by shifting the supply schedule left in the bank loan market. Previous studies have found that loans contract following tight money. It is not clear whether the financial contraction reflects a shift of the supply schedule or the demand schedule in the loan market, however. This paper identifies the shifts of the demand and the supply schedules in the Australian loan market. By employing a variety of approaches, this paper shows that the lending view is not supported. The paper also examines features of Australian bank behaviour which make the lending view less plausible.

VOLUNTARY FORECASTS AND EARNINGS MANAGEMENT: EX-ANTE AND EX-POST CONSIDERATIONS

Sarah Taylor
University of Technology, Sydney

Managers have a variety of incentives to make voluntary disclosures, which influence the frequency and information content of voluntary disclosure. The primary objectives of this research project are to document factors motivating disclosure of forecasts and to investigate whether firms that issue voluntary forecasts manage earnings. This paper considers the extent to which ex-ante accounting flexibility motivates or influences the forecast disclosure decision and also whether the subsequent earnings realisations are consistent with the existence of earnings management, undertaken to meet a target implied by the earnings forecast.

SOCIAL NETWORK THEORY AND STRATEGIC ALLIANCES: A STUDY OF B2B LINKS IN A VIRTUAL WORLD

Rian van der Merwe
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In recent years, strategic alliances have been an important new form of entrepreneurial venture, particularly in B2B markets. Academics have rushed to study these new organisational forms, for apart from simply being interesting, they represent important structures in a global business environment. Yet, they are elusive objects to investigate, as they often exist and function only in the virtual world of the Internet. This paper introduces basic Social Network Theory and the Theory of Structural Holes, and shows how these theories can be used to explain the structure and behaviour of B2B networks on the Internet. The paper provides the foundation for a study that will aim to show that not only does these theories permit the description of networks and alliances; they also permit the identification and depiction of key nodes within them—links or main players who form the basis of the network structure. In a world that is increasingly global, this would be an important contribution to our knowledge of B2B marketing and strategy.

THE ROLE OF TECHNOLOGY IN INDUSTRY STRUCTURE: A CASE STUDY OF THE PETROLEUM INDUSTRY

Jo Rao Voola
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This paper considers the issue of strategic behaviour as it relates to market structure. The particular strategic variable of interest is research and development expenditures. A game theoretical model is described with the intention of showing the relationship between this variable and industry structure. The potential relevance of such a model to the petroleum industry is outlined with reference to a newer technology, the 3D seismic. The model shows that as the relative cost of research and development expenditures increases or decreases relative to payoffs, strategic behaviour of players changes with a resulting change in industry equilibrium.

THE INFLUENCE OF LOBBY GROUPS ON PUBLIC OPINION: THE CASE OF AN ENVIRONMENTAL TAX

John Wilson
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Following Auerbach, King and Benge, we develop a model in which the firm maximises the value of its shareholder equity, taking account of: company and personal income taxes; capital-gains taxes (including a treatment of realisation-based capital-gains tax); depreciation allowances; investment allowances; and interest rates on debt linked to financial leverage. We derive a function for the user-cost of capital to the firm. By embedding this in a dynamic CGE model, we can simulate the effects of tax changes on the user-cost of capital and thus on investment. Our ultimate aim is to analyse the effects of reforms to business taxation such as the recent Ralph proposals.

DEVELOPING A COST OF CAPITAL FUNCTION FOR A COMPUTABLE GENERAL EQUILIBRIUM MODEL

Ashley Winston
Monash University

Following Auerbach, King and Benge, we develop a model in which the firm maximises the value of its shareholder equity, taking account of: company and personal income taxes; capital-gains taxes (including a treatment of realisation-based capital-gains tax); depreciation allowances; investment allowances; and interest rates on debt linked to financial leverage. We derive a function for the user-cost of capital to the firm. By embedding this in a dynamic CGE model, we can simulate the effects of tax changes on the user-cost of capital and thus on investment. Our ultimate aim is to analyse the effects of reforms to business taxation such as the recent Ralph proposals.

ORGANISATIONAL SPONTANEITY: A MODEL TO ASSESS THE ANTECEDENTS AND OUTCOMES IN A UNIVERSITY SETTING

Barbara Wood
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Heightened competition, complex environmental influences and persistent economic impacts continue to create constant change conditions in most Australian organisations. No where are these forces more pronounced than in the post-secondary sector where arguments have reached a fevered pitch among governments, bureaucrats, university administrators and technology salespeople alike propounding the death of one era – that of the traditional university sector – and the birth of another – the global and potentially virtual business of the higher education sector. Organisational spontaneity represents cooperative acts by staff beyond those formally prescribed by the organisation that are freely offered. Spontaneity relates to organisational performance effectiveness in three ways: a) by increasing collective outcomes achieved; b) by freeing up resources for productivity and c) by helping to free up time for more efficient planning, scheduling and problem solving. The thesis will examine the antecedents and outcomes of organisational spontaneity within the turbulent Australian University setting by using a quantitative questionnaire. Individual factors will be examined for their influence on spontaneous behaviour and University performance.

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