



THE UNIVERSITY OF
WESTERN AUSTRALIA



THE AUSTRALIAN NATIONAL UNIVERSITY

THE UWA BUSINESS SCHOOL

The University of Western Australia

and

CENTRE FOR ECONOMIC POLICY RESEARCH

Research School of Social Sciences

The Australian National University

REPORT OF THE

2007 PhD CONFERENCE

IN ECONOMICS AND BUSINESS

31 October – 2 November 2007

Perth

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2007 PhD CONFERENCE
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| | |
|-------------------------|----------------|
| Conference Convenor: | Michael McLure |
| Conference Coordinator: | Sarah Coakley |

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REPORT

The annual PhD Conference in Economics and Business is a joint venture project between the University of Western Australia and the Australian National University. It is held at each of these universities in alternate years. The 2007 Conference was convened at the University of Western Australia between 31 October and 2 November. It was the 20th time that the Conference has been held since its inception in 1987.

As in previous years, the primary objective of the Conference was to assist with the training of promising research students in economics and finance by providing PhD candidates with the opportunity to present their research to a critical forum and receive feedback. Each doctoral presenter was assigned a discussant who had prepared a critical assessment of the student's paper prior to the Conference and presented that assessment immediately following the student's presentation.

There were 30 student presenters this year as well as 30 discussants. Student delegates came from all over Australia and there was one student delegate from New Zealand (University of Auckland). The discussants were similarly drawn from all over the country. The papers presented and discussed cover a diverse range of themes. These included the economics of corruption, volatility and hedging, demand economics, the economics of trade and development, risk, Chinese stocks, auctions, dividend policy, the business cycle, economic growth, firm valuation and governance.

Each PhD student presented to an audience of around 30 scholars comprising a roughly equal mix of academics and research students. The general discussion that followed the students' and discussants' reports contributed significantly to the success of the Conference. The role of Conference chairpersons in this outcome was also important, as they worked diligently to ensure that the sessions ran smoothly and to schedule.

In addition to the students, discussants and chairpersons, the Conference was also attended by representatives from sponsoring organizations. From the feedback received during the Conference and at the Conference dinner, it is clear that delegates and sponsors who attended the Conference found the event to be worthwhile.

The Conference commenced with a relaxing barbeque reception on Wednesday evening at the UWA Watersports Complex, with Tracey Horton, Dean of the UWA Business School, officially opening proceedings at the first session of the Conference. The invited lecture was delivered by Geoffrey Brennan from the Australian National University who, in addition to giving sage advice to academics young and old, spoke on "Discounting the Future". His discussion generated considerable debate, which is ideal for a forum for intellectual exchange such as this. Geoffrey was invited to the Conference in recognition of his substantial contribution to the development of public choice economics, constitutional political economy and for his interdisciplinary work at the boundaries between economics, politics and philosophy.

The Conference concluded with a dinner on Friday evening at the University Club at which John Langoulant, CEO of the Chamber of Commerce and Industry of Western Australia, delivered the after dinner speech. The title of John's speech was 'Bread and Circuses' – a very interesting reflection on the state economy and the economics of sporting stadia.

The dinner also provided the occasion for awarding Conference prizes. Prize winners were determined by the voting choices of Conference delegates, who voted for the "best presentation" and "best discussant". This information was tallied with the intention of awarding three prizes:

"Best Presentation" – a \$1,000 prize awarded to the student presenter in any discipline who received the most number of votes in the ballot.

"Runner Up - Best Presentation" – a \$500 prize awarded to the student presenter who received the second most number of votes in the ballot.

"Best Discussant" – a prize awarded to the discussant who received the most number of votes in the ballot.

This year the prizes were presented at the Conference Dinner by Ken Clements and Izan – both long term supporters of PhD research generally and the Conference in particular. The student ballot resulted in a tie for the "Best Presentation" prize, which was jointly awarded to Yuelan Chen, from the University of Melbourne for her paper on "Intermediating Auctioneers", and Vicar Valencia, also of the University of Melbourne for his paper on "Corporate Governance and Innovation". In view of the tie, no prize for runner up was awarded: the prize money for both prizes was pooled and allocated in equal portion to the two winners, with Yuelan and Vicar each receiving \$750. The "Best Discussant" prize was won by Peter Dixon from Monash University for his discussion of Daniel Bunting's study of "An Optimal Quarantine Measure for the Importation of Bananas". Other discussants who also polled very strongly include Renée Adams, Paul Kofman, Stephen Taylor and Christis Tombazos. Congratulations and thanks to one and all.

To mark the twentieth PhD Conference, the "Hall of Fame" was established as a means of recognizing individuals who have made long-term contributions to the continuing success of the Conference series. Ken Clements and Izan gave the matter much thought and reflection and, at the Conference dinner, announced that the inaugural inductees into the "Hall" were Peter Dixon, Denzil Fiebig, Bob Gregory, Richard Heaney, Geoff Kingston, Jonathan Pincus, Kim Sawyer and Terry Walter.

The Conference this year was expertly coordinated by Sarah Coakley. It was her first time in this position and she did a fantastic job. I am greatly indebted to Sarah for keeping the planning and running of the event on track and ensuring that all participants were well looked after. Recently she has been ably assisted by Abdul Hakim, Mei Han and Helen Reidy. The assistance of Ken Clements and Izan, who were always ready with helpful advice on a range of issues, is also greatly appreciated. I would like to thank everyone at UWA who assisted in the organisation and success of this Conference.

I would like to commend the PhD student presenters for their hard work, the discussants for participating so enthusiastically and helping the students and Geoffrey Brennan for joining us at UWA to present the invited lecture and participate in the Conference.

Finally, the event would not have been possible without the generous financial support of our sponsors. On behalf of the University of Western Australia and the Australian National University, I would like to acknowledge the assistance of the following institutions:

| | |
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| ACIL Tasman | Australian National University |
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Michael McLure

Conference Convenor

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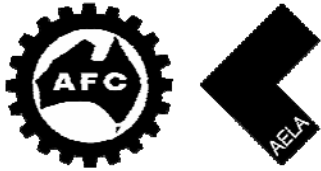


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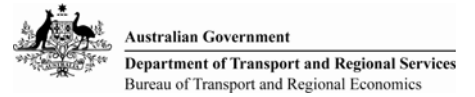
CHAMBER OF COMMERCE
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WESTERN AUSTRALIA



The Chamber of
Minerals & Energy
Western Australia







PROGRAM

Wednesday 31 October

6.30pm *Registration and Reception at UWA Watersports Complex*

Thursday 1 November

8.30 – 8.45am *Late Registration*

8.45 – 9.00am *Opening Address*
Tracey Horton, Dean, UWA Business School

9.05 – 10.35am Session 1: Economics of Corruption
Session 2: Volatility and Hedging

10.35 – 11.00am *Morning Tea*

11.00 – 12.30pm Session 3: Estimating Competition and Demand
Session 4: Trade and International Economics I

12.30 – 2.00pm *Lunch in the Tropical Grove*

2.00 – 3.00pm *Invited Lecture:*
Professor Geoffrey Brennan
The Australian National University

3.00 – 3.30pm *Afternoon Tea*

3.30 – 5.30pm Session 5: Trade and International Economics II
Session 6: Risk and Finance

Friday 2 November

| | |
|------------------------|--|
| 9.00 – 10.30am | Session 7: Chinese and Australian Stocks Session 8: Auctioneers and Auctions |
| 10.30 – 11.00am | <i>Morning Tea</i> |
| 11.00 – 12.30pm | Session 9: Dividend Policy and Characteristic Selectivity Session 10: Poverty and Labour Economics |
| 12.30 – 2.00pm | <i>Lunch at Matilda Bay Foreshore</i> |
| 2.00 – 3.30pm | Session 11: Business Cycles and the Philips Curve Session 12: HIV/AIDS and Economic Growth |
| 3.45 – 4.00pm | <i>Afternoon Tea</i> |
| 4.00 – 5.30pm | Session 13: Firm Valuation Session 14: Governance and Health Service Utilisation |
| 7.00 for 7.30pm | <i>Conference Dinner at The University Club</i> Author and discussant prizes to be awarded <i>After-dinner speech:</i> Mr John Langoulant, The Chamber of Commerce and Industry of Western Australia |

SESSIONS

Session 1: Economics of Corruption

Chairperson: Abu Siddique, UWA

Ratbek Djumashev, Monash University

“Corruption and Regulatory Burden”

Moe Farida, The University of Sydney

“The Impact of Corruption on Economic Growth in Lebanon”

Discussants: Kim Sawyer, The University of Melbourne

Yanrui Wu, The University of Western Australia

Session 2: Volatility and Hedging

Chairperson: Millicent Chang, UWA

Mohamed Ariful Hoque, Curtin University of Technology

“Alternative Volatility Models for Pricing European Currency Options”

John Gould, The University of Western Australia

“The Joint Hedging and Leverage Decision”

Discussants: Michael Chng, The University of Melbourne

Tom Smith, The Australian National University

Session 3: Estimating Competition and Demand

Chairperson: Elisa Birch, UWA

Achmad Shauki, University of South Australia

“Measuring Competition Using Lower Bound Concentration Curve: the Case of the Indonesian Manufacturing Industry”

Peter Siminski, The University of New South Wales

“The Price Elasticity of Demand for Pharmaceuticals amongst High Income Older People in Australia: A Natural Experiment”

Discussants: Denzil Fiebig, The University of New South Wales

Bob Gregory, The Australian National University

Session 4: Trade and International Economics I

Chairperson: Inga Kristoffersen, UWA

Daniel Bunting, The University of New South Wales

“An Optimal Quarantine Measure for the Importation of Bananas”

Adham Alsaïd, The University of Western Australia

“Intra-regional Trade of Regional Trading Blocs: The Case of the Gulf Co-operational Council”

Discussants: Peter Dixon, Monash University

Jeffrey Sheen, The University of Sydney

Invited Lecture

Chairperson: Iain Watson, UWA

Geoffrey Brennan, The Australian National University

“Discounting the Future”

Session 5: Trade and International Economics II

Chairperson: Paul Crompton, UWA

Sizhong Sun, The Australian National University

“Export Spillover of FDI in Manufacturing Industry in China”

Zhang Wei, The University of Adelaide

“Trade Agreements Under Political Pressures”

Thomas Barnes, The University of Sydney

“The Strategic Implications of Off-shoring to India: Preliminary Findings from Australian Case Studies”

Discussants: Xiangkang Yin, La Trobe University

Jonathan Pincus, Productivity Commission

Christis Tombazos, Monash University

Session 6: Risk and Finance

Chairperson: Duy Tran, UWA

Robert Powell, Edith Cowan University

“Value at Risk and Conditional Value at Risk”

Mamiza Haq, RMIT University

“Factors Determining Bank Risk: A European Perspective”

Michael O’Brien, The University of Queensland

“Fama and French Factors in Australia”

Discussants: Richard Heaney, RMIT University

Paul Kofman, The University of Melbourne

Robert Durand, The University of Western Australia

Session 7: Chinese and Australian Stocks

Chairperson: Joey Yang, UWA

Yong Hong Yan, University of Tasmania

“Convergence to the Law of One Price: Evidence from Cross-listed Chinese Stocks”

Gary Smith, The University of Western Australia

“Momentum in Australia: Sensitivity and Implementation”

Discussants: Kathy Walsh, The University of New South Wales

Terry Walter, The University of New South Wales

Session 8: Auctioneers and Auctions

Chairperson: Sam Tang, UWA

Yuelan Chen, The University of Melbourne

“Intermediating Auctioneers”

Ben Jarman, The University of Sydney

“Auctions with an Informed Seller: Disclosed vs Secret Reserve Prices”

Discussants: Andrew McLennan, The University of Queensland

Jennifer Foster, University of South Australia

Session 9: Dividend Policy and Characteristic Selectivity

Chairperson: Jackie Johnson, UWA

Shumi Akhtar, The Australian National University

“Dividend Policy Determinants of Australian MCs and DCs”

Adrian Lee, The University of New South Wales

“Benchmarking Benchmarks: Measuring Characteristic Selectivity Using Portfolio Holdings Data”

Discussants: Steve Easton, The University of Newcastle

Doug Foster, The Australian National University

Session 10: Poverty and Labour Economics

Chairperson: Prem Thapa, Department of Employment and Workplace Relations

Sothea Oum, Monash University

“A Recursive Dynamic CGE Assessment of the Cambodian Millennium Poverty Reduction Target”

Ha Vu, The University of Melbourne

“The Relationship Between Labour Market Conditions and Income Support Receipt”

Discussants: Sang-Wook (Stanley) Cho, The University of New South Wales

Paul Miller, The University of Western Australia

Session 11: Business Cycles and the Philips Curve

Chairperson: David Butler, UWA

Piyapas Tharavanij, Monash University

“Capital Market and Business Cycle Volatility”

Brett Ryder, The University of Queensland

“The Australian Phillips Curve in the Long Run: Monetary Policy Regimes and Expectations Formation”

Discussants: Mariano Kulish, Reserve Bank of Australia

Nghi Luu, Australian Government – The Treasury

Session 12: HIV/AIDS and Economic Growth

Chairperson: Andrew Williams, UWA

Duncan MacLaine, The University of Queensland

“HIV/AIDS and Economic Growth: An Econometric Analysis with Particular Consideration of the Role of Education Capital Accumulation”

Mary Manning, The University of Sydney

“HIV/AIDS and Trend Growth in Africa”

Discussants: Farshid Vahid, The Australian National University

Paul Frijters, Queensland University of Technology

Session 13: Firm Valuation

Chairperson: John Watson, UWA

Vic Naiker, The University of Auckland

“Accruals Quality, Firm Valuation and Audit Committee Accounting Expert Appointments”

Hong Feng Zhang, The University of Melbourne

“Understanding the Association Between Shareholder Rights and Firm Value”

Discussants: Stephen Taylor, The University of New South Wales

Geoff Kingston, The University of New South Wales

Session 14: Governance and Health Service Utilisation

Chairperson: Jo Voola, UWA

Vicar Valencia, The University of Melbourne

“Corporate Governance and Innovation”

Xiaohui Zhang, Monash University

“The Effect of Private Health Insurance and Health Status on the Demand for Medical Care”

Discussants: Renée Adams, The University of Queensland

Donald Wright, The University of Sydney

ABSTRACTS

Dividend Policy Determinants of Australian MCs and DCs

Shumi Akhtar

The Australian National University

This paper investigates the determinants of dividend policy for Australian DCs and MCs. In considering dividend payout ratios we adopt two definitions – cash dividends and total dividends. The cash dividend payout ratios consists of cash dividends to net earnings while total dividend payout ratios consists of both cash dividends and share repurchases to net earnings. The determinants of foreign exchange, tax clientele and financial slack are significant in explaining the difference of total dividend payout ratios between Australian DCs and MCs. Diversification, profitability, firm-specific risk, size, collateral value of assets and financial slack are the significant variables in explaining the difference in cash dividend payout ratios between Australian DCs and MCs. These results remain unaffected irrespective of controlling for industry and time effects.

Intra-regional Trade of Regional Trading Blocs: The Case of the Gulf Co-operational Council

Adham Al Said

The University of Western Australia

This paper adapts a framework to measure the effects of Regional Trade Agreements on international trade flows. It applies a two-step empirical model to analyse international and regional trade flows. The first step uses a gravity approach to determine trade flows between 145 countries over the last decade. The second step deals with intra-regional trade in the Gulf Cooperation Council (GCC) consisting of Bahrain, Kuwait, Oman, Qatar, Saudi Arabia, and UAE. Findings suggest that the GCC does not have a substantial impact on its members' intra-regional trade. Moreover, the paper finds no distinct patterns of trade within the region.

**The Strategic Implications of Offshoring to India:
Preliminary Findings from Australian Case Studies**

Thomas Barnes
University of Sydney

This paper is part of a PhD research project that explores the implications of India's relatively high economic growth for the Australian economy. The aim of the project is to ascertain the importance of Australian direct investment in India, with a particular focus on the off-shoring of production and its impact on employment security and conditions in Australia. The research will ask why and under what conditions Australian businesses decide to invest in India and what specific factors these businesses take into account. It will also evaluate competing projections concerning the future impact of Indian economic growth on Australian business investment decision-making.

An Optimal Quarantine Measure for the Importation of Bananas

Daniel Bunting
The University of New South Wales

In Australia, interest in importing bananas, particularly from the Philippines, has peaked in recent times due to the banana price rise following cyclone Larry in 2006. This paper attempts to find an optimal level of quarantine expenditure for the importation of bananas from the Philippines. The paper seeks to find an optimal level of quarantine that minimizes the total cost of the quarantine policy, the consumer and producer effects and the effects of the potential incursion of Moko, a highly damaging bacterium in bananas. The inherent stochasticity of the biological data is taken into account, and thus the use of a genetic algorithm as the solution tool is most appropriate. The model finds that the optimal level of quarantine expenditure provides 0.061 annual incursions. This is approximately half of the probability of incursion under "free entry," but significantly higher than the acceptable level advocated in the Biosecurity Australia risk analysis.

Intermediating Auctioneers

Yuelan Chen
University of Melbourne

Auction theory almost exclusively assumes that the auctioneer and the owner of the goods are one and the same. In reality, however, most auctioneers intermediate between buyers and sellers. We study a four-stage model with two intermediating auctioneers, two sellers of horizontally differentiated items, and N buyers with private and independent values. First, auctioneers choose a capacity to host 0, 1 or 2 auctions. Second, they simultaneously set percentage fees on the sales price. Third, sellers choose an auctioneer to sell her item in a standard auction, and set a reserve price. Fourth, each buyer bids for at most one item. We obtain three main results. First, the unique sub game perfect equilibrium capacity choice is for each auctioneer to host one auction. Second, equilibrium percentage fees are independent of N . Third, collusive commission fees and capacities are the same as in the Nash equilibrium.

Corruption and Regulatory Burden

Ratbek Djumashev
Monash University

It is known that government has discretionary power in providing public goods and regulating the economy. Corrupt bureaucracy with discretionary power creates and extracts rents by manipulating with the public good supply and regulations: i) by attaching excessive red tape to the public good they are providing; ii) or by making the regulations difficult for the private agents to comply with. The former type of corruption results in less public input being provided at higher cost to the private agents. The latter increases non-compliance that then breeds bribery. Consequently, the overall public sector burden is higher in the environment with corrupt bureaucracy. We show this outcome using a simple theoretical model, and then confront it with empirical evidence.

The Impact of Corruption on Economic Growth in Lebanon

Moe Farida
The University of Sydney

This paper seeks to examine the direct and indirect effects of corruption on economic growth in Lebanon. We hypothesise that corruption reduces a country's standard of living as measured by the real GDP per worker. We argue that corruption deters economic growth, reduces the productivity of capital and decreases the effect of government expenditure on growth. Using a neoclassical model, we find empirical support indicating that corruption increases inefficiencies and reduces economic growth. Results also suggest that corruption does not alter the effect of foreign aid on output. They imply that the marginal benefit to output of reducing corruption outweighs virtually any other policy action. That is, unless corruption is reduced in Lebanon, efforts to improve private and public investment will have a minimal impact on per capita GDP.

The Joint Hedging and Leverage Decision

John Gould
University of Western Australia

The validating roles of hedging and leverage as value-adding corporate strategies arise from their beneficial manipulation of deadweight market impositions such as taxes and financial distress costs. These roles may even be symbiotic in their value-adding effects, but they are antithetic in their effects on company risk. This study's modelling analysis indicates that hedging and leverage do interact for net benefit to company value. However there is no straightforward generalisation for the relative financial riskiness of an optimal joint hedging and leverage strategy in comparison to an unhedged optimal leverage strategy or an unhedged and unlevered strategy; the observed relative riskiness depends on the price level for production output and the company's remaining production life.

Factors Determining Bank Risk: A European Perspective

Mamiza Haq
RMIT University

This paper investigates the factors affecting bank operational risk and bank equity risk for European banks during 1996 to 2005. Pooled-OLS and panel data analysis is applied to 84 financial institutions across 15 European countries using credit risk, interest rate risk, total equity, systematic risk and idiosyncratic risk. Off-balance sheet activities are positively correlated with all the risk measures except for interest rate risk. Further, bank charter value is positively correlated with total risk and idiosyncratic risk though negatively correlated with credit risk. Uninsured deposits are negatively correlated with systematic risk, suggesting market disciplining effects. Finally, in general we find a non-linear relationship between bank capital and bank risk.

Alternative Volatility Models for Pricing European Currency Options

Ariful Hoque
Curtin University of Technology

This paper focuses on modeling foreign exchange return behavior that would result in more accurate currency options pricing. These alternative approaches namely, implied volatility model (IVM), realized volatility model (RVM) and GARCH (1,1) volatility model (GVM) are used in this study. The results, in general suggest that RVM outperforms both IVM and GVM in pricing currency options. In-sample, there is no significant difference between IVM and GVM, but GVM performs better in pricing options than IVM out-of-sample. An implication of our findings is that the traders can use the RVM for high-frequency intra-day data to exploit significant information for pricing next trading day options more accurately.

Auctions with an Informed Seller: Disclosed vs Secret Reserve Prices

Ben Jarman
University of Sydney

In recent work Cai, Riley and Ye (2007) have demonstrated that a seller who holds private information about the quality of a good can use a disclosed reserve price to signal information to bidders in an auction. Given that signalling is costly, it is possible that the seller would benefit from some policy that can limit the adverse selection problem faced by bidders. We examine the returns to the seller in an English auction from using different types of secret reserves; i.e. prices that are announced as a take it or leave it offer to the winner after the auction in the event the reserve was not met. We find that full disclosure is preferable to later announcement of a reserve regardless of when the reserve itself is selected. We also show that even though signals are independent, the Linkage Principle plays an important role in this ranking since it allows us to fix a probability of allocation and analyse the effect of changes in the probability of reserve clearance. The reserve is cleared less often under secrecy, which increases the importance of the reserve price announcement, thus making signalling more costly than under immediate disclosure.

Benchmarking Benchmarks: Measuring Characteristic Selectivity Using Portfolio Holdings Data

Adrian Lee
The University of New South Wales

This study proposes methodological adjustments to the widely adopted performance benchmarking methodology of *Daniel et al.* (1997) as a means of improving the precision of alpha measurement for active equity fund managers. We achieve this by considering adjustments for style migration and monthly updating of characteristic benchmarks to ensure neutrality to the broad-based index. Applying this new benchmark to a representative sample of active Australian equity funds in the period January 1995 to June 2002, we find tracking error is almost halved while stock selectivity is 0.14% lower compared with using the standard characteristic benchmark methodology. The reduction in tracking error is robust when benchmarking funds by style and by characteristics of stocks held. We also find tracking error is improved with more characteristic portfolio sorts and longer holding periods consistent with literature showing characteristic returns occur in annual cycles.

HIV/AIDS and Economic Growth: An Econometric Analysis with Particular Consideration of the Role of Education Capital Accumulation

Duncan MacLaine

University of Queensland

This paper investigates, using a panel data approach, the effects of the HIV/AIDS epidemic on economic growth using a neoclassical growth model that incorporates human capital in the form of both health capital and a Mincerian specification of education capital that encompasses both quantitative and qualitative components. Two important innovations of my analysis are that: (i) it represents the first cross-country econometric assessment that pays particular attention to human capital accumulation through education, and (ii) it implements the dynamic panel system-GMM estimator that is known to be superior to alternative estimators that underlie previous econometric assessments of the epidemic. Based on a sample spanning 45 years and 142 countries, results indicate that the epidemic's effects on growth have been large and that a material component of this effect is due to its detrimental impact on the accumulation of education capital. For a full world sample and a sub-sample of developing world countries, the impact of a 1% increase in adult HIV prevalence is estimated to be a reduction in income per capita of around 0.14% and 0.12% on average respectively, which is substantially larger than that found in previous econometric assessments of the epidemic.

HIV/AIDS and Trend Growth in Africa

Mary Manning

The University of Sydney

This paper provides new evidence regarding the impact of the HIV/AIDS epidemic on trend per capita growth in Africa. Panel data from 35 African countries is used to analyze the impact of HIV prevalence on the components of an augmented neo-classical growth model. Results show that HIV prevalence has a significant negative impact on trend per capita growth and its determinants, but only in high prevalence countries and only in the short run. These results have important policy implications both domestically in high prevalence countries and globally in the context of international funding for HIV/AIDS programmes.

Accruals Quality, Firm Valuation and Audit Committee Accounting Expert Appointments

Vic Naiker
The University of Auckland

Prior research indicates that accounting expertise in audit committees has a profound positive association with financial reporting quality. While these results suggest that accounting experts improve financial reporting quality, the results could also be attributed to the self-selection of accounting experts and firms with high financial reporting quality. This study employs the empirical setting of director appointments to the audit committee to provide support for the self-selection explanation. Specifically, I find that firms which already have high financial reporting quality are more likely to appoint accounting experts to their audit committee. The results also indicate that the propensity of high quality firms to make such appointments is more pronounced when they are undervalued, underlining the use of accounting expert appointments as a signaling mechanism.

Fama and French Factors in Australia

Michael O'Brien
The University of Queensland

This study analyses the size and book to market effects and the ability of the Fama and French (1993) three factor model to explain the cross-section of returns. Previous studies in Australia have suffered from data limitations due to the difficulty in obtaining a comprehensive series of accounting data. This study overcomes these limitations by hand collecting accounting information on over 98% of all listed companies during the period 1981 to 2005. this study finds that the Fama and French (1993) model provides increased explanatory power in explaining the cross-section of returns in Australia when compared to the Capital Asset Pricing Model (CAPM). In contrast to previous Australian studies this is due to both size and book to market effects playing a role in asset pricing.

A Recursive Dynamic CGE Assessment of the Cambodian Millennium Poverty Reduction Target

Sothea Oum
Monash University

The main objective of this paper is to apply a recursive dynamic computable general equilibrium model to assess the likelihood of Cambodia meeting her poverty reduction target of her millennium development goals (CMDGs) in 2015. Results from the model's forecast simulation imply that Cambodia could potentially reduce its poverty headcount from 35 percent in 2004 to 21 percent in 2015, which is 4 percent below its CMDG's target. However, this optimistic forecast is entirely based on the assumption that the pattern of income distribution throughout the forecast period is the same as in the base period.

Value at Risk and Conditional Value at Risk

Robert Powell
Edith Cowan University

Value at Risk (VaR) is an important issue for banks since its adoption as a primary risk metric in the Basel Accords. Value at Risk (VaR) and Conditional VaR (CVaR) in Australia is examined from an industry perspective using a set of Australian industries. A variety of metrics is used, including diversified and undiversified VaR, as well as parametric and nonparametric CvaR methods. There is found to be no significant difference between these metrics in ranking industry risk, with the highest relative industry risk in the Technology Sectors, and lowest risk in the Finance and Utilities Sectors.

**The Australian Phillips Curve in the Long Run:
Monetary Policy Regimes and Expectations Formation**

Brett Ryder
The University of Queensland

Studies typically find that the standard New Keynesian Phillips curve cannot adequately capture the inertia present in postwar inflation data. A common response has been to include lagged inflation in the equation, producing the Hybrid Phillips curve. However this paper demonstrates that the relationship between current and lagged inflation is not a stable feature of the long run Australian data but varies with the monetary policy regime. Modelling inflation expectations using a recursive learning process is shown to be more consistent with the data.

**Measuring Competition Using Lower Bound Concentration Curve:
the Case of the Indonesian Manufacturing Industry**

Achmad Shauki
University of South Australia

This paper looks at the effect of trade liberalization, rent seeking, and the presence of state enterprise on domestic competition in Indonesian manufacturing industries. The hypothesis is that the Indonesian trade liberalization had an insignificant impact on domestic competition because it emphasized the promotion of exports rather than the efficient allocation of resources. In addition, the opportunity for rent seeking activities and the presence of state enterprises increased barriers to entry and therefore reduced competition. The paper also looks at the role of foreign investment on domestic competition. The lower bound concentration curve, which is estimated using a stochastic frontier model, is used as a benchmark from which competition and entry conditions are measured. The results show that trade liberalization in general did not contribute significantly toward increasing domestic competition. Rent seeking and the presence of state enterprises tend to reduce domestic competition by heightening entry barriers. The results also show that foreign investments do not always promote domestic competition.

The Price Elasticity of Demand for Pharmaceuticals amongst High Income Older People in Australia: A Natural Experiment

Peter Siminski

University of New South Wales

This paper presents estimates of the price elasticity of demand for pharmaceuticals amongst high-income older people in Australia. It exploits a natural experiment by which some people became eligible for a greatly reduced price through a health concession card. Estimation techniques include negative binomial difference-in-difference regressions with instrumental variables, as well as propensity score matching. The models are estimated on nationally representative, repeated cross sectional survey data. Card take-up is not found to be endogenous in models where card status is instrumented by the policy change, and so cross-sectional estimates are also considered. The preferred estimate is a statistically insignificant elasticity of -0.1 , calculated using the cross-sectional propensity score method.

Momentum in Australia: Sensitivity and Implementation

Gary Smith

The University of Western Australia

Australian studies of momentum – where portfolios formed from past “winners” outperform portfolios of past “losers” – have presented contradictory results. In this study we reconcile some of the previous research and then extend these results. After applying an array of robustness tests to the findings we document evidence that momentum is time-specific. The sensitivity of these results to both methodological choices and transaction costs causes us to remain sceptical of the existence of implementable momentum strategies in the Australian market.

Export Spillover of FDI: Evidence from China

Sizhong Sun

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This paper first shows theoretically that if foreign direct investment (FDI) reduces domestic firms' export cost, for example by dissemination of export market knowledge, then domestic firms' export intensity will be unambiguously promoted. This hypothesis is then tested, using a firm level micro-data that consists of over 180 thousands firms of the manufacturing industry in China in 2003. The empirical test is carried out using the sample selection model and a general-to-specific estimation strategy. It is found that FDI does generate export spillovers, and the scale depends positively on firms' age, size, and ownership, and negatively on firms' average wage and geographical location.

Capital Market and Business Cycle Volatility

Piyapas Tharavanij

Monash University

This paper investigates cross-country evidence on how capital market affects business cycle volatility. In contrast to the large and growing literature on the impact of finance and growth, empirical work on the relationship between finance and volatility has been relatively scarce. Theoretically, more developed capital market should lead to lower macroeconomic volatility. The major finding is that countries with more developed capital market have smoother economic fluctuations. Results are generated using panel estimation technique with panel data from 44 countries covering the years 1975 through 2004.

Corporate Governance and Innovation

Vicar Valencia

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A fundamental concern emerging from the corporate literature is the agency problem of innovation. While shareholders regard innovation as a value-enhancing investment strategy, the Chief Executive Officer (CEO) has an intrinsic reluctance to pursue innovation projects. The thrust of this paper is to identify the mechanisms of corporate governance which help attenuate this problem, thereby encouraging the CEO to have the propensity to innovate. Using panel count data panel models and GMM estimation that control for unobserved effects and endogeneity, I find that firms with a concentration of minority shareholders are less likely to engage the CEO to innovate. The likelihood of innovating appears to increase, however, in the presence of a large minority shareholder. Also, contrary to prevailing beliefs, I do not find any association between innovation and board independence. The same result holds for board size. On the other hand, innovation increases when the CEO is not the Board Chairman. I use a sample of domestically-owned Australian firms over the period 1994-2003.

The Relationship between Labour Market Conditions and Income Support Receipt

Ha Vu

The University of Melbourne

This paper estimates the contribution of the improvements in labour market conditions to the income support caseload (stock) decline among the working age population between 1997 and 2005. The paper first models the income support flows, and subsequently simulates the implied effect of labour market conditions on the income support caseload. Substantial measurement error in labour market variables and limited labour market measures are the main empirical issues encountered. Due to measurement error, we are not able to provide precise estimates but lower bound estimates. With limited labour market measures, we only examine the effect of labour market conditions associated with the changes in the unemployment rate and employment rate. Our simulation results suggest that labour market conditions explain at least approximately 45% of the total caseload decline.

Trade Agreements Under Political Pressures

Zhang Wei

The University of Adelaide

We study in this paper the welfare effects of different types of trade agreements and the equilibrium outcome of trade negotiation, when the objective of each government is politically motivated. We explore a three-country and three-good trade model with endogenous tariffs and export subsidies in a political economy framework. In this context, we suggest that the welfare effects of both bilateral free trade agreements and a multilateral trade agreement (MTA) are ambiguous, which depend on the extent of relative concern about the political contribution of each government (γ) and the endowment ratio between different sectors in each country (x). We further introduce a trade negotiation game to investigate the equilibrium outcome of trade negotiation, in which each country endogenously decides whether to participate in bilateral or multilateral trade liberalization. We find that the result also depends on the two factors mentioned above. For given value of x , multilateral free trade is achieved through a MTA if γ is relatively small and it makes the welfare of all countries improve. Otherwise, there is no agreement achieved at all. On the other hand, an increase in the value of x can enlarge the range of γ in which the MTA is approved.

Convergence to the law of one price: Evidence from cross-listed Chinese stocks

Yong Hong Yan

University of Tasmania

This paper explores the convergence of the prices of cross-listed stocks on Shanghai Exchange (SHSE) and Hong Kong Exchange (SEHK) to the law of one price. Relative and absolute convergence is examined using panel unit root tests. After finding evidence supporting divergence from both versions of the law, we find that both hold during two sub-sample periods of investigation which take into account the break points of both economies' recovery from the Asian crisis. Since these break points characterise changes in the degree of capital controls between the two markets, the results show the degree to which Chinese financial markets are moving towards full integration.

Understanding the Association Between Shareholder Rights and Firm Value

Hong Feng Zhang
University of Melbourne

In this study, I employ a system GMM model that is robust to endogeneity to uncover the dynamic association between firm value and the G index, which is a proxy for shareholder rights. I find that firms with a lower G index are more likely to have a higher firm value. My empirical evidence also shows that using static model specifications to examine the causality, if any, is problematic in this specific area. Further, the following robustness checks indicate that my dynamic model specification is not likely to be engendered by severe reverse causality and nonstationarity problems.

The Effect of Private Health Insurance and Health Status on the Demand for Medical Care

Xiaohui Zhang
Monash University

We applied a two-step model to examine the impact of health status and private health insurance status on medical care utilization using data from the Australian National Health Surveys. In the first step, health status is determined; in the second part, an endogenous multivariate Probit model is estimated, with private health insurance status as endogenous variable. The cross equation correlations and the coefficient of private health insurance and health status are significant, supplying evidence for the endogeneity of private health insurance status. The effects of private health insurance on medical care utilizations are estimated via conditional probabilities. Marginal effects of exogenous socio-demographic and lifestyle variables are also estimated through their direct effects on medical care utilization and indirect effects via health status and private health insurance.

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