

**INTERNATIONAL CONFERENCE ON
MODELLING ECONOMIC DYNAMICS**

AUGUST 23-25, 2007

HULL, ENGLAND

**ORGANIZED BY
MODELLING ECONOMIC DYNAMICS
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http://www.hull.ac.uk/php/ecskrb/Hull_Conference_07.html

Aims and Objectives of Modelling Economic Dynamics Conference 2007

Economic models explain how economy works based on ideas of classical, neo-classical and modern schools of economic thoughts and these are used to evaluate the impacts of economic policies theoretically and empirically on quantities and prices and fluctuations among them in various goods and factor markets. In addition to the scientific objective of understanding the functioning of the economy economic models guide formulation, evaluation and redesign of economic policies of public institutions such as the ministries of planning, finance, education, health or agriculture and natural resources, central banks, department of trade and industry and environment or many other non governmental organizations. These tasks are often supported by extensive works undertaken in academic departments and research centres in various universities which focus on dynamic analytical tools for economic issues that are derived either from the partial or general equilibrium analyses of the economy, game theories and econometric models. Theoretical and empirical foundations for scientific analyses of economic policy matter for the livelihood of population. Complexity of a modern economy requires more sophistication in analyses. The practical decision makers need to digest abstract theoretical construction to derive realistic assessment of problems, their solutions and evolution of an economy over a horizon. Ultimately these models need to address the aspirations of people constrained by resources in a competitive global market place.

Spurring the rate of economic growth, creating more jobs, enhancing competition and raising living standards of all and alleviating poverty are major challenges for which these economic methods can be useful. These methods clarify our reasoning, broaden our vision, identify existing problems, provide their solutions and suggest the best way to improve welfare of individuals in the economy. Models may calibrate the economy, simulate or estimate its dynamic path or decompose variances and covariance of income, prices or values or analyze impulses or shocks in the system taking issues and questions from micro, macro, public finance, international trade, development or environment. The modeling economic dynamics thus is taking the best elements from the advancement of economic science since the time of Adam Smith in solving major economic problems in the best possible way.

The Modelling Economic Dynamics Conference 2007 aims to create a forum of economists working in these challenging problems around the world and urges them to exchange ideas for the benefit of humankind and for steady progress of our economies and improvement in the living standards of millions of people around the globe. This booklet includes conference programmes, abstracts of papers submitted into the conference, contact addresses of participants and full papers presented at the conference. The organizer hopes that active exchange of ideas on modeling dynamics will take place during the conference and will continue in coming years.

Dr. Keshab R Bhattarai

Chair, Modelling Economic Dynamics Conference, 2007, Hull England.

Conference Venue: Endsleigh Centre, 481, Beverley Road Hull, HU6 7LJ, Hull. UK.
Phone 44-1482-342779; Mobile 07886637302

August 23, 2007

Registration 11:00 -12:00

Endsleigh Centre, 481, Beverley Road Hull, HU6 7LJ (phone 44-1482-342779).

12:00 - 12:30

Welcome and A Plenary Session on Modelling Economic Dynamics

Lunch: 12:30 - 13:30

13:30 -14:00 (Chair: Biswas)

Exchange rate and tariff pass-through into India's product-level export prices across G3 and BRICS markets

**Sushanta Mallick, Queen Mary, University of London, UK
Helena Marques, Loughborough University, UK (D: Wang)**

14:00 -14:30

A two-country macro-finance model on real and financial spillovers

**Zhuoshi Liu The University of York
Peter Spencer The University of York (D: Bhattarai)**

14:30 -15:00

Testing for price convergence among Mercosur countries

**Juan Carlos Cuestas (Nottingham Trent University)
Javier Ordóñez (Jaume I University) (D: Wang)**

15:00 -15:30

Capital Accumulation, Growth and Redistribution in UK: Multisectoral Impacts of Energy And Pollution Taxes

Keshab Bhattarai, Business School, University of Hull (D:)

16:00 -16:30 (Chair: Wang)

International Business Cycle Coherence and Phases

Peijie Wang, University of Hull (D: Liu)

16:30 -17:00

Asking Price and Price Discounts: The strategy of selling an asset under uncertainty

**Tapan Biswas, Centre for Economic Policy University of Hull
Jolian McHardy, Department of Economics University of Sheffield
(D: Bhattarai)**

17:00 -17:30

**Optimal Capital Income Taxation in a Two Sector Economy
Sheikh Selim, Cardiff University (Edward)**

17:30 -18:00

A Simultaneous Equation Model of Policies Relating to Fiscal Policy, Monetary Policy and Trade Flows in the United Kingdom

SehaM Negem, Egypt (Amalaha)

Welcome Reception and Dinner 18:00 - 19:30

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August 24, 2007

Registration 9:30-10:00

10:00 -10:30 (Chair: Mallick)

The diffusion of ATM technology: The Indian experience

1) **Lakshmi Kumar** is a Faculty Associate at the Institute for Financial Management and Research (IFMR), 24, Kothari Road, Chennai and a Research Scholar at the Department of Management Studies of the Indian Institute of Technology (IIT), Madras. Email: lakshmik@ifmr.ac.in Phone: 91-44-28273801

2) **D Malathy** is Professor, Department of Humanities and Social Sciences, IIT Madras.

3) **L S Ganesh** is Professor and Head, Department of Management Studies, IIT Madras.

(D: Patterson)

10:30 -11:00

A Welfare Analysis of Policy Reforms in the South African automotive industry

Frank W. Agbola, School of Economics, Politics and Tourism, The University of Newcastle, Callaghan, Australia

(D: Biswas)

11:00 -11:30 (Chair: Selim)

Economic Growth: Models and Global Evidence

Keshab Bhattarai, Business School, University of Hull

(D: Agbola)

11:30 -12:00

Sector-Specific Factors and the Trade and Wages Debate

T.Huw Edwards, Loughborough University and IFW, Kiel

(D: Bhattarai)

12:00 -12:30 (Chair: Cuestas)

Modelling the Long-Run Poverty Prognosis of 'Swiss Formula' Adoption Under Non-Agricultural Market Access (Nama) in Nigeria: Dynamic Simulations in a Cge Model.

EKEOCHA, PATTERSON C. Ph D, Department Of Economics, University Of Nigeria, Nsukka. And African Institute For Applied Economics (Aiae) Enugu.

NWAFOR, MANSON, African Institute For Applied Economics (Aiae) Enugu.

12:30 -13:00

Space dynamics and improvement of the total factors productivity (TFP)

Lassaad Jebali, Laboratoire: Modélisation Economique et Application (MEA) Faculté des Sciences Economiques et de Gestion de Tunis (FSEGT) E-mail: lassaad.jebali@gmail.com.

Mohamed Ben Salah, Faculté des Sciences Economiques et de Gestion de Tunis (FSEGT) E-mail: bsmedu@gmail.com

(D: Panahi)

Lunch: 13:00 - 14:00

14:00 -14:30 (Chair: Lakshmi)

Spatial time interactions between economic operations: impact to the tunisian regional income inequality distribution

Lassaad Jebali (Institut supérieur d'informatique et de gestion- Kairouan

Anis Kacem (Institut Supérieur de gestion de Sousse-Tunisia)

(D: Negem)

14:30 -15:00

MSW-GARCH-M multi-factors modeling of IPO Long-Run Performance

Habiba MARISSA, BESTMOD laboratory, Institut supérieur de gestion de Tunis, Tel: (216)-22695466, E-MAIL: habiba.mrissa@laposte.net.

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(D: Ghatak)

15:00 -15:30 (Chair: Lui)

Domestic Macroeconomic Policies and Private Fixed Capital Formation in Nigeria: A VAR Approach

Okoli, R. Obiora; Onah, F. E.; Amalaha, R. Obinna and Nwosu, O. Christian

(D: Edwards)

15:30 -16:00

Distance, International Trade and Economic Growth

Hossein Panahi, The Business School, University of Hull, UK

h.panahi@econ.hull.ac.uk (D: Mallick)

16:30 -17:00

Business Cycle Phases and Coherence

Peijie Wang, University of Hull

(D: Mrissa)

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Conference Dinner 18:00-20:00

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August 25, 2007

Trip of Yorkshire Moore and East Coast by a Minibus at 8 AM; 15 seats available book at registration; price 15 pounds; return to Hull by 4 PM.

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End of Conference
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ABSTRACTS OF PAPERS SUBMITTED TO MED2007 CONFERENCE

A Welfare Analysis of Policy Reforms in the South African automotive industry

Frank W. Agbola

School of Economics, Politics and Tourism, The University of Newcastle, Callaghan, Australia

Maylene Y. Damonese

School of Business and Economics, Monash University - South Africa, Roodepoort, South Africa

The South African automotive industry was heavily protected during the early years of its industrial development. Beginning in 1989, the automotive industry experienced major policy reforms. The purpose of this paper is to examine the welfare effects of protection in the South African automotive industry. Simulation analyses of the economic gains and losses to consumers and producers of automobiles has revealed that protection of the auto industry imposes substantial costs on consumers and transfers large benefits to assemblers and component suppliers within the South African automotive industry. The government revenue is large. The results indicate substantial societal deadweight efficiency loss to South Africa.

Agriculture status in Iranian economy

Mohammad Beheshti, Ph.D

Dept. of Economics, Tabriz University

In developed countries, the traditional agriculture evolved to modern one. Through this process, the industrial countries could increase agricultural products, while the proportion of the primary industry in their GDP and employment declined to less than 5 per cent. Iran has a mixed agricultural economy. In the pre-revolutionary period, as result of giving priority to industry sector, the agricultural sector did not a continuous growth. Contrary, in the post- revolutionary period, because of some government's support policy, the agricultural sector was the only one that grew regularly and its productivity was increased. The objective of this paper is to consider the status of the agricultural sector in Iran. To do so, a documentary statistics of national accounts and employment statistics have been utilised. Also a production function has been estimated.

The research findings are as follows.

1. In the post-revolutionary period, among all the economic sectors, the agriculture sector was the only one that its value-added, labor productivity and employment increased regularly.
2. The relative productivity (the ratio of proportion in value-added to proportion in employment) increased.
3. As a result of low literacy, the ability of the sector's workers was very weak.
4. The estimated production function shows a labor-intensive technology and an increasing return function.

Key words: Iran's economy, Agricultural economy, Productivity, Relative productivity.

Economic Growth: Models and Global Evidence

Keshab Bhattarai

Business School, University of Hull

Capital, labour input and technology figure prominently in the exogenous and endogenous models of economic growth. In addition empirical country specific evidence supports the view that economic policy variables such as the ratio of public spending to GDP, the rate of inflation, the openness of the economy and arrangements of exchange rate regimes are equally important for a respectable economic growth. Analysis of panel data constructed from the World Bank database for OECD economies, low income economies, newly emerging economies of South East and South Asia, countries in the Middle East, sub-Saharan Africa and Latin and Central America on economic growth suggests that country or region specific micro and macro economic factors and policy variables have significant influences on the rates of economic growth.

Capital Accumulation, Growth and Redistribution in UK: Multisectoral Impacts of Energy And Pollution Taxes

Keshab Bhattarai

Business School, University of Hull

This paper investigates how the capital accumulation across sectors generates higher rates of economic growth but also raises the level of pollution using the results from multisectoral and multi household dynamic general equilibrium models of energy and environment in the UK economy (GEMEETUK). Growth and redistribution are analysed simultaneously including the optimal labour leisure choices of households who are constrained by their budget constraints and are subject to various taxes and transfers. The energy, environment and growth of economy are intertwined including pollution as by products of production processes among various sectors and with the pollution tax on energy sector. The evolution of economy with and without energy and pollution taxes are shown using dynamic series of model results on output, employment, investment and capital stocks by sectors and households at micro level and corresponding aggregates at the macroeconomic level.

Asking Price and Price Discounts: The strategy of selling an asset under uncertainty

Tapan Biswas, Centre for Economic Policy University of Hull

Jolian McHardy, Department of Economics University of Sheffield

We consider fixed and asking price strategies in the context of selling an asset with Bernoullian updating of the seller's subjective probability of sale at a given price. The determination of optimal fixed, asking and endogenous reservation prices is discussed under risk-neutrality and expected utility maximisation. With risk-neutrality, the optimal asking price exceeds the optimal fixed price when the expected gain is a strictly concave function. The seller's choice between the fixed and the asking price strategies depends on several factors: the expected cost of haggling, price competition and the seller's attitude towards risk.

In Search of Causation

John Bryant
Rice University

Recent results in psychology, and cognitive science, have been impacting the work of philosophers, and the former results have been enlightened by the careful consideration of each other, and of their philosophical foundations. This paper considers whether some of these recent approaches in psychology might shed light on the temporal order of causality, and of Hume's attachment to it, despite its detachment from the rest of his analysis; or, barring that, at least and particularly as it, this temporal order, relates to the concerns of Macroeconomics. Of course, one important distinction between causation in the physical sciences and economics is that billiard balls, for a classical example, do not think, or anticipate, or anticipate that others think, and so on, but people do. To consider this issue, it is necessary to delve into the foundations of game theory as formulated by Von Neumann and Morgenstern.

Testing for price convergence among Mercosur countries

Juan Carlos Cuestas (Nottingham Trent University)
Javier Ordóñez (Jaume I University)

Mercosur (Mercado Común del Sur in Spanish) was created in 1991 with the signing of the Asunción Treaty, aiming to boost freedom of movement of goods, labour and currency. The countries that signed this agreement were Argentine, Brazil, Uruguay and Paraguay. Since then, most of the Latin American countries have become associate members (e.g. Chile and Bolivia) or even full members, e.g. Venezuela in 2006. After the creation of Mercosur, the question of whether the creation of a monetary union would be appropriate has aroused a debate among both economists and politicians alike, although there seems to be general agreement to the contrary, based, especially, on the Optimal Currency Areas theory (see Levy-Yeyati and Sturznegger, 2000, among others). Notwithstanding, it is worth analysing the degree of economic integration within the area. There are several ways to measure the degree of economic integration between countries. For instance, Purchasing Power Parity (PPP hereafter) can be understood as a measure of economic integration (Frenkel, 1981; Choudhury, McNown and Wallace, 1991; Wei and Parsley, 1995, and Laureti, 2001). Furthermore, under freedom of movements of currency between two countries, real interest rates should converge. In this paper, we aim to analyse prices in a common currency and real interest rates convergence in the Mercosur countries, i.e. Argentine, Brazil, Chile, Paraguay and Uruguay, following Bernard and Durlauf (1995) definition of convergence and common trends, applying unit root tests such as Ng and Perron (2001) and Kapetanios, Shin & Snell (2003), as well as Bierens' (2000) co-trending analysis. The univariate analysis (Ng & Perron, 2001 and Kapetanios et al., 2003) points only to convergence in real interest rates, whilst the multivariate analysis (Bierens, 2000) provides evidence of common trends in both markets.

Technology, Barriers on Capital Flows and Economic Growth

Chia-Ying Chang,
School of Economics and Finance,
Victoria University of Wellington

The lower barrier on capital mobility has stimulated capital flows across countries. Whether capital flows would promote economic growth is still not clear. This paper argues that whether the capital flow would promote growth depends crucially on three factors, the preferences of depositors, the relative technology level of domestic and foreign countries and the barrier of capital mobility in the foreign country. By extending the model of Chang (2005) and allowing for capital inflow and outflow, I find several interesting results. First, without capital flows, patient depositors would increase the loans available to the entrepreneurs, and promote economic growth. Second, with capital flows, whether the outflow capital would flow back to the economy would depend on the relative technology levels of two countries and the barrier of capital flows in the foreign country. If the technology of accumulating capital is higher in the foreign country, which does not have restrictions on capital flows, then the capital outflow caused by factory relocation may promote growth, because the capital accumulated in the foreign country may flow back and promote domestic economic growth. If the country which domestic capital has flowed to has high barrier on capital mobility, then it is more likely that capital outflow to that country has no contribution to domestic economic growth, and may also damage domestic growth.

Oscillations Theory of International Economic Integration (cases of the 2004 EU enlargement and the global integration)

Ravshanbek T. Dalimov, Assistant Professor, Economics department,
National University of Uzbekistan

In the article it is proposed computation method of the efficiency of economic integration using results of qualitative oscillations theory. In the article there has been analytically shown that international economic integration is always beneficial to all its participants. In the second part of article cases of the EU enlargement in 2004 and global integration were considered.

Sector-Specific Factors and the Trade and Wages Debate

T.Huw Edwards

Loughborough University and IFW, Kiel

I outline the potential implications of sectoral factor immobility for the debate on the effects of low-wage competition on wage inequality in advanced countries. In theory, the presence of sector-specific factors serves to damp the magnification effect of World traded prices upon relative wages, by reducing the shift of output from unskilled-intensive to skilled-intensive sectors, and Edwards and Whalley (2006) have shown that only modest amounts of fixed factors are required to alter results qualitatively. There is evidence among OECD countries of a negative relationship between the structural decline of manufacturing since 1970 and increasing wage inequality: it is argued that the less flexible labour market institutions in Continental Europe may have mitigated the downward pressure on unskilled wages by this route, particularly if factor depreciation is of an ongoing maintenance cost variety.

Modelling the Long-Run Poverty Prognosis of 'Swiss Formula' Adoption Under Non-Agricultural Market Access (Nama) in Nigeria: Dynamic Simulations in a Cge Model.

EKEOCHA, PATTERSON C. Ph D

Department Of Economics,
University Of Nigeria, Nsukka.
And African Institute For Applied Economics (Aiae) Enugu.

NWAFOR, MANSON

African Institute For Applied Economics
(Aiae) Enugu.

This is a study on the long-run poverty effects of the adoption of 'Swiss formula' tariff reduction in Nigeria. 'Swiss formula' is among the tariff reduction formulas being projected for adoption at the on-going multilateral trade talks under the auspices of the World Trade Organizations (WTO). An important concern in the deliberation over multilateral trade liberalization of any sort is poverty reduction considering the Millennium Development Goals (MDGs). Sequel to that, a trade agreement appeals to governments if it offers greater welfare than would be realized in the absence of such agreement. Considering the time dimension of the policy if adopted, and that agents' behaviour in the short and longer may likely differ, with long-run effects being larger, the study employs dynamic simulations in a CGE model. The essence is that long run effects are more important for policy decisions. Results from the study reveal that the adoption of the 'Swiss formula' will lead to higher poverty rates in Nigeria in the long-run.

Housing as a Measure for the Long-Run Risk

Jose L. Fillat
University of Chicago

I evaluate the asset pricing effects of risk in long run consumption growth. Current asset values are affected by the risk-return tradeoff in the long run. A recursive utility framework allows to price the long run risk exposure and separate inter-temporal elasticity of substitution from risk aversion. I include housing in the model, as it is a particularly sensitive asset to long run risk-return trade off. I use a non-separable utility function with two goods, non-housing consumption and housing services, which creates a intra-temporal composition risk, besides the traditional consumption growth risk. The composition risk has effects in the valuation of cash flow growth fluctuations far into the future. I provide a closed form solution for the valuation function despite the non-separability. This allows me to quantify the price of risk in the long run with inputs from vector autoregressions and evaluate the different exposure to long run risk of a cross section of portfolios of securities along with housing.

Decentralisation, corruption and economic development

Sebastian Freille - University of Nottingham
Emranul M Haque - University of Manchester
Richard Kneller - University of Nottingham

This paper studies the relationship between corruption and decentralisation from a macroeconomic perspective. Providing a macroeconomic analysis may help to understand better the links and channels between corruption, decentralisation and economic development. The analysis presented in this paper is unique in that it provides an explicit formulation of the relationship between corruption, decentralisation and economic development. We bring together the theoretical and empirical predictions of both the traditional and modern fiscal federalism theories and find that the effect of decentralisation on development depends crucially on the existence and extent of corruption. Without corruption, decentralisation is unambiguously the best outcome for development. However, if corruption is pervasive, decentralisation may be associated to lower capital accumulation than centralisation. This result is more likely to be observed in developing countries with weak local political institutions and significant information asymmetries between the government and local administrations.

Dynamics of Inter-regional Migration in Transition Economies

Subrata Ghatak, Alan Mulhern, John Watson Kingston University, UK

In this paper, we modify the Harris-Todaro model of migration to incorporate the impact of human capital, housing stock and the availability of publicly provided goods like health care and road provision in order to analyse the determinants of migration in different regions of Poland. We apply the Seemingly Unrelated Regression Equation [SURE] model to investigate the data. Our results show that GDP per capita, unemployment and distance have a strong effect on regional migration in this country. Human capital is also an important explanatory factor as is the provision of key publicly provided facilities such as roads. The lack of housing in Poland is important in explaining the low levels of internal migration.

Adaptive Behavior and Dynamic Stability

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Adaptive behavior has been observed in almost all aspects of real life economic world. One of the advantages of adopting adaptive action or implementing adaptive strategy is its stabilizing effect on dynamic equilibrium, associated with which are three long-granted features: a) non-destabilizing characteristics, b) full-implementation effectiveness and c) the convexity of the stabilization regime in terms of the adaptive parameter. It is shown either in theory or by examples that these favorable features may all fail to exhibit when the adaptive mechanism is applied to multi-dimensional processes. Detailed analysis of two-dimensional dynamic process is carried out with application to duopolistic dynamics. Our findings do not only help in clarifying hidden misconceptions and in preventing potential abuse of adaptive mechanism, but also illustrate the possible pitfalls of generalizing some long-granted facts in low dimension and/or homogeneous agent models to high-dimensional and heterogeneous agent models.

How much do we learn from estimating DSGE models - A case study of identification issues in a New Keynesian business cycle model

Nikolay Iskrev, Department of Economics, University of Michigan

This paper develops a new methodology for studying parameter identification in linearized DSGE models, and applies it to a large-scale monetary business cycle model along the lines of \citet{SmetsWouters2003}. We find that while all deep parameters in the model are locally identifiable virtually everywhere in the parameter space, identification is generally rather weak. Furthermore, we find that the problem is largely embedded in the structure of the model, and determine the parameters responsible for that. Thus we show that the problem cannot be resolved with more informative data. We estimate the model using maximum likelihood and Bayesian methods, and find substantial differences in the parameters estimates. We conclude that using estimated DSGE models for policy analysis should be done with caution since the results are likely to be strongly influenced by the prior distribution.

Space dynamics and improvement of the total factors productivity (TFP)

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Mohamed Ben Salah, Faculté des Sciences Economiques et de Gestion de Tunis (FSEGT) E-mail: bsmedu@gmail.com

In this paper, we show that production activity in an area that is influenced by the working localization and the space overflow effects.

Regional economic growth is related to the effects which improve the effectiveness of the work factor. In this paper, space regional effects drive or overflow influence the activity of production through the acquisition of new knowledge while benefiting from space effects.

We break up the total factor productivity (TFP) into space factors and we arise a functional relation which connects the productivity per work and per area growth rate according to a set of space variables.

By using European regional data according to NUTS2 nomenclature, we estimate a simultaneous equations model which shows that the regional development projects and the Community policies cannot achieve the goals of corrections of the latecomer's areas which the transfers aim in first places the development of interdependences relations between production forces.

Achievement of the European structural funds objectives is related to the capacity as of these objectives to improve the labor productivities through integrations of space dimension in construction of the therapeutic policies.

Spatial time interactions between economic operations: impact to the tunisian regional income inequality distribution

Lassaad Jebali (Institut supérieur d'informatique et de gestion-
Kairouan

Anis Kacem (Institut Supérieur de gestion de Sousse-Tunisia)

The consumer move by seeking goods in accessible markets, the factors of production immigrate by seeking optimal employment and firms seek localisations, which maximize their profits functions. A choice that does not integrate spatial dynamics create external spatial effect, which generate interregional and intraregional inequalities, whatever the spatial interaction representation. In the case of Tunisia, national choices, and governmental expenditures of the year 1995 end 1996 did not size regional dynamics ones contributed, according to the Theil inequality criterion. Spatial analyses of the autocorrelation, in Tunisia show, a reduction in the interregional inequalities whereas the intraregional inequality increased.

Consumer Ethnocentrism and Government Policy on R&D Stock

1. Hung-Pin Lin (Assistant Professor, Department of International Business & Trade, Shu-Te University Kaohsiung 82445, Taiwan)

2. Corresponding author : Hsiao-Chien Tsui (Associate Professor, Institute of International Economics, National Chung Cheng University Chiayi 621, Taiwan)

This study attempts to examine the consumer ethnocentric tendencies (C.E.T), announcement effect, and three exogenous effects on the current consumption and the home R&D stock of the economy. Using an optimal control approach, we model a comparative and dynamic analysis corresponding to a mathematical prove under a stable economic system. We point out conditions that may break out C.E.T and the policy the government should be taken. We provide a significant clue for the government to make decision suggested by the magnitude of absolute risk aversion index (ARAI). Specifically, the larger the absolute risk aversion index it is, the more the home country's home R&D stock accumulation. On the contrary, the smaller the absolute risk aversion index it is, the less the home country's home R&D stock accumulation and hence lead to the collapse of C.E.T.

A two-country macro-finance model on real and financial spillovers

Zhuoshi Liu

The University of York

Peter Spencer

The University of York

This paper develops a two-country macro-finance model to study the real and financial spillovers from the US to the UK. To distinguish the spillovers from the global shocks, we also include common factors in our model. We find that the empirical evidence supports the real and financial spillovers from the US to the UK. In addition, the output spillovers are the most prominent real spillovers, and the US long yield spillovers, on the other hand, are the dominant financial spillovers.

The diffusion of ATM technology: The Indian experience

1) **Lakshmi Kumar** is a Faculty Associate at the Institute for Financial Management and Research (IFMR), 24, Kothari Road, Chennai and a Research Scholar at the Department of Management Studies of the Indian Institute of Technology (IIT), Madras. Email: lakshmik@ifmr.ac.in Phone: 91-44-28273801

2) D Malathy is Professor, Department of Humanities and Social Sciences, IIT Madras.

3) L S Ganesh is Professor and Head, Department of Management Studies, IIT Madras.

The objective of this paper is to understand technology diffusion in the banking sector in India by analyzing ATM (automatic teller machines) technology and its replacement of the teller (labor). ATM is fast emerging as an important IT investment for a bank in India. Hence in our paper we use the ATM as a proxy for capital and the teller as a proxy for labor. There is evidence in research both for and against the productivity of IT investments. This debate on the "IT Paradox" has been the motivation for this paper. The paper reveals that IT investment is important. The degree of substitutability of one form of input to another namely ATM (capital) for teller (labor) is discussed by developing an appropriate model to understand the same.

The questions addressed in this paper are what is the degree or level of substitutability between the ATM and the teller? Can an appropriate model be developed for the same? Have the price reduction of ATMs and the wage bill increase of the teller lead to the ATMs diffusion rapidly? The CES production function model is used to arrive at a model.

The diffusion of the ATM rapidly was clearly large from 1998, nine years after its first adoption, also a time when the number of tellers were falling and the wage bill of the teller increasing. The CES production function model used in this paper clearly is a good predictor of the data compared to the other cases. ρ the extent of substitutability is 0.56. In comparison to other studies both manufacturing and services ρ lies between 0.4 and 0.6. Clearly our estimate shows that the degree of substitutability of the teller by the ATM is high. They are however not perfect substitutes. By running counterfactual experiments we can conclude that both the ATM price fall and wage bill increase of the teller contributed to the diffusion of the ATM.

Exchange rate and tariff pass-through into India's product-level export prices across G3 and BRICS markets

Sushanta Mallick, Queen Mary, University of London, UK
Helena Marques, Loughborough University, UK

This paper aims to examine the case of incomplete exchange rate pass-through at a product level, in the context of India's exports to three big economies (G3): the USA, the European Union (15 countries), and Japan; and the so-called BRICS (Brazil, Russia, India, China and South Africa) economies - the new engines of global growth. The reason why we are considering export prices is because we would like to throw light on the extent of pricing-to-market (PTM), not just pass-through. We also intend to study India as an emerging power in the international export markets after the reforms that reduced the anti-export bias prior to the 1990s in the Indian economy.

A model of credit limits and bankruptcy with applications

Xavier Mateos-Planas
University of Southampton, U.K.

This paper presents a model of unsecured consumer debt and default with the features that optimising banks set the credit limits and there is a single lending interest rate. Otherwise the setting is the standard model of capital accumulation, labour supply, and idiosyncratic risk with incomplete markets. A version of the model calibrated to U.S. observations is used to study, on one hand, the macroeconomic and welfare effects of the consumer bankruptcy code, and on the other hand, the consequences of various factors for both indebtedness and bankruptcy. Restricting bankruptcy filings -- be it through a stricter Chapter 7 means testing or a longer period of credit exclusion -- leads to sizable welfare losses. The recently observed rising levels of debt and filing rates are best explained by a combination of lower intermediation costs and more severe non-discretionary expenditures shocks. These results contrast quantitatively and even qualitatively with the findings of other recent studies.

MSW-GARCH-M multi-factors modeling of IPO Long-Run Performance

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Since Ritter (1991), the IPO long-run underperformance has been an interesting topic. Even though, the IPO literature documented different explanations to this long-run anomaly and showed several methodologies to compute the abnormal performance, there is yet no consensus in the IPO's long-run performance behavior. Unlike previous studies which suggest static methodologies, this study explores dynamic extensions of the Fama-French model in order to compute a more accurate measure of IPO abnormal return. Our specifications consist of the MSW-GARCH-M multi-factors models that assume time varying in mean and variance parameters across two states: (i) outperformance state which includes IPOs that perform better than expected and (ii) underperformance state which includes IPOs that perform worse than expected. Furthermore, our alternative specifications add other factors to the Fama-French Three-Factors such as the volatility and the first order autoregressive factors in the first specification and the lagged Fama-French Three-Factors in the second specification. Our empirical results seem to confirm the explanatory power of the lagged Market, Size and Book-to-Market factors and show the sensitivity of the magnitude of abnormal returns to the expansion of the number of factors. Moreover, our findings point out that the underperformance state is more frequent and more persistent.

A Simultaneous Equation Model of Policies Relating to Fiscal Policy, Monetary Policy and Trade Flows in the United Kingdom

SehaM Negem

This paper examines the effect of changes in policies relating to public finance or fiscal policy, monetary policy and international competitiveness and trade flows within a Mundell- Fleming type open economy model by using time series data of the UK economy. Policy scenarios was analysed using ex-post forecasts from 1990 to 2001 and ex-ante forecasts for 2001-2020.

Domestic Macroeconomic Policies and Private Fixed Capital Formation in Nigeria: A VAR Approach

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The study has as its objectives, to determine the impact of macroeconomic policies on private capital formation in Nigeria. In addition, the study sought to evaluate ipso facto the pattern of responses of private investment to shocks on macroeconomic Policies. And finally, to determine the causal ordering of the mediating variables connecting private investment and macroeconomic variables. The study applied the co- integrated vector autoregressive framework. The first objective of the model was resolve by estimating the short run dynamic error correction model. For the second objective, VAR model was estimated to determine the impulse response functions and variance decomposition using Cholesky decomposition so as to determine the response of private investment to shocks on macroeconomic policies. The third objective was resolved by conducting a granger causality test. Empirical investigation reveal that macroeconomic policies like, interest rate policy, exchange rate policy, the size of the public sector, domestic credit policy and the real GDP growth plays a prominent role in the performance of private investment in Nigeria. The results of both the dynamic short run model, impulse response and pair wise Granger causality test revealed that domestic credit to the private sector exerts a more significant influencing on the performance of the private investment. The study recommends that the expansion of the banking sector loanable fund to the private sector should be at the heart of the monetary policy design in Nigeria. In addition, the terms on which banking sector advances are extended to private investors should be reviewed and efforts should be intensified to wipe off all unofficial parallel markets or the so-called black market since they facilitate not only faster depreciation of the Naira through round tripping there by facilitating facilitate huge capital flight and illegal transfer of funds.

Distance, International Trade and Economic Growth

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Researchers have recently become increasingly interested in a set of distance and growth concepts variously described as neighborhood effects, borders effect, externalities or spillovers, access to regional and global market and distance. In empirical research on economic growth and international trade, locality and geographical distance have all been revealed as of being of great importance. Other things being equal, it might be expected that closer supplier of goods would be chosen rather than more distance ones because they have lower transaction costs as a result of being cheaper or easier to access. From a theoretical point of view, the effect of the distance on the trade is ambiguous because there are many different mechanisms that might be at work. By taking a more direct approach and carrying out a number of econometrics tests that examine the role of distance, this paper tries to fill the existing gap in this literature using the available evidences. We produced a gravity model for trade by using a sample contains 16 countries (including Iran and 15 major partners) and tested the possibility of this linkage. With respect of the nature of distance variable which is constant through the time we used two different type of regressions, pooled regression and cross-section analysis to analyse the role of distance on international trade. It is expected that GDP, population and openness positively affect the volume of trade between two countries. This expectation for exchange rate and distance were negative correlation. Our overall outcomes showed that despite some sign differences in some countries, partners' distance is significant in explaining the trade with them. Some exceptions can be explained by other terms like political reactions. In order to identify the major determinants of international trade we also checked the robustness of our result by dropping some of the variables from the regression. We found that although in all specifications, almost all the signs of parameter estimates do not differ. However, some important changes may be observed between specifications. First, as the number of variables decreases, the value of the distance coefficient becomes smaller. This implies that the impact of distance on trades will be significantly underestimated when necessary variables such as openness are omitted. Our finding from cross section analysis highlighted that the defined geographic variables appears to play an important role on the trade of Iran with its partners and therefore on the long-run economic growth of Iran. Although exchange rate was not very significant in our samples but our estimates for distance were consistent with the theory. Distance is an important determinant of international trade and therefore economic growth.

Participatory Approach for Sustainable Agricultural Technology Transfer

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Sustainable agriculture involves the successful management of resources to satisfy changing human needs maintaining or enhancing the quality of environment and conserving the natural resources. Attaining sustainable agricultural development is now one of the major thrust in many developed and developing countries. Use of environment-friendly and appropriate technologies is the key components in achieving this sustainability. In this present study, attempts have been made to pinpoint the farmers' preference, acceptance and achievement in relation to sustainable agricultural development.

For the purpose of the study a remote village of India has been taken into account, which is one of the working areas of the Kribhco Indo-British Rainfed Farming Project (E).

From this study it can be inferred that a certain reorientation is needed in agricultural education and approach to achieve the goal of sustainability. The study also reveals that farmers' education, their participation in different organizations, environmental problems and their thinking towards sustainability issues through "system approach" are closely associated for future planning.

Leisure goods, fertility decline and trends in hours worked

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Between 1800 and 1940 in the United States, the level of fertility declined steadily, the workweek of men shortened and the labor-force participation of women increased. This paper presents an analysis which explains all these phenomena quantitatively in relation with an increase in the consumption of leisure goods by treating them as the opportunity cost of working and having children.

Unemployment and Economic Growth Cycles

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The purpose of this paper is to study the dynamic interaction between economic growth and unemployment in a general model of economic growth. Labour market disequilibrium is introduced through a non-

market real wage clearing modeled by a non linear Phillips Curve. We show that unemployment rate and per capita income dynamics fluctuate along cycles of different periods, and they may even have aperiodic paths. Phillips Curve is the endogenous source of instability. In particular, as the rigidity of the labour market increases, the possibility of irregular behaviour increases as well. Besides cyclical behaviour, the dynamic analysis points to a positive income growth trend sustained by knowledge accumulation; however, there are periods where per capita income decreases. Moreover, in the same line as wage bargaining models (Layard and Nickell, 1985, 1986), we get the result that the higher workers' bargaining power, the lower both employment rate and per capita production. The paper aims to complement the literature in understanding the origin and nature of fluctuations in economic growth models.

Computation of Equilibria in OLG Models with Many Heterogeneous Households

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This paper develops a decomposition algorithm by which a market economy with many households may be solved through the computation of equilibria for a sequence of representative agent economies. The paper examines local and global convergence properties of the sequential recalibration (SR) algorithm. SR is then demonstrated to efficiently solve Auerbach-Kotlikoff OLG models with a large number of heterogeneous households. We approximate equilibria in OLG models by solving a sequence of related Ramsey optimal growth problems. This approach can provide improvements in both efficiency and robustness as compared with simultaneous solution methods.

Optimal Capital Income Taxation in a Two Sector Economy

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We extend the celebrated Chamley-Judd result of zero capital income tax and show that the steady state optimal capital income tax is nonzero, in general. In particular, we find that the optimal plan involves zero capital income tax in investment sector and a nonzero capital income tax in consumption sector. In a two sector neoclassical economy, interdependence of labour and capital margins allows the government to choose an optimal policy that involves nonzero tax on capital income. The distortion created by capital income tax in consumption sector can be undone by setting different rates of labour income taxes. The optimal plan thus involves zero capital income tax in both sectors only if optimal labour income taxes are equal. This may not be the optimal policy if marginal disutility of work is different across sectors and/or the social marginal value of capital is different across sectors. The difference in social marginal value of capital can be undone by setting different labour income taxes across sectors. We also show that if the government faces a constraint of keeping same capital and labour income tax rates across sectors, optimal capital income tax is nonzero.

Dynamic Effects of Agriculture Trade Liberalization:

Rizwana Siddiqui, Pakistan Institute of Development economics

This paper studies the dynamic effects of agriculture trade in the context of domestic and global liberalization. Being a largest sector of the economy agriculture sector contributes largely to growth process directly and indirectly. It has strong linkages with export oriented sector of the economy.

Using a small CGE model for Pakistan and a 2002 Pakistan Social Accounting Matrix as data base, the simulations are conducted to measure the effects of domestic agriculture trade liberalization in isolation and in conjunction with changes in the world economy. The novelty of this paper is that it introduces dynamics in the Pakistani CGE model through capital accumulation. The results illuminate the greater effectiveness of agriculture trade liberalization in promoting over all growth process with increase market access because of liberalization in the world economy.

The objective of the research is to examine the growth effects of liberalized trade. First simulations are conducted in a CGE static framework using base year data from 2002 social accounting matrix, which indicate steady state gains in terms of labor productivity. However, dynamic affects of agriculture trade liberalization may differ from steady state gains under the hypotheses of additional capital investment in response to new trade opportunities. Second we introduce dynamic in the model through capital accumulation. Simulation with liberal agriculture trade policy in Pakistan and then along with liberalization process in the world indicating increase market access both benefit more to Pakistan. But benefits are higher with global liberalization.

Is UEFA Right? Measuring Competitiveness of Domestic Football Leagues

Soumodip Sarkar

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Industry concentration measures have been widely used in the analysis of industry competition. However, no attempt has been made to extend these measures to the sport industry. This paper measures the extent to which there is a concentration of winning teams in the soccer leagues as well as the degree of competition among clubs in the major European soccer playing countries.

UEFA, the governing body of European soccer, seasonally ranks European countries. While this ranking serves to measure how 'good' is a country's football league, it fails to answer another question: how competitive is the country's domestic league? It is entirely possible that a country ranked very high by UEFA criteria, however has a fairly weak domestic league, dominated by a few clubs with the rest languishing.

Football teams, like firms, compete in a closed market (no entry and exit) for market share (points). This paper does a comparative analyses of domestic football leagues to see the extent to which there is 'market share domination' to the extent that a few football clubs have the greatest market share (points). Some measures of industrial concentration are used to measure the extent to which

there is a 'club' concentration in these countries. Our paper analyses data from 2000/2001 to 2004-2005 1st division domestic league competitions of the top twenty UEFA ranked countries. A comparison is made with the results thus obtained with the UEFA ranking. This paper is innovative in its application of widely used industrial concentration techniques to the field of soccer. Our study points to an alternative measure of ranking football leagues using our competitiveness index.

Transitional Dynamics in an Endogenous Growth Model with Physical Capital, Human Capital and R&D (with Spillovers)

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The dynamics of most growth models are understood. There is a family of models with Physical, Human capital and R&D for which convergence properties have been discussed (Arnold, 2000a; Gómez, 2005). However, spillovers in R&D have been ignored in this context. We introduce spillovers in this model and derive its steady-state and stability properties. This new feature in the model implies a fourth-order differential equation reduced system and provides one unique Balanced Growth Path along with a two dimensional stable manifold. Transition is oscillatory towards the steady-state for plausible values of parameters.

Imperfect Government Insurance and Treasury Securities Markets

Oscar Mauricio Valencia, National University of Colombia

One important Financial source for any government is the treasury market. Although a full government control over the interest rate is desirable, microeconomic-strategic behavior in the treasury securities often lead to collusive and precautionary agent behavior affecting government revenues. This paper shows that this behavior has not only consequences over the government income but also over the implementation of the optimal Fiscal policy. Two main results are obtained:

First, when the government uses uniform auction, a Ramsey policy can be implemented given that agents face a clearing price vector. Second, when the government uses a discriminatory auction format, the Ramsey outcome is not achievable because the optimal value of debt is state dependent. According to this, government loses full control over the interest rate and therefore over the optimal structure of public debt.

Business Cycle Phases and Coherence

Peijie Wang

University of Hull

This paper examines business cycle coherence and phases amongst UK GDP sectors in the frequency domain. It analyses the cross spectra of sectoral output and focuses on the co-movement in terms of coherence, coincidence and phase leads/lags. The characteristics of these sectors are discussed, paying attention to their similarities and differences around business cycles. It is further found that coherence is the highest in longer cycles and the lowest in medium cycles.

International Business Cycle Coherence and Phases

Peijie Wang

University of Hull

This paper examines international linkages of co-movements in output fluctuations amongst G7 economies in the frequency domain. The paper has identified patterns in international business cycle co-movements among the G7, offering a general outlook of international business cycle co-movements and detailing the lower frequency, higher frequency and middle range characteristics of international linkages of output fluctuations. The main findings of the study are that co-movements among G7 economies are considerably stronger at lower frequencies, with clearer patterns of linkages of international output fluctuations, than those at higher frequencies and in middle ranges. The results and findings show support for real business cycle theory being extended to an international arena, with long effect real shocks impacting economies across borders.

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