

## CAMA Newsletter

Issue 7, May 2009

### Welcome

Welcome to the seventh edition of the CAMA Newsletter. It's been another busy quarter for CAMA as it continues to grow with new research associates in over half its programs, additional administrative support coming on board, and several new working papers online. In addition there are some exciting events coming up on the calendar in the next couple of months including the Behavioural Macroeconomics Conference and the Conference to honour the work of one of Australia's most significant economists, Professor Adrian Pagan. We hope that you will be able to get to these important events and looks forward to catching up with many of you in person while there.

### Staff News

We are delighted to welcome Ms Leah Dunn as our new Executive CAMA Administrator. Leah will be leading the administrative team in CAMA over coming years. CAMA has grown quickly and we needed to expand our administrative base. Leah's role is to assist the management team in the design and implementation of strategic plans for CAMA. She will coordinate our large network of research scholars, fund raising and outreach activities.

Professor Bruce Preston, who holds a joint appointment with CAMA and Columbia University will be based in our Canberra office from 25 May 2009 to 22 January 2010. Bruce will be taking up the co-directorship of the Macroeconomic Theory Program along with Dr Pedro Gomis-Porqueras from June this year.

### New Research Associates

The CAMA Programs have grown significantly in the past few months with new research associates joining over half the Programs. We are delighted to welcome our newest Research Associates to the following CAMA programs:

#### Behavioural Macroeconomics Program

- **Professor Willem Buiter**, Professor of European Political Economy at the London School of Economics & Political Science.

#### Climate Change and Energy Program

- **Mr David Pearce**, Executive Director of The Centre for International Economics.

#### Economic Growth and Development Program

- **Professor Andrew Leigh**, Professor of Economics in the Research School of Social Sciences at the Australian National University.

#### Finance and the Macroeconomy Program

- **Dr Gerald Dwyer**, Director of the Center on Financial Innovation and Financial Stability at the Federal Reserve Bank of Atlanta, and an adjunct professor at the University of Carlos III in Madrid.
- **Dr Gerhard Hambusch**, School of Finance and Economics at the University of Technology, Sydney
- **Dr Susan Thorp**, School of Finance and Economics at the University of Technology, Sydney.

#### Macroeconometric Models and Methods Program

- **Dr Leon Berkelmans**, an economist in the Macroeconomic and Quantitative Studies section of the Board of Governors of the Federal Reserve System.
- **Dr Michael McMahon**, Mr McMahon is a Ph.D scholar at the London School of Economics & Political Science.

#### Macroeconomic Theory Program

- **Dr Pedro Gomis-Porqueras**, who recently commenced a new role at the Australian National University, having moved from the University of Miami.

#### Moved Recently?

Don't forget to let us know if your contact details change. You can check your profile's accuracy at <http://cama.anu.edu.au/people.asp#associates>. If you find them to be in incorrect please forward us your updated detail to [cama.admin@anu.edu.au](mailto:cama.admin@anu.edu.au).

Thank you!

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### Contributions to Public Debate

#### Global Financial Crisis

CAMA Director, Professor Warwick McKibbin explored how well the global financial crisis can be understood as a series of unexpected shocks, what these shocks were and how conventional economic models explain the global adjustment and the implications of alternative policy responses at a recent event at the Lowy Institute. This presentation can be accessed on the [Lowy Institute website](#).

#### Swine Flu

Professor McKibbin has also been an active participant in the debate on the swine flu outbreak providing commentary comparing the global response to the early stage of the outbreak to other infectious disease outbreaks in recent history, including SARS and avian flu and analyzing the impact on the global economy. This commentary can be found at [The Brookings Institute](#) website.

#### In the News

Further contributions to public debate can be found online at [CAMA in the Media](#)

### Publication News

#### Dr Sambit Bhattacharyya of the Economic Growth and Development Program:

"Unbundled Institutions, Human Capital and Growth", *Journal of Comparative Economics*, 37, 2009, 106-120.

"Institutions, Diseases, and Economic Progress: A Unified Framework", *Journal of Institutional Economics*, 5 (1), 2009, 65-87.

With S Dowrick and J Golley, "Institutions and Trade: Competitors or Complements in Economic Development?", *Economic Record*, forthcoming, 2009.

"Root Causes of African Underdevelopment", *Journal of African Economies*, forthcoming, 2009.

With R Gaiha, R Jha, and S Shankar, "Capture of Anti-Poverty Programs: An Analysis of the National Rural Employment Guarantee Program in India", *Journal of Asian Economics*, forthcoming, 2009.

#### Dr Gerald Dwyer of the Finance and the Macroeconomy Program:

With M Samartin, "Why do Banks Promise to pay Par on Demand?", *Journal of Financial Stability*, vol 5, June 2009, 147-169.

#### Professor Mardi Dungey for the Finance and Macroeconomy Program:

With Michael McKenzie and Vanessa Smith, "Empirical Evidence on Jumps in the Term Structure of the US Treasury Market", *Journal of Empirical Finance*, 16 (3), 2009, 430-445.

#### Dr Jan Libich of the Macroeconomic Policy Frameworks Program:

With A Hughes Hallett and P Stehlík, "Rogoff Revisited: The Conservative Central Banker Proposition Under Active Fiscal Policies", *Economic Letters*, in press. [CAMA Working Paper 20/2007)

### Visitors

We look forward to welcoming our upcoming visitors to CAMA in the coming months.

**Dr Dale Henderson** of Georgetown University will visit from 24 June to 24 July. Dr Henderson, will be participating in the Behavioural Macroeconomic conference, is presenting an ANU Public Lecture and will visit the Reserve Bank of Australia during his visit.

**Professor Julio Rotemberg** of the Harvard Business School will be visiting from 24 to 25 June. Professor Rotemberg is a keynote speaker at the upcoming conference on Behavioural Macroeconomics, and will also be visiting the University of Technology, Sydney.

**Professor Lorenz Goette** of the University of Geneva will visit on 25 June. Professor Goette is a keynote speaker at the upcoming conference on Behavioural Macroeconomics.

**Professor Paul de Grauwe** of the Katholieke Universiteit Leuven will visit on 26 June. Professor de Grauwe is a keynote speaker at the upcoming conference on Behavioural Macroeconomics.

**Professor Adrian Pagan** of the Queensland University of Technology and the University of New South Wales will visit in July. Professor Pagan is a regular visitor to CAMA.

**Professor Jan Jacobs** of the University of Groningen will visit from 7 to 11 July 2009.

**Professor Sherrill Shaffer** of the University of Wyoming will visit from 15 July to 15 August. Professor Shaffer and Dr Fry were awarded an Excellent Research Incentive Grant from the ANU College of Business and Economics, and will collaborate on research during his visit.

**Dr Rochelle Edge** of the Board of Governors of the Federal Reserve System will visit from 20 July to 1 August. Dr Edge will give a presentation at the conference on Computing in Economics and Finance at the University of Technology, Sydney.

Several offices are available for use by research associates who would like to spend some time visiting CAMA at ANU. For further information about the possibility of visiting CAMA, please contact [cama.admin@anu.edu.au](mailto:cama.admin@anu.edu.au)

## New Working Papers

Click on the title to download a paper.

**13/2009**

[Market Reaction to the Announcement of a Male-to-Female CEO Turnover](#)

By AL Coxbill, LW Sanning and S Shaffer

This paper investigates the market reaction to a firm switching from a male CEO to a female CEO. We compare these firms against a four dimensional matched sample of male to male CEO appointments. Our results indicate that female CEO appointments are followed by small insignificant negative reactions, whereas male CEO announcements are followed by economically and statistically significant negative reactions. Analysis of compensation data indicates that female CEOs receive more equity compensation than males, though this difference is statistically insignificant.

**12/2009**

[Means-Tested Income Support, Portfolio Choice and Decumulation in Retirement](#)

By S Thorp, H Hulley, R McKibbin, and A Pedersen

We investigate the impact of means tested public income transfers on post-retirement decumulation and portfolio choice using theoretical simulations and panel data on Australian Age Pensioners. Means tested public pension payments in Australia have broad coverage and give insight into the incentive responsiveness of well-off, as well as poorer households. Via numerical solutions to a discrete time, finite horizon dynamic programming problem, we simulate the optimal consumption and portfolio allocation strategies for a retired household subject to assets and income tests. Relative to benchmark, means tested households should optimally decumulate faster early in retirement, and choose more risky portfolios. Panel data tests on inferred wealth for pensioner households show evidence of more rapid spending early in retirement. However they also show that better-off households continue to accumulate, even when facing a steeper implicit tax rate on wealth than applies to poorer households. Wealthier households also hold riskier portfolios. Results from tests for Lorenz dominance of the panel wealth distribution show no decrease in wealth inequality over the five years of the study.

**11/2009**

[Behavioural Macroeconomics and Wage and Price Setting: Developing Some Early Insights of John Maynard Keynes and Joan Robinson](#)

By IM McDonald

This paper argues that the theory of wage and price setting in macroeconomics should be broadened to include insights from behavioural economics, in

particular prospect theory and loss aversion. The paper shows how broader microeconomic foundations can explain the main features of a realistic Phillips curve, which are the concurrence of a steep SRPC at low unemployment, a flat SRPC at high unemployment and speed-limit effects. The resulting macroeconomic model has the benefits of consistency with important properties of natural rate models, especially a crucial role for inflation expectations and, in determining the economy's macroeconomic potential, for supply factors, plus the benefit of consistency with the standard IS/LM model. The paper also shows that the behavioural aspects of these broader microeconomic foundations were alluded to by Keynes and Robinson in 1936 when macroeconomics was created.

**10/2009**

[Overvaluation in Australian Housing and Equity Markets: Wealth Effects or Monetary Policy?](#)

By RA Fry, VL Martin and N Voukkelatos

A 7 variate SVAR model is used to identify the presence and causes of overvaluation in real house prices in Australia from 2002 to 2008. An important feature of the model is the development of a housing sector where long-run restrictions are derived from economic theory to identify housing demand and supply shocks. The empirical results show that real house prices were overvalued during the period, reaching a peak of nearly 20% by the end of 2003. Important factors driving the observed overvaluation are housing demand shocks prior to 2006, and macroeconomic shocks in the goods market post 2006. Wealth effects from portfolio shocks in equity markets are also found to be an important driver. The results also suggest that monetary policy is not an important contributing factor in the overvaluation of house prices.

**9/2009**

[The Economic and Environmental Effects of Border tax Adjustments for Climate Policy](#)

By WJ McKibbin and PJ Wilcoxen

For the foreseeable future, climate change policy will be considerably more stringent in some countries than in others. Indeed, the United Nations Framework Convention on Climate Change explicitly states that developed countries must take meaningful action before any obligations are to be placed on developing countries. However, differences in climate policy will lead to differences in energy costs, and to concerns about competitive advantage. In high-cost countries, there will be political pressure to impose border adjustments, or "green tariffs", on imports from countries with little or no climate policy and low energy costs. The adjustments would be based on the carbon emissions associated with production of each imported product,

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and would be intended to match the cost increase that would have occurred had the exporting country adopted a climate policy similar to that of the importing country. In this paper, we estimate how large such tariffs would be in practice, and then examine their economic and environmental effects using G-Cubed, a detailed multi-sector, multi-country model of the world economy. We find that the tariffs would be small on most traded goods, would reduce leakage of emissions reduction very modestly, and would do little to protect import-competing industries. We conclude that the benefits produced by border adjustments would be too small to justify their administrative complexity or their deleterious effects on international trade.

### Full CAMA Working Paper Series

The entire CAMA working paper series is available on the website at <http://cama.anu.edu.au/publications.asp> or through Repec at <http://econpapers.repec.org/paper/acbcamaaa/>

### Paper Submission

If you would like to submit a paper for inclusion in the working paper series, please email to your program director for consideration.

## Upcoming Events

### Conference on “Inflation Challenges in an Era of Relative Price Shocks”

16 - 17 June 2009, Münster, Germany  
17 - 18 August 2009, Sydney

Co-hosted by the Reserve Bank of Australia, Wilfrid Laurier University, Westfälische Wilhelms Universitaet, and CAMA these two conferences the first to be held in Münster, Germany on 16-17 June 2009 with a follow up conference in Sydney, Australia on 17 - 18 August 2009 will explore questions relating to the recent surge in global commodity prices, particularly food and energy and the significant relative price shock this has produced.

Topics include questions such as:

- Is there a new global paradigm of resource shortage or is it the 1970s all over again?
- Modeling commodity prices, and inflation – globally and nationally, and monetary policy responses
- The transmission mechanism of global shocks. Are new modeling strategies needed?
- How should national monetary and fiscal policy respond to relative price shocks versus inflation shocks?
- The international transmission of policy responses – Does it require a coordinated policy response or is better for countries to pursue an independent policy?
- How are inflationary expectations affected by relative price shocks?

Further information on Inflation Challenges in an Era of Relative Price Shocks - [Münster, Germany](#)

Further information on Inflation Challenges in an Era of Relative Price Shocks - [Sydney, Australia](#)

### Conference on Behavioural Macroeconomics

22 - 23 June 2009, Sydney

This two-day conference run by the Centre for Applied Macroeconomic Analysis at the Australian National University and the Reserve Bank of Australia brings together leading researchers from the US, Europe and Oceania to present recent advances in behavioural macroeconomics. The themes and papers have a strong theoretical footing, but the workshop's purpose is to showcase the range of applications of behavioural methods and to display their policy relevance. The workshop will therefore be of interest to academics and research students, to policy makers from central banks and government departments as well as to financial market economists.

Speakers include:

- Sumit Agarwal (Federal Reserve Bank of Chicago)
- Morris Altman (University of Saskatchewan, Canada)
- Masanao Aoki (University of California, Los Angeles)
- Christopher Crowe (International Monetary Fund)
- Paul de Grauwe (Catholic University Leuven, Belgium)
- Lorenz Goette (University of Geneva)
- Ian McDonald (University of Melbourne)
- Gordon Menzies (University of Technology Sydney)
- Bruce Preston (Columbia University & ANU)
- Julio Rotemberg (Harvard University)
- Willi Semmler (New School University, New York)
- Jean-Robert Tyran (University of Copenhagen)

Further information is available on the [conference website](#)

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### Econometric Society Australasian Meetings 2009 (ESAM09)

7 – 10 July 2009, Canberra

The Australasian chapter of the Econometric Society invites you to attend the Econometric Society Australasian Meetings 2009 (ESAM09). ESAM09 will be held from 7 to 10 July, will be hosted by the School of Economics in the ANU College of Business and Economics at The Australian National University in Canberra. The conference aims to provide a forum at which economists and econometricians from Australia and overseas present and discuss their current research. The conference will also provide an excellent opportunity to meet and network with fellow researchers and leading academics in the field.

Please visit <http://esam09.anu.edu.au> for more information.

### We want to hear from YOU!

We're keen to keep the CAMA community informed about the activities of CAMA Research Associates and Programs so please be sure to send your news to [cama.admin@anu.edu.au](mailto:cama.admin@anu.edu.au). We are keen to hear about:

- New publications
- Contributions to public debate
- Awards or achievements
- Events
- Updates on program activities
- Research innovation
- Profiles of people or programs

Or anything else you think would be of interest to the CAMA community.

### Conference in Honour of Professor Adrian Pagan

13 - 14 July 2009, Sydney

This two-day conference celebrates the work of Professor Adrian Pagan. Professor Pagan's work has had significant impact on econometrics and applied time series, and we honour this work over the next two days with sessions presented by people whose work has felt his influence. Professor M. Hashem Pesaran, Professor of Economics and Fellow of Trinity College University of Cambridge and Professor Pravin K. Trivedi, Rudy Professor of Economics Indiana University, Bloomington will deliver Plenary Speeches.

Registration for this event is now open.

Further information is available on the [conference website](#)

### CAMA Programs

[Behavioural Macroeconomics](#)

[Climate Change and Energy](#)

[Economic Growth and Development](#)

[Finance and the Macroeconomy](#)

[Globalisation and Trade](#)

[Macro-econometric Models and Methods](#)

[Macroeconomic Policy Frameworks](#)

[Macroeconomic Theory](#)

[Macroeconomics and Longer Run Issues](#)

[Multi-Country Models and Methods](#)

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