Acknowledgements

The SER Editorial Board gratefully acknowledges the contribution of sponsors and their support.

Our sincere gratitude and thanks to:

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Welcome Message
From the Editor

2 August 2007

Dear SERC 2007 Participants,

I have great pleasure in welcoming you to the 2007 Singapore Economic Review Conference (SERC). The Singapore Economic Review (SER) is one of the leading economics journals in this part of the world, having begun as the Malayan Economic Review in 1956 with the editorial office in the Department of Economics, of the then University of Singapore. The journal is the official journal of the Economic Society of Singapore. The SER is presently housed in the Humanities and Social Sciences Research Centre (HSSRC) of the Nanyang Technological University (NTU), with its editorial office at the Division of Economics, NTU. Prior to that, the journal was edited at the Department of Economics, National University of Singapore (NUS) and I would like to thank the faculty and staff there for their years of cooperation, intellectual and administrative support.

The SER has a long history of publication on a broad range of economic issues impinging on Southeast Asia and the broader Asia-Pacific Region. It celebrated its 50th year of publication in 2005 by holding the inaugural SER Conference, which was a great success with more than 280 participants from 37 countries and the keynote speaker was Professor Edward Prescott, the 2004 Nobel Laureate in Economics. This year, we have lined up another exciting conference programme with many distinguished speakers, including the keynote address by Professor Joseph Stiglitz, the 2001 Nobel Laureate in Economics. We have in all, some 150 papers tabled for presentation and close to 300 participants coming from more than 39 countries.

In the traditional manner of a major international conference, we have organized numerous parallel sessions with each session devoted to a different topic. This is in line with the SER being a general economics journal. There are plenary sessions on the themes of the Conference: “Poverty and Growth Dynamics: Asian and International Perspectives” and “The Future of Asian Financial Systems: Integration, Growth and Stability”. In addition, special lunchtime talks will be
given by Professor Ronald McKinnon, William D. Eberle Professor of International Economics, Stanford University, and Dr K S Jomo, Assistant Secretary-General for Economic Development, United Nations.

The 2007 SER Conference is co-organized with the Brooks World Poverty Institute (BWPI) at the University of Manchester. We are grateful for the financial support of the following major sponsors: Nanyang Technological University, and the Temasek Foundation which generously provided subsidies for aspiring junior faculty and senior PhD candidates to participate in this Conference. Other financial sponsors include the Monetary Authority of Singapore (MAS), Singapore Institute of Management University, Kwan Im Thong Hood Cho Temple, Ministry of Trade and Industry, Civil Service College, World Scientific, Lee Foundation, Senoko Pte Ltd and Professor Lim Chong Yah and Mrs Lim Chong Yah. Both the National University of Singapore and the Singapore Management University provided full financial support to their faculty who had participated in this conference. I am also grateful to the Economic Growth Centre, Nanyang Technological University for providing the initial seed money to organise the Conference.

I thank the Presidents of Nanyang Technological University, the National University of Singapore, the Singapore Management University and the Singapore Institute Management University for their attendance and for supporting this conference. The SER is proud of the academic contributions and joint cooperation of all four Singapore universities in organizing this conference through the active and committed participation of faculty in the journal’s editorial board. Through the recent years too, the SER has benefited greatly from the support of the Council of the Economic Society of Singapore, representing all the professional economists in government, private sector organizations and academia.

Finally, I want to place on record my gratitude to colleagues from the SER Editorial Board, especially to the members of the Organising Committee who have put in a significant amount of their time and effort to ensure the success of this conference.

I wish you a productive and enjoyable conference, and a good stay in Singapore.

Yours Sincerely,

Euston Quah, PhD
Editor, The Singapore Economic Review
Chair, Organizing Committee
The Singapore Economic Review
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John Whalley, University of Western Ontario

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Lay Yen Ong
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Tel: +65 6737 4411
Fax: +65 6732 2361
Email: mandarin.tms@meritus-hotels.com

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Credit Cards
American Express: 1800 295 0500  Diners Club: +65 6294 4222
JCB: +65 6734 0096    VISA: 1800 345 1345
Master Card: 1800 110 0113

Registration

Wednesday, 1st August, 5:00 pm – 7:00 pm
Suite 835, Level 8

Thursday, 2nd August and Friday, 3rd August, 9:00 am – 5:00 pm
Outside Ballroom III, Level 6

Saturday, 4th August, 9:00 am – 10:00 am
Outside Ballroom III, Level 6

Upload Presentation – Service Station and Hours

Paper presenters are to upload PowerPoint slides (if there are any) to the computers provided in the meeting rooms 10 minutes before their scheduled presentations. Computers are able to accept thumb drive, CD-R and CD-RW.

Daily Coffee/ Tea Breaks & Lunch Buffet

Tea is provided at the Reception Hall, Level 5.
Lunch is provided at Ballrooms I and II, Level 6.

Conference Dinner (for paying participants only)

Date:  Thursday, 2nd August
Time:  7:30 p.m. – 10:00 p.m.
Venue:  China Club, at 52/F Capital Tower, 168 Robinson Road, Singapore 068912

Transport departs from Meritus Mandarin Hotel to China Club at 7.15 p.m. sharp. Please assemble at the hotel’s main lobby (facing Orchard Road). Transport departs from China Club to Meritus Mandarin Hotel at 10:15 p.m. sharp.
Information & Assistance

Visit the Help Desk located outside Ballroom III, Level 6.

Personal Message Board

If you wish to get in touch with fellow delegates, please leave your message on the Personal Message Board located at the Help Desk outside the Ballroom.

Business Centre

The Business Centre located at the hotel lobby offers a full range of secretariat and business services. Wired internet access, photocopying, printing and all related business services are available, at the delegate’s own costs.

Travel & Tour

Tour information is available at the hotel reception.

Internet Access

Wireless internet access is available within the hotel area.
Floor Plan

MANDARIN BALLROOM - Capacity Chart & General Plan

MEETING ROOMS - Capacity Chart & General Plan
## Programme

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<td>Welcome Address by <strong>Associate Professor Euston Quah</strong>&lt;br&gt;Editor, SER and Chairman, SERC Organising Committee</td>
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<tr>
<td>9.05 am – 9.10 am</td>
<td>Opening Remarks by <strong>Professor Tony Addison</strong>&lt;br&gt;Executive Director, Brooks World Poverty Institute</td>
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| 12.30 pm – 1.45 pm | Lunch  
Distinguished Luncheon Speaker  
**Professor Ronald McKinnon**  
William D. Eberle Professor of International Economics, Stanford University  
“Japan’s Deflationary Hangover: Wage Stagnation and the Syndrome of the Ever-Weaker Yen” |
| 1.45 pm – 3.15 pm | **Parallel Sessions**  
Session 2.1: Development and Poverty  
Session 2.2: Empirical Macroeconomics  
Session 2.3: Energy, Environment and Resources  
Session 2.4: Applied Econometrics  
Session 2.5: Economic Policy and Poverty Alleviation  
Session 2.6: Stock Markets and Markov Switching Models |
| 3.15 pm – 3.45 pm | Tea Reception                                                                                           |
| 3.45 pm – 5.30 pm | **Opening Plenary**  
“Poverty and Growth Dynamics: Asian and International Perspectives”                                    |
|               | **Chair:**  
Professor Colin Kirkpatrick                                                                             |
|               | **Panelists:**  
Professor Danny Quah  
Professor Lim Chong Yah  
Professor Tony Addison |
| 7.30 pm – 10.00 pm | **Conference Dinner**  
*(only for paying participants)*  
Venue: China Club Singapore  
Time: 8.15 pm *(cocktail serves at 7.30 pm)* |
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Session 4.4: Finance and Bond Markets  
Session 4.5: International Finance and the Asian Financial Crisis  
Session 4.6: Economic Growth, Inequality and Conflict |
| 3.15 pm – 3.45 pm | Tea Reception                                                                      |
| 3.45 pm – 5.30 pm | Parallel Sessions                                                                 |
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Session 5.5: Growth and Poverty  
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| 12.30 pm – 1.45 pm  | Lunch                                                                   |
Plenary Sessions
Thursday 2\textsuperscript{nd} August, 3:45 pm – 5:30pm
Ballroom III, Level 6

Opening Plenary

Poverty and Growth Dynamics: Asian and International Perspectives

Chair: Professor Colin Kirkpatrick  
Hallsworth Professor of Development Economics  
Co-Director, Regulation Research Programme, Centre on Regulation and Competition  
Director, Impact Assessment Research Centre  
University of Manchester

Panel Discussion:

“Life in Unequal Growing Economies”  
Professor Danny Quah  
Professor of Economics  
Head of Department  
London School of Economics

This paper characterizes the dynamic welfare implications of varying patterns of growth and inequality. In their impact on poverty, historically observed changes in aggregate growth overwhelm those in inequality. However, their welfare implications are more nuanced. For a reasonable range of utility functions, the average person on earth is certainly better off living in the faster-growing more unequal economies, given historical patterns of growth and inequality. However, the relative benefits to that experience differ across countries, even within just the fast-growing ones. While the welfare impact of aggregate growth continues to be the most significant, that of inequality overwhelms that of business cycles.
“A Theory of Poverty in the S Curve Hypothesis: A Non-Mathematical Approach”
Professor Lim Chong Yah
Albert Winsemius Chair
Nanyang Technological University
Emeritus Professor
National University of Singapore

This paper utilizes the EGOIN Theory, the Triple C Theory and the S Curve Hypothesis to explain not only the vast differences in global income levels but also the vast differences in growth rates in the world with emphasis on an explanation of national poverty as a part of the S Curve Hypothesis. Poverty Theory is taken as the bottom end of the per capita national income ladder in the integrated S Curve Theory. The paper also discusses the modus operandi of national poverty eradication in the modern world, from low growth rates to sustainable high growth rates.

“Reducing Chronic Poverty: Is Growth Enough?”
Professor Tony Addison
Professor of Development Studies
Executive Director, Brooks World Poverty Institute
Associate Director, Chronic Poverty Research Centre
University of Manchester

Chronic poverty is transmitted across the generations; someone who is chronically poor is likely to have children who are poor through their lives as well. While many chronically poor people can participate in economic growth, they lack the assets and human capital to do so effectively. Those living in chronically deprived regions (in spatial poverty traps) are often bypassed by growth. Mobilizing the additional revenues generated by growth (as the tax base rises) is crucial for reducing chronic poverty, especially among children, the elderly and the sick — those who cannot make the livelihoods necessary to participate in growth directly.
Friday 3rd August, 9:00am – 10:30am  
Ballroom III, Level 6

Plenary

The Future of Asian Financial Systems: Integration, Growth and Stability

Chair: Mr Manu Bhaskaran  
Partner  
Centennial Group

Panel Discussion:

“East Asian Finance: Towards Deeper, Broader and More Integrated Systems”
Professor Charles Adams  
Visiting Professor  
Lee Kuan Yew School of Public Policy  
National University of Singapore

East Asian financial systems have exhibited substantial bank-led financial deepening during the last couple of decades combined, in the period since the Asian financial crisis, with an apparent step up in the degree of financial broadening as local currency bond markets have become more important. At the same time, the systems have become more integrated into the global financial system as a result of cross border capital flows and financial services liberalization. Notwithstanding these developments, a pervasive sense nonetheless exists that East Asian financial systems need substantially more broadening and that the integration that has been achieved has been lopsided in so far as it has not led to much of an increase in intra-regional financial flows. Against this background, we take stock of where East Asian financial systems stand with respect to deepening, broadening and integration and reflect on some of the challenges the systems are likely to face over the next few years and the relationship between further financial system broadening and integration.
“2007 Annual Update on ISEAS-NTU Financial Reforms and Liberalization Assessment and Simulation of ASEAN 10 + 5 Economies (including China, Korea, Japan, Hong Kong and Taiwan)”
Associate Professor Tan Khee Giap
Head, Central Banking Policies Research Unit
Head, ASEAN Economies Monitoring Unit
Nanyang Technological University

Two pillars of globalization include trade and finance. On the trade front, East Asia has moved rapidly by attracting massive foreign direct investment helped by swift conclusions of bilateral and regional free trade agreements. However, progress in financial services especially in terms of institutional reforms and corporate governance has largely lagged behind, yet we foresee portfolio investments to East Asia as the second mega wave of capital inflows. This annual update monitors the latest progress and reforms of financial development in East Asian economies. In view of the lack of satisfactory progress in the proposed international financial architecture first mooted by International Monetary Fund, the main aim of the research is to act as pace maker by way of peer pressure to encourage reforms and promote further financial liberalization in East Asia. By tracking financial reforms and liberalization closely, we study developments in domestic financial reforms of the 15 economies in order to examine its consistency with the emerging regional financial architecture within East Asia.

“Some Implications of Ample Liquidity in East Asia”
Dr Wong Yit Fan
Managing Director
Head of Country Risk Management
DBS Bank Limited

The dominant feature in today’s financial world is the huge wave of capital flows. Commentators have often emphasized the risks from the flood of liquidity. On the other hand, there have recently been suggestions that the global imbalances and high foreign reserves in Asia have, on a net basis, been good for emerging economies. How should countries in the region ride on the wave of the ample liquidity? What are the key policy implications if governments are to maximize the positive benefits of rising global liquidity while not over-exposing their financial sectors and economies to the risks associated with a period of large, leveraged capital inflows?
Thursday 2nd August, 12:30pm – 1:45pm
Ballroom III, Level 6

Lunchtime Talk

Japan’s Deflationary Hangover: Wage Stagnation and the Syndrome of the Ever-Weaker Yen

Professor Ronald McKinnon
William D. Eberle Professor of International Economics, Stanford University

Beginning in the 1970s with the emergence of Japan as America’s foremost industrial competitor, demands for restraints on particular Japanese exports and that the yen be appreciated became rampant in the U.S. As a result of this “Japan bashing”, the yen did rise from 360 to the dollar in 1971 to touch 80 in April 1995, when U.S. Secretary of the Treasury Robert Rubin ended it by announcing a strong dollar policy. Subsequently, the yen has fluctuated but with no net appreciation.

However, the deflationary damage to Japan’s economy had been done. In 1997 in their book *Dollar and Yen*, Ronald McKinnon and Kenichi Ohno identified the “The Syndrome of the Ever-Higher Yen”. Actual yen appreciation and supporting monetary policy imposed a deflationary shock on the Japanese economy, and expected further appreciations drove nominal interest rates on yen assets toward zero—the dreaded liquidity trap—while slowing wage growth. Yen prices of tradable goods began to fall broadly in the mid 1980s; and they argued that the great asset bubbles in real estate and stock prices in the late 1980s were endogenous to the syndrome. After the bubbles burst in 1990-91, the negative shock to Japan’s economy was compounded by a further rise in the yen up to April 1995—leading to Japan’s infamous “lost decade” from 1992 to 2002.

Today, surprisingly, Japan still suffers from a deflationary hangover with wage stagnation and the near-zero-interest liquidity trap. Since 2003, however, output has begun to grow modestly through export expansion—the only way it can grow because domestic demand remains moribund within the liquidity trap. However, this export growth has been led by a passive real depreciation of the yen: prices and wages in Europe and the United States have grown, and are growing, faster than in Japan. Thus the
yen becomes ever-weaker in real terms—which one could now characterize as “The Syndrome of the Ever Weaker Yen”. In 2007, American and European industrialists and politicians are again complaining that the yen is too weak (Japan bashing mark II?) although the pressure on Japan to appreciate is not yet as great as it is on China.

But Japan is trapped. If it does appreciate, its fragile economy will be driven back into outright deflation. The only solution is to stabilize the nominal dollar value of the yen over the long term, but this need not be immediately effective in placating foreign mercantilists. Under foreign pressure to appreciate the renminbi, China with its booming economy is now in the position Japan was in more than 20 years ago. Policy makers in China should take heed that they are not forced to go down the same road as Japan.
Parallel Sessions
Session 1.1: Singapore Centre for Applied and Policy Economics (SCAPE) Session on Globalization in Asia and Singapore’s Economy

Chair: Basant Kapur (National University of Singapore)

Paper ID 275: Lessons from the EMU in Asia
\textbf{Dominick Salvatore} (Fordham University)

Paper ID 276: MNCs, FDI and Production Networks
\textbf{Sven Arndt} (Claremont McKenna College)

Paper ID 277: Impact of Outsourcing on the Labour Market in Singapore
\textbf{S.M. Thangavelu} and \textbf{Toh Mun Heng} (National University of Singapore)

\textbf{Aekapol Chongvilaivan} and \textbf{Shandre M. Thangavelu} (National University of Singapore)
Thursday August 2, 11:00am – 12:30pm  
Suite 831, Level 8

Session 1.2: Political Economy

Chair: Ake Blomqvist (National University of Singapore)

Paper ID 253: Path Dependency, Corruption, and Central-Local Relations in China’s Reform Era  
Chen Kang (Nanyang Technological University)

Paper ID 94: Development Assistance and Endogenous Fiscal Response: Implications for Thailand's Development  
Euamporn Phijaisanit (Thammasat University)

Paper ID 35: Contested Capitalism: Financial Politics and Implications for China  
Richard Carney (S. Rajaratnam School of International Studies, Nanyang Technological University)

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Thursday August 2, 11:00am – 12:30pm
Suite 832, Level 8

Session 1.3: Household Behaviour

Chair: Lim Boon Tiong (National University of Singapore)

Paper ID 31: Household Asset Allocation Decision (HAAD): An Alternative Approach to Analyze Demand for Mangrove Forest Goods
Gladys Marquez-Navarro (Saint Louis University, Philippines)
Jacques Viaene (Ghent University, Belgium)

Paper ID 70: Household Wealth Accumulation and Housing Choices in Korea
Sang-Wook (Stanley) Cho (University of New South Wales, Australia)

Paper ID 191: Heterogeneity in Intra-Monthly Consumption Patterns, Self-Control, and Savings at Retirement
Giovanni Mastrobuoni (Collegio Carlo Alberto, Italy)
Matt Weinberg (University of Georgia, USA)

Paper ID 161: Parental Income and Intergenerational Transmission of Religiosity
Kong Weng Ho (Nanyang Technological University)
Kelvin Foo (National University of Singapore)

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Thursday August 2, 11:00am – 12:30pm
Suite 833, Level 8

Session 1.4: Public Economics

Chair: Zeng Jinli (National University of Singapore)

Weihong Huang (Nanyang Technological University)

Paper ID 95: Private Provision of a Discrete Public Good
Jingfeng Lu (National University of Singapore)
Euston Quah (Nanyang Technological University)

Paper ID 113: Partial Privatization, Corporate Governance, and the Role of State-Owned Holding Companies
Choon Yin Sam (TMC Education Corporation Limited, Singapore)

Paper ID 249: Tax Policy and Foreign Direct Investment of a Home Country
Sasatra Sudsawasd (National Institute of Development Administration, Thailand)

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Thursday August 2, 11:00am – 12:30pm  
Suite 834, Level 8

Session 1.5: Demography and Fertility

Chair: Chris Sakellariou (Nanyang Technological University)

Paper ID 100: The Impact of Women’s Schooling on the Number of Children and Contraceptive Use: Evidence from Indonesia  
Ari A. Perdana (Centre for Strategic and International Studies, Jakarta)

Paper ID 232: The One Child Policy and Family Formation in Urban China  
Gordon Anderson (University of Toronto)  
Teng Wah Leo (St Francis Xavier University, Canada)

Shah Nawaz Malik, Muhammad Khizar Hayat and Shahzad Hussain (Bahaudin Zakariya University, Pakistan)

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Thursday August 2, 11:00am – 12:30pm
Suite 835, Level 8

Session 1.6: Foreign Direct Investment

Chair: Chia Siow Yue (Singapore Institute of International Affairs)

Invited: Exporting, Productivity and Agglomeration
Speaker David Greenaway (University of Nottingham)

Paper ID 139: Impact of Home and Host Country’s Intellectual Property Right Protection on FDI: In Search of Technology Transfer
Zhang Ang (City University of Hong Kong)

Paper ID 164: Inward Foreign Direct Investment and Export Performance in Taiwan
Shao Wei Lee and Nelson Perera (University of Wollongong, Australia)

Paper ID 198: Bilateral Investment Treaties and FDI: The GCC Experience
Wasseem Mina (United Arab Emirates University)

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Thursday August 2, 1:45pm – 3:15pm
Ballroom III, Level 6

Session 2.1: Development and Poverty

Chair: Parkash Chander (National University of Singapore)

Invited: The Political Economy of Economic Policy Reform in Southeast Asia
Speaker: Hal Hill (Australian National University)

Paper ID 262: International Trade and Manufacturing Employment Outcomes in India: A Comparative Study
Speaker: Kunal Sen (University of Manchester)

Paper ID 72: Political Risk of Social Security: Evidence from Reforms in Hungary and the Czech Republic
Speaker: Juraj Kopecsni and Libor Dusek (Charles University, Prague)

Paper ID 192: Weighting Dimensions of Poverty Based on People’s Priorities
Speaker: Hans de Kruijk and Martine Rutten (Erasmus University Rotterdam)

Abstracts start on Page 80
Session 2.2: Empirical Macroeconomics

Chair: Danny Quah (London School of Economics)

Paper ID 57: Fiscal Space for Public Investment: Towards a Human Development Approach
Rathin Roy, Antoine Heuty and Emmanuel Letouze
(United Nations Development Programme)

Ichiro Sugimoto (University of Malaya)

Paper ID 65: Is There a Structural Change Between Savings and Gross Domestic Capital Formation in India? An Empirical Exercise
Mothkuri Aruna (Institute of Chartered Financial Analysts of India)

Paper ID 180: Determinants of Economic Growth in the Information Age
Vu Minh Khuong (Lee Kuan Yew School of Public Policy)

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Thursday August 2, 1:45pm – 3:15pm
Suite 832, Level 8

Session 2.3: Energy, Environment and Resources

Chair: Clement Tisdell (University of Queensland)

Paper ID 92: Energy Use in Transportation Sector and Pollution Implications for the Malaysian Economy
Abul Quasem Al-Amin, Chamhuri Siwar and Abdul Hamid Jaafar (Universiti Kebangsaan Malaysia)
Md. Elias Hossain (Rajshahi University, Bangladesh)

Paper ID 103: The Impact of Privatization on Water Access and Affordability in Malaysia: Evidence From Household Expenditure Data
Cassey Lee Hong Kim (University of Nottingham in Malaysia)

Lee Yoong Hon and Cassey Lee Hong Kim (University of Nottingham in Malaysia)

Paper ID 81: Environmental Concerns and Poverty Alleviation in India: The Role of Non-Market Institutions
Pratap C. Mohanty (Jawaharlal Nehru University, India)

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Thursday August 2, 1:45pm – 3:15pm
Suite 833, Level 8

Session 2.4: Applied Econometrics

Chair: Tilak Abeysinghe (National University of Singapore)

Invited: Parametric versus Non-parametric Program Evaluation with an Application to Australian Marijuana Decriminalization
Speaker: Cheng Hsiao (University of Southern California)

Wen Shwo Fang and Chun Shen Lee (Feng Chia University, Taiwan)
Stephen M. Miller (University of Nevada, USA)

Paper ID 108: An Econometric Analysis of Economic Growth and FDI Inflows
Albert Wijeweera, Renato Villano and Brian Dollery (University of New England, Australia)

Paper ID 268: The Effect of the 1993 Expansion of the Earned Income Tax Credit (EITC) on Wages of Unmarried Women in the United States
Kampon Adireksombat (Michigan State University, USA)

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Thursday August 2, 1:45pm – 3:15pm
Suite 834, Level 8

Session 2.5: Economic Policy and Poverty Alleviation

Chair: Anis Chowdhury (University of Western Sydney)

Paper ID 263: Regulation, Private Sector Development and Poverty Reduction in Developing Countries
Colin Kirkpatrick (University of Manchester)

Paper ID 241: Impact of Globalization and Liberalization on Growth, Poverty and Inequality: A Case Study of Pakistan
Seema Siddiqua Hai, Safia Qamar Minhaj, Roohi Ahmed and Nooreen Mujahid (University of Karachi, Pakistan)

Paper ID 48: Economic Policy and Poverty Outcomes in Mongolia
Richard Colin Marshall and Bernard Walters (University of Manchester)

Paper ID 132: Entrance Examination, Private Tutoring, and Economic Growth
Manachaya Uruyos (Chulalongkorn University)

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Thursday August 2, 1:45pm – 3:15pm
Suite 835, Level 8

Session 2.6: Stock Markets and Markov Switching Models

Chair: Roberto Mariano (Singapore Management University)

Paper ID 160: When Does the Dividend-Price Ratio Predict Stock Returns?
Cheolbeom Park (National University of Singapore)

Paper ID 187: Factors Affecting Stock Prices in the UAE Financial Markets
Hussein A. Al-Tamimi (University of Sharjah, UAE)

Paper ID 24: Modeling Country Risks: An Asian Perspective
Gee Kwang Randolph Tan (Nanyang Technological University)
Tan Swee Liang (Singapore Management University)

Ahmed M. Khalid and Gulasekaran Rajaguru (Bond University, Australia)

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Friday August 3, 11:00am – 12:30pm  
Ballroom III, Level 6  

Session 3.1: Corporate Finance  

Chair: Charles Adams (Lee Kuan Yew School of Public Policy)  

Ismail Issham, Yen Siew Hwa, Anton Abdulbasah Kamil and Azli @ Meor Azli Ayub (Universiti Sains Malaysia)  
Abdul Samad M Fazilah (Universiti Malaya)  

Paper ID 107: Is It Better to be Aggressive or Conservative in Managing Working Capital?  
Talat Afza and Mian Sajid Nazir (COMSATS Institute of Information Technology, Pakistan)  

Paper ID 121: Role of Institutional Investors and Firm Performance in an Emerging Market  
Choudhary Slahudin (University of Management and Technology, Pakistan)  
Talat Afza (COMSATS Institute of Information Technology, Pakistan)  

Paper ID 102: On the Costs of Not Loving Thy Neighbour as Thyself: The Trade, Democracy and Military Expenditure Explanations Behind India-Pakistan Rivalry  
S Mansoob Murshed (University of Birmingham)  

Abstracts start on Page 96
Session 3.2: Financial Economics

Chair: Sothitorn Mallikamas (Chulalongkorn University)

Paper ID 257: Policy Change and Lead-Lag Relations among China’s Segmented Stock Markets
Wong Wing Keung and Zhuo Qiao (National University of Singapore)
Yuming Li (California State University, USA)

Charles Lai Tong and Jose Zemmour (Universite de la Mediterranee, France)

Xiaoneng Zhu (Nanyang Technological University)

Paper ID 259: Equilibrium Moment Restrictions on Asset Prices at Maturity
Nongnuch Tantisantiwong (Fiscal Policy Office, Thailand)
P. Simmons (University of York, UK)

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Session 3.3: International Macroeconomics

Chair: Peter Wilson (National University of Singapore)

Paper ID 98: Adoption and Execution Under the Floating Exchange Rate Regime: The Bangladesh Case
Manzur Quader (Independent University, Bangladesh)

Paper ID 149: Does Productivity Cause Exports or Vice Versa?
Nurhani Aba Ibrahim (MARA University of Technology, Malaysia)

Paper ID 204: Export Behaviour of Foreign-Invested Enterprises and FDI Spillovers on Export Performance in Vietnam
Tien Quang Tran (Australian National University)

Paper ID 205: The Determinants of International Reserve Hoarding in Korea: Cointegration and Error-Correction Approach
Gabje Jo (Keimyung University, Korea)

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Friday August 3, 11:00am – 12:30pm
Suite 833, Level 8

Session 3.4: National and Transnational Business Cycles

Chair: Chow Hwee Kwan (Singapore Management University)

Paper ID 193: Trade Intensity and Business Cycle Synchronization: The Case of East Asian Countries
Pradumna Rana (Asian Development Bank and Nanyang Technological University)

Paper ID 9: Determinants of Business Cycle Synchronization in ASEAN-5 Countries
Thanh To Trung (University of Birmingham)

Paper ID 77: Business Cycle Synchronization and Income Convergence in the Asia Pacific Region
Chan Tze Haw (Multimedia University, Malaysia)

Paper ID 165: Forecasting the Turning Points of Business Cycles
Raj Rajesh (Reserve Bank of India)

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Friday August 3, 11:00am – 12:30pm
Suite 834, Level 8

Session 3.5: Labour Markets and Migration

Chair: Hui Weng Tat (Lee Kuan Yew School of Public Policy)

Paper ID 252: The Political Economy of Trade Unions
Rosalind Chew (Nanyang Technological University)

Tomohiro Machikita (Institute of Developing Economies, Japan)

Paper ID 168: The Indian Labour Market: An Overview
Arup Mitra (Institute of Economic Growth, India)

Paper ID 106: On the Determinants of International Labour Migration in the Philippines
Angelito B. Acupana (Office of the President, Philippines)
Frank W. Agbola (The University of Newcastle, Australia)

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Friday August 3, 11:00am – 12:30pm  
Suite 835, Level 8

Session 3.6: Technology and Efficiency

Chair: Shandre Thangavelu (National University of Singapore)

Paper ID 118: Total Factor Productivity Growth and Output Growth in Indian Electronics Industry in the Liberalization Era: An Empirical Examination  
**Rumki Majumdar** and **M.H. Bala Subrahmanya** (Indian Institute of Science)

**Satarupa Ray Bhattacharya** and **V. Upadhyay** (Indian Institute of Technology)

Paper ID 194: Economic Recognition of Innovation  
**Balkrishna Rao** (Purdue University, USA)

Paper ID 167: Economic Reforms and Factor Productivity Change  
**Jayaraj Sargunam** (C.B.M. College of Arts and Science, India)

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Friday August 3, 1:45pm – 3:15pm  
Ballroom III, Level 6

Session 4.1: Economic Growth Centre (EGC) Session on Development and Income Distribution

Chair: Tan Khye Chong (Nanyang Technological University)

Invited: Economic Development and Nation-Building In Stages  
Speaker Shinichi Ichimura (Kyoto University)

Paper ID 73: Asian Picture of High Growth and Poverty/Ill-Being – A Study of 40 Asian Economies  
Neela Mukherjee (Development Tracks, India)  
Amitava Mukherjee (UN ESCAP, Bangkok)

Hongyi Li, Yong Wang and Liang Huang  
(Chinese University of Hong Kong)

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Session 4.2: Microeconomics I

Chair: Rosalind Chew (Nanyang Technological University)

Paper ID 235: Role of SHG in Inclusive Growth
Vijay Kakade (Shivaji University, India)

Paper ID 154: Globalisation and Socio-Economic Developmental Issues and Initiatives in India: From “Progress with Profit” to “Profit with Progress” Based Business Models Using Micro Credit
Niraj Gupta, Brijesh Rawat and Kanchan Gupta (Dr. B R A University, India)

Paper ID 185: Foreign Talent and Innovation: China and India in the Japanese Software Industry
Anthony D'Costa (University of Washington)
Tomoko Kobayashi (University of Tokyo)

Paper ID 68: Estimating the Congestion Cost and Recreational Benefits of Taiwan Coffee Festival
Chin Huang Huang (National Taiwan College of Physical Education, Taiwan)

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Friday August 3, 1:45pm – 3:15pm  
Suite 832, Level 8  

Session 4.3: International Trade I  

Chair: Xing Xiaolin (National University of Singapore)  

Paper ID 59: Anti-Dumping Regulations and Exogenous Consumer Switching Costs  
Jens Metge and Pia Weiss (Chemnitz University of Technology, Germany)  

Paper ID 207: MNE Supply Linkages: Evidence from Taiwanese Affiliates  
Bih Jane Liu (National Taiwan University)  

Paper ID 133: On the Advantages of Piecemeal Integration  
Bodil O. Hansen (Copenhagen Business School)  
Hans Keiding (University of Copenhagen)  

Paper ID 173: Singapore’s Trade with ASEAN  
Banumathi Mannarswamy (PSG Institute of Management, India)  

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Session 4.4: Finance and Bond Markets

Chair: Charlie Charoenwong (Nanyang Technological University)

Paper ID 54: Bond Market Developments in Emerging Markets: The Role of Social and Institutional Factors
Ahmed Khalid (Bond University, Australia)

Paper ID 101: Are Financial Sector Policies Effective in Deepening the Malaysian Financial System?
James Ang (Monash University)

Paper ID 146: A Model of Competitive Behavior by Investment Banks in Securities Underwriting Services
Kenji Matsui (Yokohama National University, Japan)

Asad Kamran Ghalib (University of Manchester)

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Friday August 3, 1:45pm – 3:15pm
Suite 834, Level 8

Session 4.5: International Finance and the Asian Financial Crisis

Chair: Reza Siregar (IMF-Singapore Training Institute and University of Adelaide)

Paper ID 231: The Financial Perils of Inflation Targeting
Wong Chin Yoong and Eng Yoke Kee (Universiti TAR, Malaysia)

Paper ID 258: The Causal Relationship between Foreign Direct Investment and Current Account: An Empirical Investigation for Pakistan Economy
Danish Ahmed Siddiqui and Mohsin Hasnain Ahmad (University of Karachi, Pakistan)
Qazi Masood Ahmed (Institute of Business Administration, Pakistan)

Paper ID 174: Re-Examining Forward Rate Unbiasedness Hypothesis in the Case of Asian Financial Crisis
Achmad Widjaja (United Arab Emirates University)

Paper ID 99: Once Again: Ten Years After the Asian Crisis
Edsel Beja Jr. (Ateneo de Manila University)

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Friday August 3, 1:45pm – 3:15pm
Suite 835, Level 8

Session 4.6: Economic Growth, Inequality and Conflict

Chair: Chen Kang (Nanyang Technological University)

Paper ID 239: The Role of Infrastructure and Foreign Direct Investment in Indian Economic Development: Issues and Challenges
Trupti Mishra and Suhita Chattrejee (IIT Kharagpur, India)

Paper ID 251: SEZs, Openness and Growth in China and India
Chee Kian Leong (Nanyang Technological University)

Paper ID 20: An Empirical Test of the Inequality Traps Concept
Daymon Caroline and Gimet Céline (CEFI, France)

Paper ID 177: Poverty and Conflict
Raghu Bista (Tribhuvan University, Nepal)

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Friday August 3, 3:45pm – 5:30pm
Ballroom III, Level 6

Session 5.1: Development Macroeconomics

Chair: Paul Yip (Nanyang Technological University)

Paper ID 265: Inflation Targeting in Indonesia: Searching for a Threshold
Anis Chowdhury and Roger Ham (University of Western Sydney)

Paper ID 181: Trade Liberalization and Sectoral Export Performance
in Pakistan
Mohsin Hasnain Ahmad, Rummana Zaheer, Akthar Lodhi and Waqar Hussain (University of Karachi, Pakistan)

Paper ID 131: Wage Inequality and Propensity to Marry after 1980 in Taiwan
Yu Chen Kuo (Feng Chia University, Taiwan)

Paper ID 195: The Effects of Monetary Policy on Bank Loans:
A Comparison Between Domestic and Foreign Banks in Malaysia
Salina Hj Kassim and Turkhan Ali Abdul Manap
(International Islamic University, Malaysia)

Chantal Herberholz (Chulalongkorn University)

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Friday August 3, 3:45pm – 5:30pm  
Suite 831, Level 8

Session 5.2: Economic Development

Chair: Shinichi Ichimura (Kyoto University)

Gladys Navarro and Eleanor D. Paca (Saint Louis University, Philippines)

Paper ID 29: Demography and Cross-Country Savings Rates Differences  
Elwin Tobing (California State University)

Hisaki Kono (Institute of Developing Economies, Japan)

Paper ID 88: Status-Seeking Behavior, the Evolution of Income Inequality and Growth  
Koichi Kawamoto (Osaka University, Japan)

Sawarat Boonyamanon (Chulalongkorn University)

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Friday August 3, 3:45pm – 5:30pm
Suite 832, Level 8

Session 5.3: Macroeconomic Theory

Chair: Hoon Hian Teck (Singapore Management University)

Paper ID 18: Budget Deficit and Redistribution
Jens Peter Siebel (University of Applied Sciences Kaiserslautern, Germany)

Paper ID 225: Tourism Policy Announcements and Price Dynamics in a Small Open Economy
Lee Jung Lu (Feng Chia University, Taiwan)

Paper ID 60: Monetary Policy and Capital Flow Reversal
Kim Heng Tan (Nanyang Technological University)

Paper ID 220: Information Lag and Stability for Continuous Dynamics
Yang Zhang (University of Macau) and Weihong Huang (Nanyang Technological University)

Paper ID 267: Generational Accounting for Singapore
Ngee Choon Chia and Yu Chien Kong (National University of Singapore)

Abstracts start on Page 132
**Session 5.4: Trade, Regionalization and Globalization**

Chair: **Tan Kong Yam** (Nanyang Technological University)

Paper ID 4: Regional Economic Integration and Intra-Regional Trade: Evidence from the ASEAN Free Trade Area  
**Normaz Ismail** (Universiti Putra Malaysia)

Paper ID 7: Possibilities and Consequences of the Merging of the Emerging Countries  
**Sema Kalaycioglu** (Isik University, Turkey)

Paper ID 36: Equilibrium Coalition Structure of ASEAN-Ten and ASEAN-Ten-Plus-Three  
**Wai Heng Loke** (University of Malaya)

Paper ID 242: Globalisation of Silk Trade: A Comparative Analysis between China and India  
**Kishor Goswami** (Indian Institute of Technology)

Paper ID 274: Litigation in the Internet Age: An Empirical Analysis of Shareholder Wealth Implications  
**Wen Li Chan** and **Eng Tuck Cheah** (University of Nottingham in Malaysia)

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Session 5.5: Growth and Poverty

Chair: Colin Kirkpatrick (University of Manchester)

Paper ID 266: Poverty Reduction in Central Asia: The Role of Renewable Technology
Jennifer Franz (University of Manchester)
S. Serban Serieciu (University of Cambridge)

Paper ID 176: Growth and Poverty in India – An Analysis of Inter-State Differences
Paramjeet Kaur Dhindsa and Seozy Bhatia (Guru Nanak Dev University, India)

Fambon Samuel (FSEG University Yaounde II, Cameroon)

Paper ID 260: Status, Fertility and the Great Transition
Frederic Tournemaine (University of the Thai Chamber of Commerce)

Paper ID 272: Estimation of Marginal Abatement Cost for Waste Water Treatment in Bangkok
Nantarat Tangwitoontum (Chulalongkorn University)

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Friday August 3, 3:45pm – 5:30pm
Suite 835, Level 8

Session 5.6: Asian Monetary Integration

Chair: Augustine Tan (Singapore Management University)

Invited: First Impressions on the European Economic and Monetary Union – lessons for Asia
        Joergen Orstrom Moller (Institute of Southeast Asian Studies, Singapore)

Paper ID 210: Financial Liberalization and Monetary Policy Cooperation in East Asia
              Hwee Kwan Chow, Peter Kriz, Roberto Mariano and Augustine Tan (Singapore Management University)

Paper ID 85: An East Asian Currency Union?
             David Kim (University of Sydney)

Paper ID 163: Cointegration Among ASEAN + 3 Currencies
              M. Azali and Lee Chin (Universiti Putra Malaysia)

Paper ID 49: Long-Run Stability of Demand for Money in China with Consideration of Bilateral Currency Substitution
             Yongqing Wang (University of Wisconsin, USA)

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Saturday August 4, 9:00am – 10:30am  
Ballroom III, Level 6

**Session 6.1: Macroeconomic Applications**

Chair: **Joseph Alba** (Nanyang Technological University)

Paper ID 17: What Determines the Current Account Balances in Mena Countries?  
**Aleksander Aristovnik** (University of Ljubljana, Slovenia)

Paper ID 15: Cross-Country Evidence on the Link Between Health and Macroeconomic Volatility  
**Tauhidur Rahman** (University of Arizona, USA)

Paper ID 171: 1988 Korean Olympics and Macro Effects: What’s There?  
**Jonathan Willner** (Oklahoma City University, USA)

Paper ID 112: Identifying Aggregate Demand and Supply Shocks in Bangladesh  
**Omar H.M.N. Bashar** (University of Melbourne, Australia)

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Session 6.2: Poverty and Unemployment

Chair: Hal Hill (Australian National University)

Invited: Poverty, Policy Reforms for Resource-use and Economic
Speaker Efficiency: Neglected Issues
Clement Tisdell (University of Queensland)

Paper ID 175: Does private participation in energy infrastructure support
poverty reduction?
Bianca Gusenbauer (Vienna University of Economics)

Paper ID 122: Inclusive Growth and Challenges of Poverty in India
R.S. Solunke, B.S. Mhaske and V.B. Kakade (Dr.
B.A.M.U. Aurangabad M.S., India)

Paper ID 228: A Note on Southeast Asian Hysteretic Unemployment
Eng Yoke Kee and Wong Chin Yoong (Universiti TAR,
Malaysia)

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Session 6.3: Social Economics

Chair: Sun Yeneng (National University of Singapore)

Invited: Markets, Rules, and History: Some Surprising Externalities  
Speaker: Peter Hammond (Stanford University)

Paper ID 16: Multinational Companies in Low-Income Markets: An Analysis of Social Embeddedness in Southeast Asia  
Dina Badry (University of St. Gallen, Switzerland)

Paper ID 158: Intergenerational Transmission of Happiness in Singapore: An Exploratory Study  
Kong Weng Ho (Nanyang Technological University)

Paper ID 273: The Results of Monte Carlo Simulation on Agent-Based Model with Quality Uncertainty  
Papusson Chaiwat (Chulalongkorn University)

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Saturday August 4, 9:00am – 10:30am  
Suite 833, Level 8

**Session 6.4: International Trade II**

Chair: **Yothin Jinjarak** (Nanyang Technological University)

Paper ID 105: A Study of COMPAS Model for Anti-Dumping Investigations – An Application to the H-Beam Industry in Taiwan  
**Shu Yuan Lee** (Chihlee Institute of Technology, Taiwan)

Paper ID 125: Changes in Product Quality in Intra-Industry Trade and Adjustment Costs: The China and ASEAN Experience  
**A.K.M. Azhar** (Universiti Putra Malaysia)  
**Robert J.R. Elliott** (University of Birmingham)  
**Junting Liu** (Liaoning University, China)

Paper ID 188: Corruption and Tariffs as Barriers to Imports  
**Pushan Dutt** (INSEAD Singapore)  
**Daniel Traca** (Solvay Business School, Belgium)

Paper ID 3: The Effects of Exchange Rate Variability on Malaysia’s Disaggregated Electrical Exports  
**Koi Nyen Wong** and **Tuck Cheong Tang** (Monash University in Malaysia)

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Saturday August 4, 9:00am – 10:30am
Suite 834, Level 8

Session 6.5: Agricultural and Resource Economics

Chair: Tony Addison (University of Manchester)

Paper ID 21: Measuring Indicators for Sustainability of Agricultural Systems: Applying Fractional Programming
Vali Borimnejad (Islamic Azad University, Iran)

Paper ID 83: Land and Caste in Andhra Pradesh
Estharla Krishna Rao (University of Hyderabad, India)

Paper ID 134: Spatial Determinants of Agricultural Production at the District Level in Vietnam
Ngo Quang Thanh (Wageningen University, Netherlands)

Paper ID 117: Pollution Implications of Electricity Generation in the Malaysian Economy: An Input-Output Approach
Abul Quasem Al-Amin, Chamhuri Siwar and Abdul Hamid Jaafar (Universiti Kebangsaan Malaysia)
Mohammad Nurul Huda Mazumder (Multimedia University, Malaysia)

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Saturday August 4, 9:00am – 10:30am
Suite 835, Level 8

Session 6.6: Behavioural Economics

Chair: Chia Ngee Choon (National University of Singapore)

Invited: To Trade or Not to Trade: The Endowment Effect and
Speaker Manipulations of the Reference State
Jack Knetsch (Simon Fraser University, Canada)
Wei Kang Wong (National University of Singapore)

Paper ID 261: A Proposal for a “Hurry Up” Flow-Through Tax for
Business Entities
Mark Gillen (University of Victoria, Canada)

Paper ID 224: An Analysis of Privatization and Union Behavior
Tsai Chen Shen (Tatung Institute of Commerce and
Technology, Taiwan)
Fang Yueh Chen (National Chung Cheng University,
Taiwan)

Paper ID 96: Will Investing in Health Stimulate Growth? Evidence from
a Panel of OECD Countries
Paresh Kumar Narayan (Griffith University, Australia)

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Saturday August 4, 11:00am – 12:30pm
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**Session 7.1: Growth Models and Trade**

Chair: **Wong Wei Kang** (National University of Singapore)

Paper ID 196: Illegal Immigration in a Heterogeneous Society
**Theodore Palivos** (University of Macedonia, Greece)
**Chong K. Yip** (Chinese University of Hong Kong)

Paper ID 162: Efficiency, Growth and Convergence Across Chinese Provinces: A Non-Parametric Approach
**Daniel J. Henderson** (State University of New York at Binghamton)
**Kiril Tochkov** (Texas Christian University, USA)
**Oleg Badunenko** (European University Viadrina)

Paper ID 223: Social Transformation for the Asian Countries Through CSR
**M.V.Shetty** (Multimedia University, Malaysia)

Paper ID 37: The J-Curve at the Industry Level: Evidence from Trade Between U.S. and Australia
**Mohsen Bahmani-Oskooee** and **Yongqing Wang**
(University of Wisconsin)

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Session 7.2: Money and Banking

Chair: Ahmed Khalid (Bond University, Australia)

Paper ID 33: Retail Bank Interest Rate Pass-Through  
Ilyas Siklar and Bilge Kagan Ozdemir (Anadolu University, Turkey)

Paper ID 58: Determinants of International Bank Lending From the Developed World to East Asia  
Reza Siregar (IMF-Singapore Training Institute and University of Adelaide)  
Keen Meng Choy (Nanyang Technological University)

Paper ID 119: Optimal Monetary Policy under Imperfect Factor Mobility  
Takeshi Kudo (Nagasaki University, Japan)  
Tamon Takamura (Ohio State University, Japan)  
Tsutomu Watanabe (Hitotsubashi University, Japan)

Paper ID 111: Ownership and Performance: Evidence from an Emerging Market  
Subba Reddy Yarram (University of New England, Australia)  
Balasingham Balachandran (Monash University)  
G. Sivalingam (Monash University in Malaysia)
Session 7.3: Microeconomics II

Chair: Jack Knetsch (Simon Fraser University, Canada)

Paper ID 269: Genetic Tests and Intertemporal Screening in Competitive Insurance Market
Winand Emons (University of Bern, Switzerland)

Paper ID 256: Ex Ante Efficiency Implies Incentive Compatibility
Sun Yeneng (National University of Singapore)

Paper ID 144: Delayed Dynamics in Heterogeneous Competition with Product Differentiation
Akio Matsumoto (Chuo University, Japan)
Ferenc Szidarovszky (University of Arizona, USA)

Paper ID 244: Partial Compatibility and Cross Subsidization of Hardware/Software Systems in the Presence of Two-Sided Network Effects
Dachrahn Wu and Mei Hua Chang (National Central University, Taiwan)

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Suite 833, Level 8

Session 7.4: Empirical Finance

Chair: Low Chan Kee (Nanyang Technological University)

Paper ID 150: Evidence of Bubbles in the Singapore Stock Market
            Gary Rangel (Altera Corporation (M) Sdn. Bhd.)
            Subramaniam S. Pillay (The University of Nottingham in Malaysia)

Paper ID 166: Determinants of Corporate Cash Holdings: A Case Study of Pakistan
            Talat Afza and Sh. Muhammad Adnan (COMSATS Institute of Information Technology, Pakistan)

            Rasyad Parinduri and Yohanes Riyanto (National University of Singapore)

Paper ID 84: Optimal Portfolio Selection in a Fuzzy Environment
            B. K. Mangaraj and P. C. Padhan (Xavier Labour Relation Institute, India)

Abstracts start on Page 164
Saturday August 4, 11:00am – 12:30pm
Suite 834, Level 8

Session 7.5: The Indian Economy

Chair: Mukul Asher (Lee Kuan Yew School of Public Policy)

Paper ID 32: Subcontracting Relationship of Indian SMEs with a Global TNC: Do SMEs Gain and How?
R. Sudhir Kumar and M. H. Bala Subrahmanya (Indian Institute of Science)

Paper ID 128: Inclusive Financial Infrastructure and Emergence of SHGs: Lessons from India
Ambika Prasad Pati (North Eastern Hill University, India)

Paper ID 229: Exploring Rural Markets for Private Life Insurance Players in India
P.K. Gupta (Centre for Management Studies, India)

Rajesh Raj (Centre for Multi-Disciplinary Development Research, India)

Abstracts start on Page 166
Saturday August 4, 11:00am – 12:30pm
Suite 835, Level 8

Session 7.6: Poverty, Welfare and Education

Chair: Ho Kong Weng (Nanyang Technological University)

Paper ID 110: Calculating Poverty Measures from the Beta Income Distribution
William Griffiths and Wasana Karunarathne (University of Melbourne)
Duangkamon Chotikapanich (Monash University)
D.S. Prasada Rao (University of Queensland)

Paper ID 151: Welfare Effects of Scrappage Subsidies
Diya Mazumder (Soka University of America, USA)
Ruhai Wu (Florida Atlantic University, USA)

Paper ID 86: Privatization of Higher Education in Malaysia
G. Sivalingam (Monash University in Malaysia)

Paper ID 43: Attitudes and Low Sex Ratios – The Experience of Tamil Nadu in South India
S. Mumtaj Begum and Christianna Singh (Lady Doak College, India)

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Abstracts
In comparison with most transition economies, China’s market oriented economic reform process has two special characteristics: (1) it has been carried out within the existing political framework; and (2) it faced strong opposition from conservative leaders in the 1980s. As a result, the top-down reforms could only be partial and incremental, and the main source of institutional innovations had to come from the bottom-up reforms. It was therefore necessary to device a compensation system which could provide incentives for local government officials to take risks in supporting and enabling spontaneous initiatives. Revenue sharing happened to facilitate the establishment of an implicit compensation system which did provide strong incentives to bring local officials into the reformist camp and thus sustained market oriented reforms. However, such a system has its lock-in effect of monetizing departmental interests and legitimizing collective corruption. Whether the form of corruption is the helping-hand or the grabbing-hand type would depend on whether the local government has an encompassing or narrow interest over the local economy.

We examine whether greater inter-state trade, democracy and reduced military spending lower belligerence between India and Pakistan. We begin with theoretical models covering the opportunity costs of conflict in terms of trade losses and security spending, as well as the costs of making concessions to rivals. Conflict between the two nations is best understood in a multivariate framework where variables such as economic
performance, integration with rest of the world, trade between the conflicting nations, military expenditure, population and democracy are simultaneously taken into account. We also investigate the causal links between bilateral conflict and most of these variables in a time series framework from 1950 to 2005. Our empirical investigation based on time series econometrics with causality tests suggests that reduced trade, greater military expenditure, less development expenditure, lower levels of democracy, lower growth rates and less general trade openness are all conflict enhancing, albeit with lags. Economic progress, combined with greater openness to international trade in general are more significant drivers of a liberal peace, rather than a common democratic political orientation suggested by the democratic peace.

**Paper ID 94**

**Development Assistance and Endogenous Fiscal Response: Implications for Thailand's Development**

Euamporn Phijaisanit  
*Thammasat University, Thailand*

This research paper analyses the endogenous fiscal response to development assistance in Thailand and its implications on the country’s development. The analysis employs annual time series data during 42 years from 1960 to 2003. The fiscal impact model treats the development aid variable as being endogenous so as to capture the dynamism in fiscal response. The research nature of such has not sufficiently been conducted for the case of Thailand and various countries in Asia. The initial Granger non-causality tests show that aid does Granger-cause fiscal variables but not vice versa. Nevertheless, more robust weak exogeneity tests indicate that none of the variables are weakly exogenous in the long-run fiscal relationship. The evidence, therefore, does not suffice to support the earlier presumption that aid plays no discerning role in the adjustment process for the case of Thailand. Moreover, preliminary results also indicate the possibility of a high degree of aid fungibility in the country.
Contested Capitalism: Financial Politics and Implications for China

Richard Carney
Nanyang Technological University, Singapore

As China's economy grows and matures, is it developing institutional patterns that resemble those of other wealthy countries? I offer an innovative theory that deduces the structure of nations' capitalist institutions based on distributive welfare gains to those actors representing an economy's main factors of production (land, labor, and capital). Based on statistical and qualitative evidence across countries and time, I then draw implications for China's capitalist system. Specifically, I find that China resembles continental European capitalism far more than Anglo-American capitalism, and that it is likely to remain this way for the foreseeable future.

Household Asset Allocation Decision (HAAD): An Alternative Approach to Analyze Demand for Mangrove Forest Goods

Gladys Marquez-Navarro¹ and Jacques Viaene²

¹Saint Louis University, Philippines and ²Ghent University, Belgium

This paper explores and analyzes the impact of household asset allocation decisions (HAAD), with special focus on labor allocation, on the demand for mangrove forest goods (MFG). The cross-section data were the result of a survey involving 250 respondents in the two fishing village of Camarines Norte, Philippines. The HAAD was used to analyze household decisions and their broad impact on policy, and the influence of institutional context on the sustainability of natural resources. The result of the research validates economic intuition that surplus labor is a major determinant of the depletion of mangrove forest goods. An increase in surplus labor tends to increase the demand for MFG. The paper recommends that depletion of the mangrove forest goods must be addressed at its root cause by translating surplus labor into money income generating (productive) activities.
**Paper ID 70**

**Household Wealth Accumulation and Housing Choices in Korea**

Sang-Wook (Stanley) Cho  
*University of New South Wales, Australia*

This paper constructs a quantitative lifecycle model with uninsurable labor income and aggregate housing return risk to assess how Korean households make saving and portfolio allocation decisions. The model incorporates the special roles housing plays in the portfolio of households: collateral, a source of service flows, as well as a source of potential capital gains or losses. In the model, a household first makes the decision whether to rent or to buy a house and then chooses the housing value. The model adds to existing models of wealth accumulation some unique institutional features present in Korea, namely the rental system (‘chonsae’) and the lack of a mortgage system. When the model is calibrated to match the Korean economy, several key features of the data are better able to be reproduced. The paper also analyzes the role of institutional features by comparing several alternative housing market arrangements and the introduction of a pay-as-you-go social security system to assess their impact on wealth accumulation, portfolio choices, and the pattern of homeownership. I find that expanding the mortgage system significantly increases the homeownership ratio, while alternative rental arrangements have mixed effects on the homeownership ratio. All of the alternative market arrangements raise the fraction of household wealth invested into housing assets. I also find that the introduction of a social security system will lower the overall savings in Korea by approximately 17% and lower the homeownership ratio by 10 percentage points.

**Paper ID 191**

**Heterogeneity in Intra-Monthly Consumption Patterns, Self-Control, and Savings at Retirement**

Giovanni Mastrobuoni\(^1\) and Matt Weinberg\(^2\)  
\(^1\)Collegio Carlo Alberto, Italy and \(^2\)University of Georgia, USA

Using data from the Continuing Survey of Food Intake by Individuals, this paper describes the shape of consumption profiles over the month for Social Security benefit recipients. Individuals with income mostly made
up of Social Security benefits and who have some savings smooth their consumption over the pay period, while individuals with little savings consume 25 percent fewer calories the week before checks are received relative to the week after checks are received. The findings for individuals with little savings are inconsistent with the Permanent Income/Lifecycle Hypothesis, but are consistent with hyperbolic discounting.

**Paper ID 161**

**Parental Income and Intergenerational Transmission of Religiosity**

Kong Weng Ho¹ and Kelvin Foo²

¹Nanyang Technological University and ²National University of Singapore, Singapore

We develop a simple model of intergenerational transmission of religiosity with a focus on the role of parental income. Empirically, we found that the negative binomial model is most appropriate to analyze religiosity data from the Panel Study on Income Dynamics (PSID). We found a statistically significant positive interactive effect from parental income and parental religiosity on religiosity of their children and that the interactive effect diminishes with parental religiosity. Furthermore, the direct parental income effect is negative, though not statistically significant. Both health status and risk tolerance have significant impact on religiosity.

**Paper ID 261**

**A Proposal for a “Hurry Up” Flow-Through Tax for Business Entities**

Mark Gillen

*University of Victoria, Canada*

The paper argues that a “hurry up” flow-through income tax for business entities (e.g. corporations) could go some way to addressing the problem of double taxation of business entity income while also providing greater scope for the use of a high payout policy as a bonding device to reduce agency costs. The paper notes the double taxation problem, the concept of tax integration that is often used to address the double taxation problem, and the difficulties that such tax integration techniques typically encounter. It then outlines the “hurry up” technique (often used in the taxation of trust income) and notes how such a technique avoids (or reduces) the double
taxation problem while removing the tax penalty on distributions of net of tax business entity income.

**Paper ID 95**

**Private Provision of a Discrete Public Good**

Jingfeng Lu¹ and Euston Quah²

¹National University of Singapore and ²Nanyang Technological University, Singapore

This paper studies how a discrete public good can be supplied through a private provider such as a local government faced with a tight budget constraint, when the valuations of the consumers are their private information and participation of consumers is completely voluntary. The public good is provided if and only if the sum of the virtual values of all consumers is no less than the provision cost. If the good is provided, each bidder pays his threshold value that leads to the provision decision of the good. If the good is not provided, no one pays. This mechanism endogenously induces every consumer to participate and reveal their true valuations. The revenue-maximizing mechanism for implementing efficient allocation is also characterized. We show that generally it is impossible to achieve the efficient allocation through purely collecting payments from the potential consumers. Interestingly, in the presence of complete information on the valuations of individuals, the efficient allocation is implementable through a profit-making provider.

**Paper ID 113**

**Partial Privatization, Corporate Governance, and the Role of State-Owned Holding Companies**

Choon Yin Sam

TMC Education Corporation Limited, Singapore

The success of privatized firms has been of interest to researchers in economics. A number of observers, including Joseph Stiglitz, have questioned the merits of privatization as a means to enhance firm performance. In this study, we examine the role of state-owned holding company (SOH), serving as a monitoring arm of the government to track the performance of the government-linked companies (GLCs). In the case
where state assets are partially privatized, the holding company serves as a useful institution to mitigate the agency problem involving the government as the principal and the GLCs as agents. To play this role effectively, the holding company itself must be respected and well governed. In the first part of this paper, a simple framework is presented to put in context the specific role of the SOH and its relationship with the various stakeholders. Next, we turn to a case study, the Temasek Holdings Limited of Singapore, to gain a better understanding of the style of corporate governance of a holding company. Our conclusion is that SOHs can play an important role in a nation’s privatization process, to raise the standards of corporate governance of GLCs before they are fully privatized.

**Paper ID 249**

**Tax Policy and Foreign Direct Investment of a Home Country**

Sasatra Sudsawasd  
*National Institute of Development Administration, Thailand*

The relationship between an FDI home country’s tax policies and its FDI outflows is investigated using panel data of bilateral FDI flows from the OECD countries for the period 1990-2004. Five types of tax policies are examined: corporate income taxes, personal income taxes, property taxes, consumption taxes, and import taxes. Panel regression results suggest that most tax policies of a home country have positive correlations with the level of FDI outflows. With one exception, consumption taxes are negatively correlated with FDI outflows from the OECD countries. This empirical finding appears to be along the same lines as theoretical predictions that an increase in consumption tax rates is associated with a lower marginal product of labor. This, in turns, increases the level of employment and the demand for new investment in a home country.
**Paper ID 25**

**Dragon Children: Identifying the Causal Effect of the First Child on Female Labor Supply with the Chinese Lunar Calendar**

James P. Vere  
*University of Hong Kong, Hong Kong*

Instrumental variables (IV) estimates of the effect of fertility on female labor supply have only been able to identify the causal effect of second and higher parity children. This study uses exogenous variation in fertility caused by the Chinese lunar calendar to identify the effect of the first child. Additionally, weighting formulas are presented to interpret IV estimates as weighted average treatment effects in the case of multiple endogenous variables, which are useful when children vary in intensity by both number and age. The effect of the first child is found to be much greater than that of other children.

**Paper ID 100**

**The Impact of Women’s Schooling on the Number of Children and Contraceptive Use: Evidence from Indonesia**

Ari A. Perdana  
*Centre for Strategic and International Studies, Indonesia*

This paper uses the 2002/03 round of the Indonesian Demographic and Health Survey (DHS) to whether higher women’s schooling reduces both actual and the ‘desired’ number of children. In order to address the potential for omitted variable bias and reverse causality, quarter of birth is used as the instrument for schooling. Using instrumental variable regression, women’s schooling does not seem to play a role in reducing the number of children. Schooling also does not increase the probability of using modern contraceptive methods. The reason may be due to the fact that the family planning campaign in the 1970s-80s has been successful, so regardless of education and wealth, Indonesian women in the 2000s have relatively had high knowledge and access to contraception.
Paper ID 232

The One Child Policy and Family Formation in Urban China

Gordon Anderson¹ and Teng Wah Leo² ¹University of Toronto and ²St Francis Xavier University, Canada

The Chinese government implemented the One Child Policy in an attempt to stave off population explosion and its potential negative economic consequences on their infant economy in 1979. This article examines the consequences of this policy on marital matching and family size decisions. Using a simple General Equilibrium model, we show how by constraining marital output on the quantity of children dimension raises the marginal benefits for increased positive assortative matching, and greater investment in children. These theoretical predictions were next verified empirically, by first verifying the prediction on positive assortative matching using Distributional Overlap Test, which involves the comparisons of the joint density of spousal educational attainment, and provides support for the hypothesis of increased positive assortative matching among the urban population. To support this positive finding, we next examined if the policy was indeed binding. Using Poisson regression, we found suggestive evidence that the One Child Policy principally affected the quantity of children decision by suppressing parental gender preference of their child. This suggest that births beyond the first child are purely accidental among younger mothers, particularly those who were younger than 25 years of age when One Child Policy was legislated, since marital match, and family size decisions would not have been completed by then. This was affirmed using a pure Poisson model. In addition, we also found some evidence of increased educational attainment among children, further verifying the hypothesis that the One Child Policy altered familial decisions in urban China.

Paper ID 115

Demography and Economic Growth in Pakistan (1972-2005)

Shah Nawaz Malik, Muhammad Khizar Hayat and Shahzad Hussain  
Bahaudin Zakariya University, Pakistan

The objective of this research paper is to investigate the empirical relationship among demographic and macroeconomic variables in...
Pakistan for the period 1971-2005. Advanced time series econometric techniques are employed to establish such a relationship. The infant mortality rate, total fertility rate and per capita gross domestic product are the variables used in this research. We use the bivariate Granger causality test to look for short-run relations, and a multivariate cointegration analysis for long-run relationships. The cointegration analysis results indicate that two long run relationships among the variables exist with statistically significant coefficients. The main results from the multivariate causality analysis and the generalized impulse response functions show that total fertility responds directly to a GDP shock and infant mortality does not cause total fertility. A positive income effect on the demand for children is observed, deriving from the sign of the bi-directional relationship between GDP and fertility. These results are useful and comparable with those expected from theoretical models of fertility.

Invited Speaker

Exporting, Productivity and Agglomeration

David Greenaway and Richard Kneller

University of Nottingham, UK

Economic analysis of adjustment to globalisation has shifted from countries and industries to firms and plants. One particularly fruitful area for research has been aspects of entry to, participation in and exit from export markets. This paper contributes to that literature. Its focus is the exporting behaviour of manufacturing firms in the United Kingdom. To isolate the impact of participation in export markets we use nearest neighbour matching. For 1988 to 2002, we find evidence that spillovers associated with agglomeration can raise the probability of export market entry and once entry has occurred there may be additional productivity benefits. Survival is driven partly by size and total factor productivity and partly by industry characteristics.
Impact of Home and Host Country’s Intellectual Property Right Protection on FDI: in Search of Technology Transfer

Zhang Ang
City University of Hong Kong, Hong Kong

Over the last two decades, foreign direct investment (FDI) has been growing rapidly as a result of the globalization process. Nevertheless, the geographical distribution of FDI remains highly uneven. This paper focuses on the role of intellectual property rights (IPR) protection in the determination of the geographical distribution of FDI. While the effect of IPR in the host countries (destination countries) on the FDI inflows has been discussed at length in the theoretical literature, the impact of IPRs protection in the home countries (source countries) on their FDI outflows remains largely unexplored. The observed FDI value can be viewed as an outcome jointly determined by the demand of FDI inflows from the host countries and the supply of FDI outflows from the home countries. Using bilateral FDI data from 48 host countries and 23 home countries, we find evidence that IPRs protection in both the host and home countries are important determinants of FDI flows. However, not all countries experience the same benefits on FDI flows from higher IPRs protection. The effect of IPRs protection on FDI flows depends on (i) the concentration of the FDI flows in the IPR sensitive industries and (ii) the imitative abilities of the host countries. The impact of IPRs protection is more prevalent for host and home countries whose FDI inflows and outflows are more concentrated in the IPR sensitive industries. Moreover, the beneficial effects of IPRs protection are more likely to be detected for host countries whose imitative abilities are strong.

Inward Foreign Direct Investment and Export Performance in Taiwan

Shao Wei Lee and Nelson Perera
University of Wollongong, Australia

The objective of this study is to examine the causal relationship between FDI and exports as well as the structural break in these series in Taiwan.
This study is based on annual data from 1952 to 2005. The cointegration and error correction modeling (ECM) techniques are used in the study after considering the existence of the multiple structural breaks in the data. The results indicate that inward FDI positively impacts on Taiwanese export performance. Using the tool for detecting breaks in the univariate time series, it was found that there is a significant trend break detected in FDI in 1968/79 and in exports in 1970/84 which coincides with government intervention in FDI and exports. The policy implications that emerged from this study is that the transformation of Taiwanese Export Processing Zones (EPZs) into a more strategic hub is a conceivable means to stretch the positive linkage of FDI and export performance.

**Bilateral Investment Treaties and FDI: The GCC Experience**

Wasseem Mina

*United Arab Emirates University, UAE*

The GCC countries have contracted a sharply increasing number of bilateral investment treaties (BITs) since the 1990s. In the 1990s GCC countries signed 80 BITs compared to 11 in the 1980s. In the first four years of the 2000s alone, the GCC countries signed 50 BITs, which constitute about two thirds of the total number of BITs signed in the 1990s. The rationale behind GCC countries contracting an increasing number of BITs is debatable. On the one hand, GCC countries have possibly contracted BITs out of recognition of the positive influence of property rights protection on foreign investment. On the other hand, contracting BITs may not be beneficial in attracting foreign investment in the GCC countries for two reasons. First, FDI in the GCC countries has been historically associated with oil exploration and extraction despite the absence of BITs. Second, GCC countries may have contracted BITs out of a desire to seem modern and despite their minimal positive impact on FDI. This paper empirically evaluates the impact of BITs on FDI flows to the GCC countries. It distinguishes the impact of BITs by the income level of the contracting partner, and by whether BITs are signed or ratified. The paper uses panel data on the six GCC countries for the period 1980–2004 and compares the results of three econometric methodologies which address potential endogeneity. The results of the first two approaches indicate that the impact of contracted BITs is largely statistically insignificant. The results of the last approach indicate that BITs contracted
with high income non-OECD countries and upper middle income countries have a positive and statistically significant impact on FDI flows. These results raise concerns about the usefulness of BITs as an investment promotion mechanism in the GCC countries.

**Invited Speaker**

**The Political Economy of Economic Policy Reform in Southeast Asia**

Hal Hill

*Australian National University, Australia*

Economists broadly agree on many key economic policy issues, at least at a general level, but they are much less sure about why and how economic policy reform occurs, and how to develop institutional mechanism that encourage governments to adopt ‘good’ economic policy. Political scientists are adept at identifying coalitions, constituencies, institutions and interest groups, but do not commonly delve into the implications for economic policy. Thus work at the intersection between economics and politics, and why policy change takes place, remains relatively unexplored territory. This is especially so in developing countries, where political processes and institutions are often less well formed, or more fluid, and the case study literature on economic policy making generally limited. This paper offers an analytical survey of the evidence on economic policy reform in Southeast Asia. It ranges across the major policy U-turns and the incremental reforms, the successes and failures, the macroeconomy and the sectors, and both international and domestic factors. The huge diversity of the region, in terms of both levels of development and political/institutional structures, cautions against generalization but it also adds to the richness of the subject matter.

**Paper ID 262**

**International Trade and Manufacturing Employment Outcomes in India: A Comparative Study**

Kunal Sen

*University of Manchester, UK*

The Indian economy has observed significant trade reforms since the mid 1980s, and the Indian manufacturing sector has rapidly increased its
integration with the world economy. In this paper, we ask the question: did the increased trade integration create or destroy jobs in the Indian manufacturing sector? We attempt to answer this question by employing a variety of methodological approaches – factor content, growth accounting and econometric modelling. We also compare India’s employment outcomes with four other countries - Bangladesh, Kenya, South Africa and Vietnam, where similar methodological approaches were used. We find that the impact of international trade on manufacturing employment seems to be similar to those found for the two African countries – Kenya and South Africa – rather than the two Asian countries – Bangladesh and Vietnam. We also find that the overall effect of international trade on manufacturing employment has been minimal, a surprising result for a country with an apparent comparative advantage in labour-intensive manufacturing goods, and a large excess supply of unskilled labour.

**Political Risk of Social Security: Evidence from Reforms in Hungary and the Czech Republic**

Juraj Kopecsni and Libor Dusek
*Charles University, Czech Republic*

We document the political risk of social security in Hungary and the Czech Republic by measuring the changes in the social security wealth induced by the pension reforms undertaken in these countries since the 1990s. Methodologically we follow upon McHale’s (2001) study of selected reforms in G7 countries. We compute the changes in social security wealth separately for representative male and female workers in all age cohorts and different educational categories. Our results therefore provide more comprehensive picture of the differential impacts of pension reforms on different workers. The Czech 1996 reform reduced the social security wealth of almost all workers by the magnitude of 2 to 3 annual average earnings. The negative impact was more pronounced for women but was distributed fairly equally across cohorts and income levels. In Hungary, the early (1993 and 1997) reforms had negative impact on workers near their retirement age. The 1998 reform which introduced a privately funded second pillar was highly advantageous for middle-aged and young men with university education but had a negative impact on most other workers, and exposed workers to additional uncertainty about future taxation of benefits. Overall, the paper documents that pay-as-you-
go system is not a predictable source of income since legislative reforms, particularly in the Hungarian case, do frequently changes the future taxes and benefits in different directions for different people."

**Paper ID 192**

**Weighting Dimensions of Poverty Based on People’s Priorities**

Hans de Kruijk and Martine Rutten  
*Erasmus University Rotterdam, Netherlands*

Whilst recognizing that poverty is a multidimensional concept, many poverty studies fall back to one dimension when it comes to quantifying poverty. A multidimensional concept of poverty raises the question of how to quantify the various dimensions of poverty and how to weigh these dimensions to measure overall poverty. Existing attempts to solve the intractable weighting problem are unsatisfactory because they assign arbitrary (usually equal) weights to each component or obtain weights from the data using factor type analysis which may substantially differ from people’s perceptions about priorities. In the present paper the aggregation problem is solved by using a weighting structure that is derived directly from population preferences. It uses explicit information on the ranking of poverty dimensions as obtained from household surveys. These ranking are transformed into priority weights for each dimension so that a composite index can be obtained. An empirical application to the Maldives is given for the years 1997/8 and 2004, which allows for observing changes in the poverty situation over time for each dimension, for each region and for overall poverty.

**Paper ID 57**

**Fiscal Space for Public Investment: Towards a Human Development Approach**

Rathin Roy, Antoine Heuty and Emmanuel Letouze  
*United Nations Development Programme, USA*

This paper explores the analytical and policy possibilities for an enabling fiscal framework for long term development transformations, of the kind required for achieving the Millennium Development Goals (MDGs). We find that there is inconclusive evidence on whether infrastructure
investment has a positive and significant impact on growth. However, public investments, including infrastructure, do have a direct positive impact on the MDGs. Hence we argue for a framework of enabling fiscal rules for all development related public investments. We find existing frameworks limited in their short term focus, including a recent attempt to develop an approach that recognizes the central role of fiscal policy in financing the provision of public goods needed to achieve the MDGs within a longer time horizon. We review proposals for alternative fiscal rules that would foster an enabling reform environment for scaled up public investments. We find that these rules are affected by a tradeoff we term the fiscal space conjecture that explains the tension between fiduciary and developmental outcomes. However we argue that a harmonious solution exists in which fiscal paybacks and development paybacks are simultaneously secured but efforts in this direction have been limited due to a paradigmatic dogmatism that views the role of public finance as being essentially prudent. An enabling framework requires that the development payback deliver (within a defined time frame) a level of productive activity and savings mobilization that is compatible with long term fiduciary sustainability. New instruments and indicators need to be defined for this purpose.

**Paper ID 30**

**Historical GDP in the Colony of Singapore: Methodologies of Construction and Overall Patterns of Growth, 1900–1939 and 1950–1960**

Ichiro Sugimoto

*University of Malaya, Malaysia*

The study of the long-term economic growth of Singapore has been hampered until now by the complete absence of long-term statistical series on national income prior to 1956. This explains why the existing literature on the pre-1956 economic development of Singapore has been confined merely to studies on specific sectors. This paper will provide methodologies employed for the first cut estimates of the Gross Domestic Product (GDP) of Singapore for the periods 1900–1939 and 1950–1960 based on the expenditure approach in current and constant (1914) prices. Subsequently, based on these derived results, the overall pattern of economic growth of Singapore was observed in respect of real GDP, per capita real GDP and share of the various components of GDP.
**Paper ID 65**

**Is There a Structural Change Between Savings and Gross Domestic Capital Formation in India? An Empirical Exercise**

Mothkuri Aruna  
*Institute of Chartered Financial Analysts of India, India*

The main focus in this petite exercise is to scan the sign and size of the differential coefficient of rate of growth of savings and elasticity of savings in households, private and public sector during the post-economic reform period in India by fitting a double-log regression model with an interaction variable to time series annual data. The period after 1991 is considered as the post-economic reform period to examine the prognostication of economic reforms on growth rate of savings and elasticity of savings in household sector, private sector and public sectors. The extent of rate of growth and elasticity of savings of household sector, private sector and the public sector during the pre- and post-economic reform period has been examined with dummy variables and interaction variables. The regression coefficient of time and the differential coefficient are statistically significant and positive for all the three sectors, namely, households, private and public sector. Further the results of the study indicate that the average annual growth rate of total savings of the Indian economy (household sector + private sector + public sector) during the post-economic reform period is found to be positive, revealing that there is an upward shift in the growth rate of total savings of the Indian economy during the post-economic reform period.

**Paper ID 180**

**Determinants of Economic Growth in the Information Age**

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This paper points out the theoretical grounds supporting the hypothesis that information and communications technology (ICT) has a positive impact on economic growth and then examines it with the data for 110 countries over the period 1995–2005, during which ICT has rapidly penetrated across countries. There are three main empirical findings: (i) the world economic growth over 1995–2005 significantly improved
relative to the two decades earlier, especially for the groups of countries
with the characteristics substantially alleviated or leveraged by ICT such
as information shortage or English fluency; (ii) ICT has a significant
causal effect not only on overall growth but also on the efficiency of
growth, that is, for given rates of growth in capital stock and employment,
a higher ICT penetration rate tends to assure a higher rate of GDP growth;
and (iii) besides the well-known determinants of growth, the relative sizes
of population and human capital have strong positive effects on GDP

**Paper ID 92**

**Energy Use in Transportation Sector and Pollution Implications for
the Malaysian Economy**

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The rapid expansion of the transportation sector in Malaysia at the outset
of economic development dedicates an increase in energy demand and the
composition of primary fuels to meet secondary requirements. The
dependency of transportation immensely increased in recent years and the
demand of this sector will rise in an accelerated fashion in the future. An
environmental problem arises since burning of fuels in transport vehicles
producing by-products such as CO, CO₂, SO₂ and NO₂ may pollute the
environment, change the climate and harm ecosystems. This paper
presents an empirical application of the energy-transportation-environment
interaction of the Malaysian economy for the period 1991 to 2000 using an
environmental input–output (I–O) approach and emission scenario
analysis of transportation sector for 2010.
**Paper ID 103**

**The Impact of Privatization on Water Access and Affordability in Malaysia: Evidence from Household Expenditure Data**

Cassey Lee Hong Kim  
*University of Nottingham in Malaysia, Malaysia*

The aim of this paper is to examine empirically the impact of privatization on water access and affordability in Malaysia using household expenditure data. Some states have privatized their water supply sector while others have not. The overall finding of this study is that the impact of privatization on issues of access and affordability in Malaysia is ambiguous. Privatization does not seem to have improved access to water in Malaysia. This is likely to be a result of the government playing a major role in universal service provision in the sector. Furthermore, privatization does not seem to have adversely affected affordability in the sector. However, this result is not robust to changes in the definitions of affordability.

**Paper ID 109**

**Efficiency in the Malaysian Water Industry: A DEA Approach**

Cassey Lee Hong Kim and Lee Yoong Hon  
*University of Nottingham in Malaysia, Malaysia*

This study undertakes an empirical analysis of efficiency in the Malaysian water sector using the Data Envelopment Analysis (DEA) approach and the Malmquist Total Factor Productivity (TFP) index analysis. Overall, the DEA analysis finds that the mean technical efficiency of the water sector in Malaysia is about 65%, indicating significant room for improvements in technical efficiency in the Malaysian water sector. There are also significant differences in efficiency in the water sector across the different states. The Malmquist indices computed indicates that the overall level of productivity in the Malaysian water sector declined by 0.9% during the period from 1999 to 2003. During this period, deterioration in technological change offset improvements in technical efficiency. Results from the study suggest that the efficient water provision is likely to be linked to lower tariff rates and higher profitability. However, there appears
to be no evidence of a relationship between privatization and efficiency gains in the water sector.

**Paper ID 81**

**Environmental Concerns and Poverty Alleviation in India: The Role of Non-Market Institutions**

Pratap C. Mohanty  
*Jawaharlal Nehru University, India*

In current development discourses it is rather odd to find any discussion about poverty minus the environment or about nature without people. India’s national forest policy of 1988 was a landmark policy for local people’s rights over forest resources. This analysis tries to answer the two important questions: a) who participates in community forestry and what are the determinants of participation? and b) what is the impact of participation (role of non-market institutions-JFM) on household consumption and extent of poverty eradication for rural development in India? The hypotheses are tested with household level data (cross sectional data set) obtained from NSSO 54th round by applying econometric analysis (probit method, OLS method, simple comparison of means differences, correlation analysis and percentage changes). The results suggest that household participation in CF (Community Forestry) is influenced by state geographic and policy differences, literacy, fuelwood scarcity, caste and occupational groups, and peer group effects. The findings regarding fuelwood consumption reinforce the poverty-environment hypothesis, which suggests that fuelwood collection will decrease with wealth because of increased opportunity costs of labor and changes in preferences. The evidences and facts in the analysis suggest that the poor people are very much linked to CPRs (Common Property Resources), thus the protection of those natural resources is essential for reducing the extent of poverty and simultaneously regenerating the environment, so that sustainable development can be achieved.
**Invited Speaker**

**Parametric versus Non-parametric Program Evaluation with an Application to Australian Marijuana Decriminalization**

Cheng Hsiao  
*University of Southern California, USA*

In this paper, we use the 2001 wave of National Drug Strategy Household Survey (NDSHS) to assess the impact of marijuana decriminalization policy on marijuana smoking prevalence in Australia. Both parametric and nonparametric methods are used. The parametric approach postulates an endogenous probit switching model and its nested binary probit, endogenous bivariate probit and two-part models to estimate this impact. The non-parametric approach uses the propensity score stratification matching to compute alternative measures of treatment effect. Specification analyses are also conducted. We use likelihood ratio test to choose among nested parametric models. We then construct a nonparametric kernel-based test to select between a parametric null model and its nonparametric alternative. Both normal and bootstrap empirical distributions are used to approximate the null distribution of the test statistic. Our specification analyses demonstrate that the endogenous probit switching model is superior over other models. It also shows that the endogenous probit switching model, which takes into account selection on observables and selection on unobservables, can provide some useful information on the average treatment effect of decriminalization as well as the effects of other socio-demographic factors on marijuana use. The parametric approach suggests that decriminalization raises the probability of smoking marijuana by 16.3%.

**Paper ID 213**

**Cross-Country Evidence on Output Growth Volatility: Non-stationary Variance and GARCH Models**

Wen Shwo Fang¹, Chun Shen Lee¹ and Stephen M. Miller²  
¹Feng Chia University, Taiwan and ²University of Nevada, USA

This paper revisits the issue of conditional volatility in real GDP growth rates for Canada, Japan, the United Kingdom, and the United States. Previous studies find high persistence in the volatility. This paper shows
that this finding largely reflects a non-stationary variance. Output growth in the four countries became noticeably less volatile over the past few decades. In this paper, we employ the modified ICSS algorithm to detect structural change in the unconditional variance of output growth. One structural break exists in each of the four countries. We then use generalized autoregressive conditional heteroskedasticity (GARCH) specifications modeling output growth and its volatility with and without the break in volatility. The evidence shows that the time-varying variance falls sharply in Canada, Japan, and the U.K. and disappears in the U.S., excess kurtosis vanishes in Canada, Japan, and the U.S. and drops substantially in the U.K., once we incorporate the break in the variance equation of output for the four countries. That is, the integrated GARCH (IGARCH) effect proves spurious and the GARCH model demonstrates misspecification, if researchers neglect a non-stationary unconditional variance.

**Paper ID 108**

**An Econometric Analysis of Economic Growth and FDI Inflows**

Albert Wijeweera, Renato Villano and Brian Dollery  
*University of New England, Australia*

Despite plausible theoretical grounds for presuming a positive relationship between foreign direct investment inflows (FDI) and economic growth, existing empirical evidence on this nexus is inconclusive. In an effort to add to the empirical literature, this paper estimates the relationship between FDI and the rate of growth of GDP using a stochastic frontier model and employing panel data covering 45 countries over the period 1997 to 2004. We find that FDI inflows exert a positive impact on economic growth only in the presence of a highly skilled labour force; corruption has a negative impact on economic growth; and trade openness increases economic growth by means of efficiency gains.
This paper examines the effect of the 1993 expansion of the Earned Income Tax Credit (EITC) on the wages of unmarried women as an effective mean to target poverty. Using data from the March and Merged Outgoing Rotation Groups of the 1991-2000 Current Population Survey, I categorize these women by their education levels and the number of their children. In my empirical strategy, first, I test how unmarried women perceive the EITC; I find that their labor supply responds to changes in the marginal tax rates. Second, I test for selection bias in estimating the wage equation. The results suggest that there is a sample selection problem in estimating the wage equation of the “some college” education group. However, I find no evidence of selectivity bias in other education groups. Then, I examine the effect on wages by using differential decreases in the marginal tax rates experienced by those with two or more children (treatment group) relative to those with no children and those with one child (comparison groups). To estimate wage equations, in addition to OLS estimation, I use the Heckit Two-Step method to account for a sample selection problem. Results from both estimation methods show that there is no statistically or economically significant decrease in wages received by the treatment group compared to those received by the comparison groups. A decline in the marginal tax rate by 10 percentage points results in a 0.21, 1.84, 2.20, 1.20 percent wage drop for the high school dropouts, high school graduates, college dropouts and college graduates, respectively. With a positive effect on labor supply but no adverse effect.
**Paper ID 263**

**Regulation, Private Sector Development and Poverty Reduction in Developing Countries**

Colin Kirkpatrick  
*University of Manchester, UK*

The way in which the state regulates private sector activities has been identified as a key determinant of private sector development and the adoption of ‘better regulation’ reforms is widely advocated as a means of stimulating economic development. In this paper, the impact of business sector regulatory reform on poverty alleviation is examined. The poverty impact can occur indirectly, through pro-poor growth. It may also occur directly, through the impact on small scale enterprise development and employment growth. Both of these channels are investigated drawing on the published evidence. The conclusion is that our existing knowledge is both patchy and sometimes contradictory. The remainder of the paper addresses this evidence gap by providing some new empirical analysis of the pro-poor outcomes of business sector regulation in a sample of developing countries. The paper concludes with a discussion of the practical policy conclusions that can be drawn from the analysis.

**Paper ID 241**

**Impact of Globalization and Liberalization on Growth, Poverty and Inequality: A Case Study of Pakistan**

Seema Siddiqua Hai, Safia Qamar Minhaj, Roohi Ahmed and Nooreen Mujahid  
*University of Karachi, Pakistan*

An attempt is made to assess the impact of globalization and liberalization on growth, incidence of poverty and inequality in Pakistan. This paper uses annual data from 1973 to 2003 which includes the pre-reform and post-reform periods in Pakistan for globalization, growth, poverty and inequality. It examines the “growth conduit” through which globalization affects poverty by treating inequality as a filter between growth and poverty reduction. It investigates whether the poor have actually been bypassed by globalization. Since the globalization-poverty-inequality relationship is seen to be complex, continuous and heterogeneous, and
covers both multidimensional and multifaceted channels, it becomes necessary to scrutinize the relationship in the country specific studies. The present study provides a review of the channels and the transmission mechanism through which the globalization-growth-poverty-inequality nexus can be explained. The paper concludes with a discussion on strategic policy issues within the context of the ongoing globalization debate by providing empirical evidence for the economy of Pakistan.

Paper ID 48

Economic Policy and Poverty Outcomes in Mongolia

Richard Colin Marshall and Bernard Walters

University of Manchester, UK

Mongolia has since the beginning of its transition, pursued a radical ‘shock-therapy’ strategy, the scope and pace of which contrasts not merely with gradualist approaches pursued in elsewhere in Asia, but also with other rapid transition models. Mongolia is also one of the region’s poorest countries and these atypical policy choices lie at the core of its national Poverty Reduction Strategy. This paper examines the effectiveness of this approach by tracing the evolution of policy alongside growth, inequality and poverty outcomes. This is done through the calculation of various pro-poor growth metrics based on Mongolia’s three post transition poverty surveys (1995, 1998 and 2002). The metrics include: poverty-growth elasticities, the Pro-Poor Growth Index (Kakwani and Pernia, 2001) and the Poverty Equivalent Growth Rate (Kakwani and Son, 2002). The paper also presents growth incidence curves for the periods 1995 to 1998 and 1998 to 2002. We find that data and compilation inconsistencies, notably revisions to the 1998 results, make comparisons difficult and greatly affect our understanding of Mongolia’s poverty reduction ‘story’. Notwithstanding this, we conclude that growth has been far from pro-poor during the transition, and that changes in inequality have played a very significant role. We argue that these findings have important implications for policy design, and a reappraisal of the current strategy is long overdue.
A stylized fact across some Asian countries shows that countries with high levels of private tutoring tend to have rapid economic growth rates. We employ a two-period overlapping generations model which incorporates private tutoring and entrance examination. In the model, every student with different initial academic ability has a choice of to take or not to take private supplementary tutoring in order to increase her academic ability. In the first period of life, a student with academic ability which is higher than the minimum requirement passes the entrance exam and enters higher education. In the second period of life, the one with higher education is employed as a graduate worker and earns higher wage than the one without tertiary education. According to the model, the students who decide to take private tutoring are those with medium academic abilities while the students who decide not to take private tutoring are those with low academic abilities where taking private tutoring does not maximize their lifetime utility. From the policy aspects, a deregulation on private tutoring fee to some degree could raise the economic growth rate, while the policy to expand tertiary education which leads to a decline in the minimum requirement for entrance examination could create an adverse incentive effect on student's decision. Consequently, that policy lowers the average quality of graduate; an expansionary educational policy always promotes economic growth..

If the dividend-price ratio becomes I(1) while stock returns are I(0), then the unbalanced predictive regression makes the predictability test more likely to indicate that the dividend-price ratio has no predictive power. This could explain why the dividend-price ratio shows strong predictive power during one period while it has weak or no predictive power at other
times. Using international data, this paper shows that the dividend-price ratio has predictive power for stock returns when both are I(0). However, this paper also shows that the dividend-price ratio loses its predictive power when it becomes I(1). The results are globally robust.

**Paper ID 187**

**Factors Affecting Stock Prices in the UAE Financial Markets**

Hussein A. Al-Tamimi  
*University of Sharjah, UAE*

The stock market in the United Arab Emirates is one of the emerging markets. It needs to be developed to operate efficiently and effectively in a competitive stock market environment. The current study represents an attempt to investigate the main factors determining stock prices in the UAE stock markets. The data of our study covers the period from 1990 to 2005. The sample consists of 17 companies based on the availability of the data for that period. The regression model was run for the UAE financial markets sample with five independent variables after dropping oil price and dividend per share because of multicollinearity problem. The findings of this study are consistent with most of previous studies. Results indicate a strong and positive impact of EPS on the UAE stock prices. The estimated coefficients of money supply and GDP were, as expected, positive but statistically insignificant. Moreover, the estimated coefficients of consumer price index and interest rate were as expected negative and statistically significant at the 1 percent level in the case of consumer price index, but statistically insignificant in the case of interest rate.

**Paper ID 24**

**Modeling Country Risks: An Asian Perspective**

Gee Kwang Randolph Tan¹ and Swee Liang Tan²  
¹*Nanyang Technological University* and ²*Singapore Management University, Singapore*

This paper investigates the use of the Markov Regime Switching Model (MRSM) as a means to track changes in the levels of investor confidence. It also assesses the probabilities of a country switching between different regimes using the transition probability matrix. A maximum of three
possible levels or regimes of risk – calm, intermediate and panic regimes, is considered. From the smoothed probabilities calculated for different regimes, this paper makes inferences about timings of debt crisis. Comparing Brazil and the Philippines; in particular, we date the onset and subsequent dissolution of crisis-induced panic. We give interpretations of the results based on evidences of debt crisis. The objective is to investigate if there is information in the transition probability matrix and smoothed probabilities that country risk managers can use to make assessments on risk conditions.

**Paper ID 53**

**Political Events and Financial Market Volatility: Investigating the Link Using Markov Switching Process**

Ahmed M. Khalid and Gulasekaran Rajaguru

*Bond University, Australia*

This paper investigates the impact of political shocks (positive and negative) on financial markets. Using data from Pakistan for the period January 1999 to September 2006, we try to link ‘a’ political event to the financial market volatility. We use high frequency data for currency market for empirical estimation. We first use a Markov Switching process to identity low and high volatility regimes in Pakistan’s currency market and then link these regimes to certain political events. Later, we extend the analysis to other two indicators of the financial markets, namely the stock market and the money market. We use data on exchange rates, stock prices and interest rates and Granger causality tests, variance decompositions and impulse responses in a VAR model to determine if the three markets are interlinked. Finally, we trace the impact of political events moving from one market to another using these linkages and causal relationships. The results suggest that the markets have some weak linkages but do not support a long-run causal relationship. The results also confirm that changes in the market volatility as a result of some domestic and international events have an impact on the domestic economy and the financial market.
Government Linked Companies: The Malaysian Evidence

Ismail Issham¹, Yen Siew Hwa¹, Anton Abdulbasah Kamil¹, Azli Meor Azli Ayub¹ and Abdul Samad M Fazilah²
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EVA is a useful tool for assessing company performance. It combines factors such as economy, accounting and market information in its assessment. This study employed EVA in an attempt to compare the companies’ performances of GLCs (Government-Linked Companies) and non-GLCs. Based on data from 37 GLCs and 208 non-GLCs, the results show that companies with government as their stakeholders tend to exhibit lower EVA scores than companies without government stakeholders in Malaysia. Larger size companies were found to have lower EVA values. Companies which have both the characteristics, large in size and government-owned, tend to be most adversely affected. Thus, any increment in the size of companies for GLCs would decrease or destroy the value of the company, and to a greater degree, than companies without government holding.

Is it Better to be Aggressive or Conservative in Managing Working Capital?

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The corporate finance literature has traditionally focused on the study of long-term financial decisions, particularly investments, capital structure, dividends and company valuation decisions. However, short-term assets and liabilities are important components of total assets and need to be carefully analyzed. Management of these short-term assets and liabilities warrants a careful investigation since the working capital management plays an important role for the firm’s profitability and risk as well as its value (Smith, 1980). The optimal level of working capital is determined to a large extent by the methods adopted for the management of current assets and liabilities. It requires continuous monitoring to maintain proper level in various components of working capital i.e. cash receivables,
The present study investigates the relative relationship between the aggressive/conservative working capital policies and profitability as well as risk of firms for 208 public limited companies listed at Karachi Stock Exchange for the period of 1998-2005. The empirical results, which are in line with the study of Afza and Nazir (2007), found the negative relationship between working capital policies and profitability. Moreover, the present study validates the findings of Carpenter and Johnson (1983) that there is no relationship between the level of current assets and liabilities and risk of the firms.

**Paper ID 111**

**Ownership and Performance: Evidence from an Emerging Market**

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The present study analyzes the causal relationship between managerial ownership and corporate performance in an emerging market setting. We analyze 606 non-financial firms listed on the Bursa Malaysia (formerly Kuala Lumpur Stock Exchange) for the financial year 2004. We find that total directors’ percentage shareholding on boards of Malaysia (of 32%) is substantially higher than that is reported in the case of the US and UK. Further analysis shows that managerial ownership as measured by total percentage shareholding of directors has no influence on corporate performance. We analyze the endogeneity of directors’ total ownership, corporate value and investment using simultaneous equations analysis. Market capitalization as expected has a negative impact on managerial ownership. The finding implies that as firm size increases risk-averse managers may not want to concentrate their personal wealth in a single firm thus leading to diffusion of ownership. The present study also finds that Tobin’s Q has no significant influence on managerial ownership. In summary, managerial ownership has no significant impact on corporate value and investment and in turn corporate performance has no influence on managerial ownership. Perhaps political connections may have a pervasive influence on corporate decisions in Malaysia as suggested by Johnson and Mitton (2005).
Role of Institutional Investors and Firm Performance in an Emerging Market

Choudhary Slahudin
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It is observed in a number of previous studies that institutional investors are, on average, better informed than individual investors because they spend substantial resources on information search and monitoring activities. Therefore, information asymmetry reduces between management and outside stakeholders of firms making it difficult for managers to manipulate earnings (Lev 1988; Shiller and Pound 1989; Hertzell et al. 2006). They encourage corporate managers to focus on long-term value-maximizing projects, called the “efficient monitoring hypothesis”. However, research has suggested that institutional investors put pressure on managers to achieve short-term profit goals at the expense of long-term value maximization when they have enough holdings in the firm (Greaves and Waddock 1990; Potter 1992; Navissi and Naiker 2006). Managers are discouraged from investing in long-term projects and focus instead on projects with short-term pay offs especially when the institutional investors themselves are judged by their own short-term portfolio performance, called the “conflict of interest hypothesis”. The study is based on a sample of 100 firms listed on Karachi Stock Exchange with available financial and institutional ownership data. A cross-sectional regression analysis is used to test the relation between firm performance and institutional ownership. The results of cross-sectional regression analysis show a non-linear relationship between institutional shareholding and firm performance.
**Policy Change and Lead-Lag Relations among China’s Segmented Stock Markets**

Wing Keung Wong¹, Qiao Zhuo¹ and Yuming Li²

¹National University of Singapore, Singapore and ²California State University, USA

The financial literature is rife with evidences on lead-lag relationship among Chinese segmented stock market. However their methodology is based on traditional linear models such as Granger causality test, which is well known to possess a low power in detecting nonlinear causal relationships. To circumvent this problem, this paper contributes by utilizing a nonlinear Granger causality test. In contrast to the weak lead-lag relation among A- and B-share markets disclosed by its linear counterpart, a non-linear Granger causality test provides evidence of strong bi-directional causal relations between two A-share markets as well as between two B-share markets. In addition, evidence shows that since the implementation of the new policy allowing domestic citizens to invest in B-share markets, A-share markets tend to lead their B-share counterparts in the same stock exchange and H-share markets still plays a role in influencing other segmented stock markets.

**Discretization and Valorisation of Options in the Heath-Jarrow-Morton Framework: An Analysis Based Upon Binomial Trees and Monte-Carlo Simulations**

Charles Lai Tong and Jose Zemmour

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Connections between the principle of arbitrage-free opportunities and the concept of martingale represent the most recent advance in the literature on the term structure of interest rates. The main innovation in Heath-Jarrow-Morton [1992] is that a bond price becomes a martingale in the presence of a unique probabilistic measure. Spot rates and bond prices are deduced from a given instantaneous forward rates curve. Such a process only depends on the forward rates volatilities. Bonds and underlying options pricing are determined within a finite dimensional HJM model.
endowed with various volatilities term structure generally used in standard equilibrium models (Vasicek [1977], Cox-Ingersoll-Ross [1985]). The transition from a continuous time to a discrete time setup is needed when taking into account discrete market data. Two equivalent methods for a discrete-time approximation of the drift adjustment term are then investigated. We demonstrate that both methods are formally equivalent which has never been shown before to our knowledge. Binomial trees and Monte-Carlo simulations are then used to estimate bond prices, cap and floor options in a discrete HJM framework. The results show the accuracy of a binomial tree for short maturities for the one factor model although a Monte-Carlo simulation seems to be more efficient when applied for longer maturities and several factors. The recursive scheme of Das [1998] finally makes it possible to implement the trees simulation more easily.

**Paper ID 202**

**Testing Present Value Model under Regime Shift with Bootstrap-Based Wald Test: The Japanese Term Structure**

Xiaoneng Zhu  
*Nanyang Technological University, Singapore*

In the framework of Markov-Switching(MS) VAR model, the restrictions implied by the rational expectations hypothesis (RE) of term structure are derived in a matrix tractable way. The ML estimation of MS-VAR model with non-linear restrictions is complicated, thus the Wald test is proposed to serve as an alternative to the LR test. The bootstrap method is used to rescue the non-invariance of the Wald test. This method is applied to testing the Japanese term structure on monthly 3-month Gensaki rate and 1-year government bill rate covering the period 1985–2004 after the Japanese financial markets deregulation. The MS model captures the relatively continuous monetary policy shifts and the asymmetric behavior of the term premium. According to bootstrap-based critical values, we reject the RE at 10 percent level, but not at 5 percent level, in contrast to the asymptotic non-rejection at almost 25 percent level. The correlation between theoretical and actual spread is weakly supportive of the RE, while the theoretical spread is smoother. Our findings are therefore somewhat mixed.
In this paper we model asset prices with risk averse investors with a two period horizon and flow traders and market shocks at maturity. The equilibrium asset prices reflect the shocks and we compute the first and second moments of the asset prices. From these we derive a restriction between the second moments of the assets and the shocks. We apply this to the case of a spot and a futures market and compare our maturity price restrictions with those of stochastic discount factor (SDF) models and the bubble literature. We include a brief discussion of how markets aggregate information and the additional restrictions of fully revealing rational expectations equilibrium.

In recent years, many developing countries have switched or are in the process of switching to a more flexible exchange rate regime. Most of these countries have a history of high inflation, unfavorable balance of payment situation and a high level of foreign currency denominated debt. Therefore, the stability of the exchange rate and the dynamics of its volatility are more crucial than before to prevent financial crises and macroeconomic disturbances. This paper is designed to find out the reasons behind Bangladesh’s exit to floating exchange rate system and evaluate its performance under the new regime. It is found that, the shift to market based floating exchange rate for the Taka was a major step towards protecting the country’s external competitiveness and insulating the country from adverse external shocks. The comparisons of selected economic indicators during the first three year’s experience under the new regime showed an impressive effect on the economy of Bangladesh, such...
as export growth, low volatility of exchange rate and towering foreign exchange reserve, among others.

**Paper ID 149**

**Does Productivity Cause Exports or Vice Versa?**

Nurhani Aba Ibrahim  
*MARA University of Technology, Malaysia*

Empirical evidence linking exports and productivity growth has been mixed and inconclusive. This study re-examines the direction of the causality between them for Malaysian industries by testing for Granger causality using the error-correction and earlier vector autoregressive models. By including other variables like size and capital intensity in my models, I have captured the indirect effects besides the direct effects between exports and productivity. In a panel of 63 manufacturing industries, for the period of 1981 to 1999, I find that these industries support the export-led growth hypotheses, not the growth-driven export hypothesis. However, a further look into the results indicates that there is a possibility of an indirect causality from productivity growth to export through size, as productivity cause size and size, in turn cause exports.

**Paper ID 204**

**Export Behavior of Foreign-Invested Enterprises and FDI Spillovers on Export Performance in Vietnam**

Tien Quang Tran  
*Australian National University, Australia*

The purpose of this paper is to investigate the export behaviour of foreign invested enterprises (FIEs) and their spillover effects on both export decision and export intensity of indigenous manufacturing firms in Vietnam. The study is based on a new data set put together from unpublished data from the General Statistics Office (GSO) and Ministry of Planning and Investment (MPI) of Vietnam. The empirical analysis, which draws upon recent advances in econometric methodology, suggests that FIEs makes a pivotal direct contribution to export-orientation of Vietnamese manufacturing, with fully FIEs exhibiting greater export propensity compared to both joint-ventures with local firms and joint
ventures with state-owned enterprises (SOEs). There is also evidence that the spillover effects of FIEs on export decisions and export intensity of local firms change over time: the estimates for 2000 indicating mixed effects compared to negative results for 1998. Overall, the results suggest that the spillover effect of FIEs on local firms depends on the stage of development of the latter which is endogenous to the ongoing process of market-oriented policy reforms.

**Paper ID 205**

**The Determinants of International Reserve Hoarding in Korea: Cointegration and Error-Correction Approach**

Gabje Jo  
**Keimyung University, Korea**

Korea’s recent buildup of international reserves since the Asian crisis substantially exceeds any benchmark levels. This paper examines the interaction between international reserve hoarding and mercantilist motive in the context of Korea’s exchange rate policy to maintain export competitiveness. The analysis suggests that, under Korea’s post crisis managed float regime, exports have been cheap and the terms of trade have substantially declined, maintaining high export growth. Also, the cointegration and error-correction estimation find evidence that both long-term and short-term, Korea has stockpiled reserves with heightened concern about export competitiveness.

**Paper ID 193**

**Trade Intensity and Business Cycle Synchronization: The Case of East Asian Countries**

Pradumna B. Rana  
**Asian Development Bank and Nanyang Technological University, Singapore**

The high level of trade integration in East Asia has led many to call for deeper monetary integration in the region as it could lead to greater synchronization of business cycles. The topic of business cycle synchronization is important because if trade intensity in East Asia has led to increase in co-movement of output then the cost of forming an optimum
currency area (OCA) in the region will have been reduced through the reduction of the incidence of asymmetric shocks. The objective of this paper is to examine if rising trade intensities among the countries in the East Asia region has led to a synchronization of business cycles. Theoretically the impact is ambiguous and depends on the nature of trade. We, therefore, need an empirical approach. This paper extends Shin and Wang (2004) in two ways. First, as suggested by Frankel and Rose (1998) it introduces instrumental variables for the trade intensity term in order to remove the estimation bias. Second, it updates their results by including post Asian financial crisis data. The findings of this paper have important implications for enhancing the pace of monetary cooperation in East Asia including the introduction of a single currency in the region.

**Paper ID 9**

**Determinants of Business Cycle Synchronization in ASEAN-5 Countries**

Thanh To Trung

*University of Birmingham, UK*

After severely hit by the Asian crisis in 1997, the interest of forming a common currency area in ASEAN countries has been more urgent to replace current exchange rate regimes that showed significant flaws during the crisis. In order to know how ASEAN-5 countries are becoming better prepared to form a currency area, this study aims at investigating the determinants of cycle co-movement in the region. Based on various estimation strategies, the study found that business cycles in ASEAN-5 are likely to be more harmonized if more trade integration, especially more intra-industry trade intensity, more similarity of industrial structure and more fiscal policy convergence occur. However, more inter-industry trade intensity seems to de-synchronize the cycles due to the dominance of industry-specific shocks in the region. The study also shows that the effect of intra-industry trade is largest among determinants. Fiscal policy convergence is at least as important as bilateral trade ties in shaping the business cycle co-movement. These findings have an important implication: the establishment of a currency union in ASEAN-5 should be initiated for countries with a high level of intra-industry trade links and the remaining countries should be given time to adjust.
Currency crises and financial instability in the 1990s have increased the needs of regional cooperation, hence leading to the proposition of optimal currency area (OCA). But only if shocks are symmetric, the cost of relinquish the flexible monetary policy is to be outweighed by the benefits of forming OCA. To tackle the issue, this paper studies the extent of business cycle synchronization and income convergence between twelve APEC members vis-à-vis the US and Japan during 1980-2006. The interpolated real outputs are deployed to construct business cycles based on the Christiano-Fitzgerald (2003) band-pass filtering method. To deal with structural breaks, we utilize the unit root and cointegration tests advanced in Saikkonen and Lütkepohl (2002) and Johansen et al (2000) respectively. On the whole, the selected APEC members (especially ASEANs and NIEs) have achieved some important degree of business cycle co-fluctuations, most possibly attributed to the improved intra-trading and cross-boarder investments. Nonetheless, the idiosyncratic and common shocks in ASEAN economies are more identical to the Japanese experience rather than the US’s. Similarly, most countries have failed to support the US-based income convergence hypothesis as unit roots persist in the PPP-adjusted real output differentials. Long run convergence towards Japanese level of income is most profound for Australia and Hong Kong whereas the output gaps are narrowing for China, ASEAN-3 and NIE-3. Yet, in neither case, income convergence is confirmed for India and the Philippines. The overall finding has signified the brighter likelihood of economic cooperation and regional currency arrangements among APEC members.
**Paper ID 165**

**Forecasting the Turning Points of Business Cycles**

Raj Rajesh  
*Reserve Bank of India, India*

This paper attempts to identify certain leading economic indicators for the Indian economy for forecasting the business cycle recession phases through the application of a probit model at 3-months and 6-months forecast horizons. The business cycles phases measured by the monthly industrial growth rate cycle and identified using the Bry- Boschan procedure indicate that for the period - April 1980 to March 2006, there have been 8 growth rate cycles in the Indian economy with varying durations. The average duration of both expansion and recession phases is found to be of 14-months each, while the average length of a cycle is found to be 28-months. The yield on Treasury Bills with residual maturity of 15-91 days in the secondary market is found to be the best single economic indicator to forecast the future movement in the economy, for the entire forecast horizon. The results show that during the sample period of study, the model is able to forecast all the turning points in industrial production in India. The forecast performance of the model is tested using recursive probabilities covering the period June 2000 to March 2006 and found to be satisfactory.

**Paper ID 252**

**Trade Unions in Pursuit of Long-Term Macroeconomic Objectives**

Rosalind Chew  
*Nanyang Technological University, Singapore*

Trade unions need to recruit union members to survive as an institution. As union members pay union dues, trade unions must deliver exclusive benefits to members, one of which is a union wage premium. This is typical union behaviour which in this paper shall be termed micro-focused trade unionism as the union pursues union-specific objectives such as higher wages to ensure its survival. This paper advances the concept of the macro-focused union, which emphasizes full employment and competitiveness for the economy, in contrast to the micro-focused union, which focuses on union survival policies. It examines the
microfoundations of the macro-focused labour movement so as to identify the conditions conducive to, and the mechanisms that promote, the establishment and survival of the macro-focused union. As macro-focused trade unionism inevitably gives rise to the free rider problem, measures for countering this dilemma are also discussed. The impact and outcomes of the prevalence of macro-focused trade unionism on the industrial relations regime are also examined. The paper concludes that a macro-focused labour movement is a strategic partner of the government in enhancing international competitiveness.

**Paper ID 82**

Tomohiro Machikita  
*Institute of Developing Economies, Japan*

We utilize Thailand’s financial crisis in 1997 as a natural experiment which exogenously shifts labor demand. Convincing evidence from the Thailand Labor Force Survey support the hypothesis that both employment opportunities and wages shrunk for new entrants after the crisis. We find that workers who entered before the crisis experienced job losses and wage losses. But these losses were smaller than that of new entrants after the crisis. We also find that new entrants after the crisis experienced a 10% reduction in the overtime wages compared to new entrants before the crisis.

**Paper ID 168**

**The Indian Labour Market: An Overview**  
Arup Mitra  
*Institute of Economic Growth, India*

Economic growth does not seem to be generating employment opportunities for the poor on a large scale. During the nineties the economic growth was not accompanied by rapid growth in employment. The most interesting part is that employment growth in the agriculture sector has revived which has indeed contributed to the rapid employment growth experienced during the first five years of the present century.
(1999-2000 through 2004-05). The other feature is that some of the dynamic sectors have continued to grow rapidly, generating employment opportunities. However, most of the activities in these sectors are less likely to absorb the poor who are mostly unskilled, and hence the direct effects of growth on poverty are still not spectacular. All this is compatible with the fact that the extent of decline in poverty after 1993-94 has been slower than the extent of decline between 1983 and 1993-94. While economic growth is a necessary condition for poverty reduction it is not sufficient, as brought out by the inter-relationship between value added growth and poverty incidence across states. For the positive effects of growth to be felt on low income households, employment at decent wages has to be generated at a rapid pace.

Paper ID 106

On the Determinants of International Labour Migration in the Philippines

Angelito B. Acupana¹ and Frank W. Agbola²

¹Office of the President, Philippines and ²The University of Newcastle, Australia

In recent times, overseas workers from the Philippines have been sending remittances in excess of US$10 billion annually to their families back home. Although these remittances are important source of foreign exchange and play an important role in economic development of the Philippines, the determinants of migration in the country is not well established. This study empirically investigates the influence of economic, demographic, and political factors on the size of out-migration flow in the Philippines. A simple migration model is specified and estimated using data spanning the period 1975 to 2005. The results reveal that inequality, adult literacy, population density and the level of unemployment are the major determinants of out-migration from the Philippines. The result also indicates that domestic restriction on political and civil freedom significantly impairs out-migration flow in the Philippines. The policy implications of the results are discussed.
Paper ID 118

Total Factor Productivity Growth and Output Growth in Indian Electronics Industry in the Liberalization Era: An Empirical Examination

Rumki Majumdar and M.H. Bala Subrahmanya

Indian Institute of Science, India

This paper analyses the efficiency and productivity growth of electronics industry, which is considered one of the vibrant and rapidly growing manufacturing industry sub-sectors of India in the liberalization era since 1991. The main objective of the paper is to examine the extent and growth of Total Factor Productivity (TFP) and its components, namely, Technical Efficiency Change (TEC) and Technological Progress (TP) and its contribution to total output growth. In this study, the electronics industry is broadly classified into communication equipments, computer hardware, consumer electronics and other electronics, with the purpose of performing a comparative analysis of productivity growth for each of these sub-sectors for the time period 1993-2004. The paper found that the sub-sectors have improved in terms of economies of scale and contribution of capital. The change in technical efficiency and technological progress moved in reverse directions. Three of the four industries witnessed growth in the output primarily due to TFPG, and the contribution of input growth to output growth had been negative/negligible, except for Computer hardware where contributions from both input growth and TFPG to output growth were prominent. The paper explores the possible reasons that addressed the issue of low technical efficiency and technological progress in the industry.

Paper ID 145

Efficiency Analysis: Firm Level Evidence from Indian Iron and Steel Industry

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Indian Institute of Technology, India

Until 1990 the Indian iron and steel industry is operated in a protected environment, with steel production capacity largely reserved for public sector consumption. The economic reforms initiated by the government in
1991 have added new dimensions to the industrial growth in general, and steel industry in particular. Against the background of these policy reforms, in this paper we try to analyse the performance of the firms in Iron & Steel industry in India in terms of the total inefficiency and its technical and allocative components. To this end we will use ‘Parametric Frontier’ approach, specifically, time varying ‘Stochastic Cost Frontier’ (which shows the minimum achievable cost given input prices and level of output). We estimate a single trans-logarithmic cost frontier equation using panel data for the period 1989-90 to 2005-06 and apply cost function version of the one-step approach by Battese and Coelli (1995). An investigation of the sources of inefficiency among the enterprises within the industry will also be carried out.

**Paper ID 194**

**Economic Recognition of Innovation**

Balkrishna Rao  
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Globalization has benefited the economies of member countries of the Organization for Economic Cooperation and Development (OECD) by helping their businesses stay profitable through cost-effective outsourcing of mostly garden-variety tasks and some knowledge-based activities. With time, the latter will account for the lion’s share of work outsourced and emerging export houses will also tend to cater more to their own domestic markets because of their expanding infrastructure and growing manpower possessing advanced skills. This will result in a leveled playing field coaxing developed countries to adopt widespread innovations to maintain their high perch in the economic pecking order. Such large-scale creativity can be managed better if it could be gauged with an appropriate measure. This work propounds a new economic measure called the Gross Domestic Innovation (GDI) to quantify innovations in OECD countries. It will supplement universal measures such as the Gross Domestic Product (GDP), productivity and numbers concerning employment. Apart from the methodology of its estimation, the impact of GDI on the various facets of a vibrant economy is discussed and inter alia, the role of GDI in fighting inflation and alleviating the negative influences of globalization is stressed. Also, a tentative analysis on the economies of the USA, Japan, Germany and China is presented to illustrate the concept.
When the economy is opened for foreign investment, there is greater scope for both domestic and international competition. The inflow of FDI will bring in capital and technology and industrial environment will be more productive and competitive. Due to their access to capital and technology, FDI is expected to improve the average productivity and skill levels of the industry. This paper is an attempt to analyse the determinants of factor productivity change in domestic and FDI companies in Indian Chemical Sector under the changed scenario. The objectives are to understand the causality between FDI and productivity and to identify the determinants of factor productivity in FDI and domestic companies. The Indian Chemical sector is chosen because it is highly technology intensive and more FDI firms are present in this industry. This study covers a period of 22 years from 1980-1981 to 2001-2002. This period was divided into two phases, namely pre-reform period (1980-81 to 1990-91) and post-reform period (1991-92 to 2001-02). Separate analyses were done for each period to find out the impact of economic liberalisation on the productivity. This study is based on secondary data collected from RBI, Bombay Stock Exchange Directory and CMIE Prowess. Solow and Translog measures, Granger’s causality test and regression analysis were used to realise the objectives. From the empirical analyses it was inferred that factor productivity of FDI was increasing when compared to that of domestic firms.

Invited Speaker

Economic Development and Nation-Building In Stages

Shinichi Ichimura
Kyoto University

The paper purports to offer a conceptual and analytical framework for understanding the process of economic development and nation-building. Most new nations emerging in the 20th century have come through the four stages of development; namely, Least Developed (below $300), Underdeveloped (up to $2,000), Developing (up to $10,000) and
Developed Stages of Economies (above $10,000). In order to move forward from one stage to the next they had to overcome the three Barriers; namely, the Barriers to Take off (around $300), the Barriers to Industrialize (around $2,000): and the Barriers to Modernize (around $10,000). It was by no means easy because going beyond those barriers required the satisfaction not only of a number of difficult economic conditions but also political, institutional and spiritual conditions required for nation-building. Economic development is much more closely related to nation-building than most economic text books seem to imply. Many great social scientists like Max Weber, J. Schumpeter and S. Kuznets referred to the changes in institutions and ways of thinking. Those non-economic conditions also may improve in stages. The paper deals with those problems of nation-building along with economic development.

**ID Paper 264**

**Banking Sector Reform and Corporate Governance: The Bangladesh Experience**

Thankom Arun\(^1\) and Masrur Reaz\(^2\)

\(^1\)The University of Manchester, UK and \(^2\)DfiD, Bangladesh

The empirical evidence suggests that the impact of financial development on growth is positive and may vary according to regions, time periods and levels of income. However, there is also an argument that the success or failure of financial sector reforms depends on country-specific institutional factors, which is explored in this paper, in the context of banking sector in Bangladesh. The financial sector of Bangladesh is predominantly bank based and the reform in the sector is decisive for a developing economy where the tolerable margin of error in resource allocation is small. In this paper, the authors analyses the nature of banking sector reform, followed by the corporate governance reform in the sector, which is again an unique issue due to broader extent of claimants on the bank’s assets and funds.

Hongyi Li, Yong Wang and Liang Huang
Chinese University of Hong Kong, Hong Kong

In this paper we use a newly compiled data set on income inequality to investigate the Kuznets curve among East Asian countries, and the role that financial development played in it, as well as the determinants for inequality and growth at the same time. In particular, we test the well-known Kuznets hypothesis and investigate the empirical linkage between growth and income inequality with panel data approach. Our empirical findings confirm the Kuznets hypothesis when pooling these nine East Asian economies together. However, the upward-sloping portion of the Kuznets curve appears to be largely due to the financial development in the region, thus suggesting a financial channel through which the conventional Kuznets curve arises. Furthermore, a negative relationship between income inequality and economic growth is found for the East Asian economies.

Asian Picture of High Growth and Poverty/Ill-Being – A Study of 40 Asian Economies

Neela Mukherjee¹ and Amitava Mukherjee²
¹Development Tracks, India and ²UN ESCAP, Thailand

Though most Asian countries have experienced impressive rates of economic growth in the current decade, their dismal performance on the poverty front and other evidence go to show how such high growth rates have not been socially inclusive and are not realistically broad-based to touch upon the lives of many poor and marginalized groups; on the contrary, their hardships and ill-being have increased and many perceive themselves to be more deprived than earlier years. The present paper based on aggregated and disaggregated data from 40 Asian economies attempts to show that such growth has largely by passed crucial spheres of the economy and explores hypotheses as to why such high growth is accompanied by high human poverty and ill-being and deprivation. The
paper juxtaposes both macro data and meso-micro data and world views to show that the impressive growth performance of the Asian countries has limited and problematic foundations and there are basic issues in sustainability, equity and empowerment, which need to be cracked. The paper concludes that high growth rates based on narrow and limited economic spheres can neither automatically energize many core sectors of the economy where poverty is largely concentrated; nor can the ‘bottom of the pyramid’ be enabled to play a meaningful role and access fruits of such growth to any significant extent. To make growth more inclusive, both macro and meso policies need to be reviewed in the light of experience of the Asian region and the worldviews’ of the poor are a crucial prerequisite.

*Paper ID 235*

**Role of SHG in Inclusive Growth**

Vijay Kakade  
*Shivaji University, India*

The SHG or Self Help Group are playing a multifaceted role in the economic growth of India along with reduction in poverty. The micro finance provided through this institutional arrangement has broken the barriers for accessing finance on reasonable terms. The study of Kolhapur district of SHG shows that these SHG have played a vital role in employment generation, income generation of the female workers below poverty line and it also enhanced the status of women. The positive impact needs to be strengthened through the policy of concessional loans, entrepreneurial training and awareness programs in other areas. SHG stand as a solution for inclusive growth to achieve MDG or Millennium Development Goal of reducing the BPL families by 50% till 2015. The study shows that (1) SHG has helped in creating employment in non-formal sector (2) It also resulted in reduction in indebtedness (3) It eliminated the need to borrow at exploitative rates from money lenders and (4) The status of women in economic decision-making increased substantially.
Globalisation and Socio-economic Developmental Issues & Initiatives in India: From ‘Progress with Profit’ to ‘Profit with Progress’ Based Business Models Using Micro Credit

Niraj Gupta, Brijesh Rawat and Kanchan Gupta
Dr. B R A University, India

India is a nation of socially weak and economically poor people. It had always put stress on providing financial services to the poor. Microfinance initiatives were initiated by banks and other institutions for them for their self-sufficiency and capability of earning profits for contributing to national development. The emergence of several cooperative movements and business models were registered for registering “progress with profits”. The changing face of the world with removal of economic boundaries posed a challenge for Indian corporates for reviewing the business philosophy for remaining competitive nationally and registering presence in global war fare. The challenge is to retain the broad base of inputs/users (consumers) and simultaneously touching the global spirits by transforming the business model from “Profit” to “Profit with Progress” approach by associating themselves with the vast input and user resources of rural and urban India. In the present paper, we study the challenges of globalisation for the country for uplifting its socio-economic status. We propose to explore various issues and initiatives involved in the aspect and to substantiate the meta-analysis of similar studies. A diagnostic study of the change of the business models involving progress and profits specifically with reference to micro credit is proposed.

Foreign Talent and Innovation: China and India in the Japanese Software Industry

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The purpose of this study is to relate innovation dynamics to the international mobility of technical talent in Asia. As the significance of human capital has increased due to the demands for knowledge-based activities, those countries that are confronted with supply shortages of
technical talent must compete for such talent. We posit that Japan, despite its strength in information and communications technologies, is a high cost producer and faces impending labor shortages due to demographic and social changes. Therefore, we believe cost reduction through offshore outsourcing is likely to become pronounced for Japan. Our argument is that the international mobility of technical talent in an era of global integration complements the domestic supply of talent. Talent mobility enhances knowledge networks and epistemic communities. Both benefit and sustain regional clusters where such talent resides. Using Japan as an entry point we hypothesize that labor shortages and high cost production in Japan will induce greater movement of Asian technical talent. We also hypothesize that China and India for various structural and institutional reasons are likely to exhibit different degrees of engagement with Japan, with China enmeshed with the Japanese software industry more than India. However, we believe that Indian talent will increase in the future as cost pressures for Japan mount and particular engineering skills in Japan become essential to competition and business expansion. The flows of talent from China and India to Japan and subsequent return of some will benefit all three countries in their quest for innovations.

Paper ID 68

Estimating the Congestion Cost and Recreational Benefits of Taiwan Coffee Festival

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After the 921 Earthquake and landslide disasters, the Taiwanese government undertook reconstruction work in Hua-Shan area. Being held in Hua-Shan area of Gu-Keng Township, Yunlin County, the 2004 Taiwan Coffee Festival attracted over one million of tourists and successfully promoted a local culture based on the coffee industry. The purpose of our research is to estimate the congestion costs and recreational benefits of tourist participation in this event. Firstly, we estimated the congestion cost of tourists using double-bounded dichotomous choice contingent valuation method (CVM). Secondly, we apply travel cost method (TCM) to calculate the consumer surplus based on tourists’ expenditure in the event. In travel cost model, the travel cost will contain the congestion cost. This research will innovate the evaluation of the recreational benefits.
In a two–stage model of market entry with horizontally differentiated products and exogenous consumer switching costs, it is demonstrated that accommodation, entry deterrence as well as monopolistic behaviour are supported as equilibria for certain conditions and different combinations between the level of reservation price and the switching costs. In particular, we find: (1) with a first–period partial market coverage there are equilibrium configurations with partial as well as full market coverage in the second period; (2) though deterrence is conceivable the incumbent always accommodates entrance; (3) exogenous switching costs solely are a feasible parameter under certain circumstances under the free– trade regime. When they occur, a subsidy effect and an anti–competition effect can be observed; (4) in addition, the mere existence of an administratively set minimum–price rule protects the domestic firm and yields larger product prices; (5) furthermore due to this anti–dumping regulation the incumbent firm is able to lock in some of its customers and some consumers abstain from purchasing any variant. Consequently, competition policy should reassess the anti–dumping regulation drawn in Article VI GATT.

Whether multinational enterprises (MNEs) are embedded in the host economies has been an issue attracting considerable attention in the regional development studies. This paper, by using Taiwanese MNEs as a case study, intends to study firms’ global sourcing behaviors, with a special focus on local linkages. It departs from the existing literatures on local linkages in a number of aspects. Firstly, since MNE’s input procurement can come from various sources, we treat all sourcing
decisions as a simultaneous process, with an aim to gain more insight into how they interact with each other. Secondly, while most studies center on the explanation of small linkages effects, this paper intends to provide a story with large linkage effects. By using a rich data set, we show that MNEs, who invest in a country with shorter sociological distance and are in a joint venture mode or given greater degree of autonomy in production and marketing, are more actively pursuing local linkages. Localization as well as agglomeration, as implied by the age of affiliate’s establishment, is particularly effective in creating local linkages. Moreover, the host country, which endows with abundant labor and natural resources, significantly increases foreign affiliates’ local sourcing ratio.

**Paper ID 133**

**On the Advantages of Piecemeal Integration**

Bodil O. Hansen\(^1\) and Hans Keiding\(^2\)

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We model a three-country world with free trade in finished products but no trade in factors. Production is subject to output uncertainty which in its turn hits the plants of any industry independently, so that riskiness of any country depends on number of productive plants established. Financial markets are liberalized so that savings may be placed in all countries, but due to information conditions, borrowing in a given country is restricted to entrepreneurs which are either residents of the country or foreigners having established firms in the country. The number of firms established in each industry and country is determined by the equilibrium conditions. It is shown that in this model we may exhibit cases of Pareto inferior trade and in particular, Pareto inferior economic integration. More specifically, we show that integrating countries of very different economic size may give rise to adverse effects on welfare, whereas integration of countries with a more similar economic structure and size tends to have beneficial effects for the parties.
**Paper ID 173**

**Singapore’s Trade with ASEAN**

Banumathi Mannarswamy  
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Singapore’s Trade with the Association of South East Asian Nations (ASEAN) was established on 8th August 1967. The member countries were Brunei Darussalam, Cambodia, Indonesia, Laos, Malaysia, Myanmar, Philippines, Singapore, Thailand and Vietnam. It was established to promote the economic, social and cultural development through various co-operative programmes. In January 1992, the Free Trade Area came into existence to eliminate tariff barriers among the member countries. As the most export-dependent economy of Asia, Singapore has reduced the tariff barriers to 0% for all the commodities except few. With the 4 million populations which is less than 1% of the ASEAN population Singapore has the highest per capita income of US $ 26,824. Its GDP growth rate is nearly 10%. So it is necessary to understand the structure and growth of the economies of these countries. This paper attempts to assess Singapore’s trade with the ASEAN during the last ten years. The paper begins with a brief overview of the ASEAN. The Economic profiles of the member countries are presented in the second section followed by the Singapore’s Trade towards ASEAN. The problems and prospects are also discussed.

**Paper ID 54**

**Bond Market Developments in Emerging Markets: The Role of Social and Institutional Factors**

Ahmed Khalid  
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This paper investigates the development of bond market in emerging economies. The main objective of this paper is to explore the reasons for a slow development of bond market in emerging economies. To achieve this objective, we first provide a comprehensive survey of the bond market developments in a sample of Asian countries. For comparison purposes, we split the sample into two: (i) the early reformers, and (ii) the hesitant or late reformers. We present a case where bond market developments
become an integral part of the financial market development. Then, we study the role of some important institutional and social indicators in bond market development. Specifically, we test the hypotheses that (i) macroeconomic and institutional environment does help to develop a market for domestic bonds and (ii) social factors such as a low level of corruption helps market development and improve market efficiency. We use pooled data for a sample of developed and emerging economies to empirically test these hypotheses.

**Paper ID 101**

**Are Financial Sector Policies Effective in Deepening the Malaysian Financial System?**

James Ang  
*Monash University, Australia*

This paper provides an empirical assessment of the effects of financial sector policies on development of the financial system in Malaysia over the period 1959-2005. The technique of principal component analysis is used to construct a summary measure of interest rate policies in order to account for the joint influence of various interest rate controls imposed on the Malaysian financial system. The results show that economic development, interest rate controls, and capital liquidity requirements positively affect the level of financial development. However, higher statutory reserve requirements and the presence of directed credit programs appear to be harmful for development of the Malaysian financial system. The results provide some support to the argument that some form of financial restraints may help promote financial development.

**Paper ID 146**

**A Model of Competitive Behavior by Investment Banks in Securities Underwriting Services**

Kenji Matsui  
*Yokohama National University, Japan*

This paper applies the price auction theory framework to formulate an economic model to gain insights into the corporate bond underwriting market, which is characterized by the competitive behaviors of investment banks.
houses. Previous research investigating newly issued Japanese straight bonds provided statistical evidence that issue yields tend to be set lower than fair yields. Consistent with that finding, the model constructed in this paper demonstrates theoretically that increased underwriting competition reduces issue yields and suggests the key attributes of an issue that influence yield. I also provide empirical evidence that issue yield is actually influenced by the parameters in the model. Moreover, the results reveal that IPOs of bond issues as well as SPOs tend to be overpriced in the Japanese straight bond market. This is contrary to the result reported in the equity IPO literature and is thus a notable empirical finding.

Paper ID 155


Asad Kamran Ghalib
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Social impact analysis of microfinance programs aims at gauging the ‘wider impacts’ that the practice of micro-lending intends to have on the lives of the poor. This wider impact can be taken to be a ‘public good’ that benefits the sector in its entirety: the microfinance institutions (MFIs), donors, borrowers, and even the non-borrowers. The issue that emerges is: how is such impact assessed? What methods, tools, concepts, principles, underlying theories, approaches and procedures are adapted to reach such conclusions that are truly representative of the manner by which microfinance impacts the lives of stakeholders? This essay reflects on the concept and practice of Social Impact Assessment (SIA), by looking at the social dimension of the relevant development theory and practice, the key components of analyses, the conceptual framework of SIA and the principles the underlie the entire process. The paper identifies the variables and indicators of an impact assessment and builds a generic model of the process. It goes on to develop a social impact measurement index (SIMI) to act as a framework for measuring social impact.
The Financial Perils of Inflation Targeting

Chin-Yoong Wong and Yoke-Kee Eng

Universiti Tunku Abdul Rahman, Malaysia

The paper attempts to formalize the link between monetary policy, goods, and asset price inflations. We introduce inflation targeting as the monetary policy captured in Taylor rule. What distinguish our story from the available literature is that we do not require any conventional market imperfections to generate dynamics in asset price and real variables. Rather, we introduce a simple financial friction that households own the real capital stock in the form of financial claims. Households own the real capital only indirectly via financial claims that pay dividends as proxy to real return on capital. This is in view of the incapability of standard real business cycle model to generate asset price deviation from the steady state due to the model misspecification such that financial equity and real capital stock are two distinct assets, and the households that possess real capital stock directly could increase the real return on capital. We find that excessive and persistent deviation of asset prices from steady state could occur if inflation is elastic to output gap changes, and central bank adheres to gradualism approach in policy implementation. However, the gradualism approach implies that the departure of actual inflation from steady state will sustain for an extended period, which, based on the expectation-augmented Phillips curve, will turn up in a lower inflation expectation.

The Causal Relationship between Foreign Direct Investment and Current Account: An Empirical Investigation for Pakistan Economy

Danish Ahmed Siddiqui1, Mohsin Hasnain Ahmad1 and Qazi Masood Ahmed2

1University of Karachi, Pakistan and 2Institute of Business Administration, Pakistan

This paper investigates relationship between FDI and current account (CA) in Pakistan using the Johansen-Juselius cointegration technique and the Granger causality test. The study results indicate that FDI and CA are
cointegrated and thus exhibit a reliable long run relationship. The Granger causality test findings indicate that the causality between FDI and CA is uni-directional. However, there is no short run causality from FDI to CA and vice versa. Therefore, as a policy implication that FDI inflows may cause to the deterioration of the balance of payments in the long run should be taken into account when policy makers decide to implement policies to attract foreign investors.

**Paper ID 174**

**Re-examining Forward Rate Unbiasedness Hypothesis in the Case of Asian Financial Crisis**

Achmad Widjaja  
*United Arab Emirates University, UAE*

This study explores one of the main topics in international finance. It deals with the forward rate unbiasedness hypothesis (FRUH) tests. The study addresses two facets of the FRUH: (1) what explains the ‘excessive’ volatility of change in the spot exchange rate relative to the forward premium; and (2) why the forward premium is a biased predictor of the change in the spot exchange rate. The first question generally argues that unanticipated news accounts for the volatility. The second issue argues that the biasedness of forward premium might occur if the new information released in the market is correlated with the forward premium. Five East Asian currencies over the period 1997-2001 are selected for this study, notably Thailand, Malaysia, Indonesia, Korea, and the Philippines, due to the fact that high volatility was associated with any economic and/or political news during which financial crisis took place. This study incorporates two different kinds of news variables: (i) interest rate news and (ii) news that creates currency appreciation or depreciation, rather than macroeconomic variables such as money supply, inflation rates, interest rates, trade deficits, GDP growth and current account deficits. Both OLS model and panel estimation are conducted. The results suggest that in some countries, interest rate news, appreciation and depreciation news explains the spot exchange rate changes. Little evidence is found that news impacts the extent of the bias in the coefficient of the forward premium. Overall, the results suggest a modest role for news in the FRUH tests.
Once Again: Ten Years after the Asian Crisis

Edsel Beja Jr.
Ateneo de Manila University, Philippines

A review of the economic performances of Indonesia, Malaysia, Philippines, South Korea, and Thailand in the decade following the 1997 Asian Crisis finds that they have been performing unsatisfactory relative to the previous decade’s performances. The review also finds that as of 2007 these economies have not recouped the losses produced by the Crisis. The results basically suggest that unless GDP per capita growth rates are pushed to much higher levels than the current trends, progress will remain on down-scaled growth trajectories – that is, below full potential – and, more importantly, they will continue to suffer the costs of the Crisis.

The Role of Infrastructure and Foreign Direct Investment in Indian Economic Development: Issues and Challenges

Trupti Mishra and Suhita Chattrejee
IIT Kharagpur, India

Since the 1990s, India’s relatively closed economy has been made much more open to trade and foreign investment. That led to the reformatory phase in India with the every expectation of reaping efficiency gains in future. In this study, an attempt is made to realize the importance of infrastructure and MNCs as a contributor or agent of economic development via forming a viscous cycle. This cycle will be formed on the basis of stylized facts extracted from past researches for interlinking infrastructural development with economic development, foreign direct investment with infrastructural development and infrastructure development as an agent of global and domestic competitiveness among MNCs, thus contributing to economic growth. This in turn will give us a glimpse of a journey of a developing country from a phase of economic development to economic growth.
**Paper ID 251**

**SEZs, Openness and Growth in China and India**

Chee Kian Leong  
*Nanyang Technological University, Singapore*

The policy by China and India to open their markets to international trade has been touted as the reason for their phenomenal growth. This paper investigates the impact of opening up the China and Indian economy on economic growth in these countries using new panel data sets for both the economies of China and India and panel data from the regional economies of China. The policy change to a more liberalized economy is explicitly identified using instrumental variables. The results provide support that export growth does have a positive and statistically significant effect on economic growth in these countries. However, the growth rates of these countries are export and FDI inelastic, in the sense that a one percentage point increase in growth rate of export or FDI will have a less than one percentage point increase in economic growth rate of these countries. In the case of the Chinese regions, the presence of export processing zones may exert positive effect on the regional growth rate but the increase in regional growth is even more export inelastic than at the national level. The results dispel the popular view that adopting a policy of more openness in the economy has a “multiplier” effect on economic growth.

**Paper ID 20**

**An Empirical Test of the Inequality Traps Concept**

Daymon Caroline and Gimet Celine  
*CEFI, France*

The new concept of inequality trap has recently appeared in the economic development literature. This phenomenon is due to the persistence of the poor initial conditions, in the presence of both market and institutional imperfections. The aim of this paper is to test the validity of this concept. The Generalized Method of Moments estimation is used to study the inequalities reproduction and the lagged impact of gender, political and economic liberties on inequality. The results prove the existence of such traps and underline the significant influence of the credit market, wealth and education access initial levels over a generation.


**Paper ID 177**

**Poverty and Conflict**

Raghu Bir Bista  
*Tribhuvan University, Nepal*

Debates and action on the growth of conflict in South Asia are going on as a hot issue. The nature and character of conflict are an unsolved mystery, except from changing its forms and causes. Its potential remedy may be collectivism. This paper focuses on the beginning of Nepalese violent conflict in 1996. It will qualitatively and analytically assess backward linkages of the growth of conflict with poverty. In general, it is stated that poverty is a key element determining the growth of conflict. In this paper, the correlation between the poverty and the growth of conflict will be tested in the case of the Nepalese Maoists for theoretical and empirical inputs.

**Paper ID 265**

**Inflation Targeting in Indonesia: Searching for a Threshold**

Anis Chowdhury and Roger Ham  
*University of Western Sydney, Australia*

It could be argued that for some developing countries low to moderate inflation is beneficially related to economic growth and that it is only after a certain threshold level that inflation becomes deleterious to growth. This has implications for macroeconomic policy requirements placed on developing countries by international loan bodies. This paper using data from Indonesia, examines the relationship between growth and inflation. Particularly, a threshold VAR model is used to test for changes in the relationship between inflation and growth. The results so far are exploratory and limited by a small data sample. However, they do open up the possibility for a change in sign in the relationship between inflation and growth when lagged inflation reaches a certain level, with this change in sign going from positive to negative as inflation crosses the threshold from below.
Trade Liberalization and Sectoral Export Performance in Pakistan

Mohsin Hasnain Ahmad, Rummana Zaheer, Akthar Lodhi and Waqar Hussain
University of Karachi, Pakistan

In recent years, a wide literature has been devoted to the study of relationships between trade liberalization and economic growth with special focus on developing countries. In the middle 1970s, there has been considerable progress in trade reforms in most developing countries, turning from import substitution strategy to export-oriented approach. Pakistan’s trade policy has also been moving towards more openness and fewer controls. Tariff rates have tumbled down. Liberalization efforts in Pakistan gained momentum in the late 1990s with the introduction of wide-ranging structural reforms. Successive trade policies attempted to diversify the export base and to improve the export infrastructure to increase exports. On imports, almost all type of quantitative restrictions, except for customs duty were removed. The customs duty itself was lowered substantially from 80% in 1996 to 30% in 2001 and to 25% in 2002. The average applied tariff rate fell from 42.7% in 1996-97 to 20.4% in 2001–02. The present study would examine the impact of trade liberalization on sectoral export performance in the light of Pakistan experience during the period 1972-2004. To the best of our knowledge, no attempt has yet been made to investigate the impact of trade liberalization on export performance in Pakistan.

Wage Inequality and Propensity to Marry after 1980 in Taiwan

Yu Chen Kuo
Feng Chia University, Taiwan

Female and male ages at first marriage in Taiwan have risen and the marriage rates have dropped for the last two decades. Since the early 1980s, the income inequality has also increased. A standard marital search model predicts that a growing male wage inequality will increase the duration of a single woman’s search given a mean preserving spread. So far no study in Taiwan considers the relationship between the wage
inequality and the propensity to marry. Using the data from Manpower Utilization Survey (MUS) from 1980-2005, we are able to test if the male wage inequality is positively correlated with the lower propensity to marry among women. After constructing a pseudo panel with an aim to capture the geographic and the time effects, we estimate a woman’s propensity probit model with the controls of the local marriage and labor market conditions. Our empirical results show a small and insignificant effect of regional male wage inequality on female propensity to marry under different measures of wage inequality and specifications. Our results also indicates that young women are more likely to get married in an area with higher male employment rate, lower female employment rate, higher sex ratio and larger population. More-educated women tend to stay single for a longer period.

Paper ID 195

The Effects of Monetary Policy on Bank Loans: A Comparison Between Domestic and Foreign Banks in Malaysia

Salina Hj Kassim and Turkhan Ali Abdul Manap
International Islamic University, Malaysia

How different is the reaction of the foreign banks to monetary policy shocks compared to that of the domestic banks in Malaysia? Understanding the different responses of these two banking groups has several important implications, particularly on monetary policy implementation and risk management practices of the banks. The findings of this study would enable a more focused monetary policy implementation. Also, the findings would also enable banks to learn the best practices in their risk management. In efforts to investigate the impacts of monetary policy shocks on bank loans extended by local banks and foreign banks in Malaysia, the study employs the impulse response functions and the variance decomposition analysis based on the VECM approach. The study analyzes bank balance sheet data and selected macroeconomic variables covering the period from January 1991 to December 2006.
Paper ID 270

The Foreign Bank Effect on the Diffusion of Financial Innovations in Thailand

Chantal Herberholz
Chulalongkorn University, Thailand

This paper examines the diffusion of two major financial innovations, namely internet banking and organisational restructuring, across commercial banks incorporated in Thailand and attempts to contribute to the financial innovation literature as well as the literature concerned with foreign bank entry by linking foreign bank presence and foreign ownership to the diffusion process. A logit model is estimated, using quarterly bank-level data over the period 1997 to 2005. The estimation results suggest that hybrid banks tended to be more likely to adopt both innovations than their domestic-owned counterparts. In addition, increases in the asset share of hybrid banks are found to have increased the probability of adoption of either innovation, indicating a positive foreign bank effect on the diffusion of financial innovations. The mode of entry, the organisational form as well as the ownership structure are found to be of importance.

Paper ID 66

Theory and Empirical Evidence of Household's Perception of Poverty

Gladys Navarro and Eleanor D. Paca
Saint Louis University, Philippines

Households perceived themselves poor because they have little education and the government does not generate employment in their place. The logistic model was used to test these hypotheses.
**Paper ID 29**

Demography and Cross-country Savings Rates Differences

Elwin Tobing  
*California State University Fullerton, USA*

This paper quantitatively investigates the extent to which demography can explain the large differences in cross-country savings rates. Fertility and adult survival rates are incorporated into an overlapping-generations model. High fertility rates increase the expenditure burden of children and lower savings, while high adult survival rates induce individuals to discount the future less heavily and consequently encourage savings. The two demographic factors can explain up to 68% of the dispersion in the cross-country savings rates. Furthermore, if the expenditure burden is sufficiently low, adult survival rates have a greater impact on cross-country savings rates differences than fertility rates do. The model developed is also satisfactory in explaining the large gap in savings rates between the richest and the poorest countries.

**Paper ID 64**

Is Group Lending A Good Enforcement Scheme for Achieving High Repayment Rates? Evidence from Framed Field Experiments in Vietnam

Hisaki Kono  
*Institute of Developing Economies, Japan*

Microfinance institutions employ various kinds of incentive schemes. Estimating the effect of each scheme is not easy due to endogeneity problems. We conducted field experiments in Vietnam to capture the role of joint liability, monitoring, cross-reporting, social sanctions, communication and group formation in borrowers’ repayment behavior. We find that joint liability contracts cause serious free-riding problems, inducing strategic default and lowering repayment rates. When group members observe each others’ investment returns, participants are more likely to choose strategic default. Even after introducing a cross-reporting system and/or penalties among borrowers, the default rates and the ratios of participants who chose strategic default under joint liability are still higher than those under individual lending. We also find that joint liability
lending often failed to induce mutual insurance among borrowers. Those who had been helped or who had repaid a little in the previous round were more likely to default strategically and repay a little again in the current round and those who paid large amounts were always the same individuals.

**Paper ID 88**

**Status-Seeking Behavior, the Evolution of Income Inequality and Growth**

Koichi Kawamoto  
*Osaka University, Japan*

Using an overlapping generations model with human capital, this paper investigates the implications of status-seeking behavior, induced by preferences for relative income, for the evolution of income inequality. When average income rises, an individual’s marginal utility of their own income may increase (keeping up with the Joneses, or KUJ), or decrease (running away from the Joneses, or RAJ). It is shown that income inequality is shrinking over time in the KUJ economy, whereas it is expanding in the RAJ economy. We also explore the implications for long-run growth and inequality, in the existence of both KUJ and RAJ agents.

**Paper ID 271**

**Income Distribution and Economic Growth: Interconnections Reexamined**

Sawarai Boonyamanon  
*Chulalongkorn University, Thailand*

This paper aims to determine a marginal abatement cost of Bangkok Metropolitan Administrative wastewater treatment activity by using a database from Bangkok wastewater treatment plants. To measure the cost of abatement, this paper introduces the alternative framework for specifying the production function associated with pollution abatement activity and derive the corresponding cost function. It also produces the information that motivated Bangkok government’s decision makers to seek more cost effective revenues to control water pollution. We estimate an abatement cost function for only major water pollutant, (BOD). The
results show that the model fits the data well. Also, the variables have the expected sign and the coefficients have high levels of statistical significance. We also find that marginal abatement costs of small scale treatment plants are higher than big scale treatment plants. The wastewater treatment fee rates range from 4.03 baht per m$^3$ to 24.06 baht per m$^3$ according to the plants’ size.

**Paper ID 18**

**Budget Deficit and Redistribution**

Jens Peter Siebel  
*University of Applied Sciences Kaiserslautern, Germany*

The role of redistribution has been neglected by most strategic deficit models, besides Martimort (2001). The approach here goes beyond the model of Martimort (2001), as preferences for redistribution are endogenized by using a two-period median voter model. In both periods there is set a set of voters who differ with regard to their pre-tax earnings. The behaviour of the first period median voter is analyzed under different scenarios, e.g. an intertemporal change of median voter income as well as of the income distribution is regarded. It turns out that these forces have an impact on the budget balance, which can be ambiguous in some cases.

**Paper ID 225**

**Tourism Policy Announcements and Price Dynamics in a Small Open Economy**

Lee Jung Lu  
*Feng Chia University, Taiwan*

Utilizing a model of a small open economy with tourism, this paper examines the effects of the tourism expansion on prices and foreign reserve. Foreign tourists consume mainly the non-traded goods of the destination, converting formally non-traded goods into exports. This gives a tourism terms-of-trade effect. The expansion of tourism can initially cause an over- or under-adjustment in the non-tradable price, hinging on the tourism terms-of-trade effect. Nevertheless, in the long run, the expansion of tourism raises the price of the non-traded good but the effect on foreign reserve is ambiguous.
Monetary Policy and Capital Flow Reversal

Kim Heng Tan
Nanyang Technological University, Singapore

This paper shows that, for an open economy, an increasingly permanent expansionary monetary policy can lead to a reversal of capital flows. In particular, the direction of capital flows reverses as the inflation rate crosses a certain threshold rate. The source of the capital flow reversal arises from the interaction of two effects of expansionary monetary policy. The first is the direct effect of monetary growth on savings, and the second is the indirect effect of monetary growth on savings via changes in labor-income taxes. Here, we assume that a given amount of government revenue is raised by issuing money and imposing lump-sum taxes on labor income. At low inflation rates, increasing monetary growth increases money seigniorage and, therefore, decreases labor-income taxes, as the government has to comply with its budget constraint. At high inflation rates, however, increasing monetary growth decreases seigniorage and increases labor-income taxes. The interaction between the direct and indirect effects of monetary growth on savings differs between the low- and high-inflation regimes and, consequently, leads to different effects on the direction of capital flows. The paper shows that increasing permanently money-supply growth in a nation can have favorable effects on its current account surplus leading to increasing capital outflows in a low-inflation regime, but with these effects reversed in a high-inflation regime. What exactly is a low- or high-inflation regime will be made clear in the paper. The findings of this paper have policy relevance for economies attempting to inflate their way to pay for government purchases.

Information Lag and Stability for Continuous Dynamics

Yang Zhang
University of Macau, Macau

The impact of information improvement on stability will be examined for continuous dynamics. It is conventionally believed that removal of uncertainty always brings additional stability to an existing equilibrium.
This research however shows that a relationship between information and equilibrium stability may not be monotonic. Indeed removal of information lag may sometimes destabilize the otherwise stable continuous model. Focusing on two-dimensional continuous dynamics, the paper explores the stability condition in theory and numerically, the conclusion drawn on which can be generalized to multiple-dimensional system.

**Paper ID 267**

**Generational Accounting for Singapore**

Ngee Choon Chia and Yu Chien Kong  
*National University of Singapore, Singapore*

Instead of focusing on the government's annual budgetary position, this paper accesses long-term impacts of the current fiscal policies in Singapore using Generational Accounting (GA). By incorporating the age-specific profiles of the revenue and expenditure of the government for an average member of a generation, GA measures the fiscal burdens facing current and future generations. GA has been evaluated for most OECD countries with large government's spending on public pensions and social welfare expenditure. Like most OECD countries, Singapore also faces an aging population. However, unlike OECD countries, Singapore has a small government with a fully funded social security system under the Central Provident Fund scheme. Our findings suggest that in contrast to the experience of most countries, the future generations of Singaporeans are likely to face lower net tax burdens than the current generations. Furthermore, the simulation results show that the net tax burden of the future generations depend on the way government indebtedness (or net wealth) is defined and whether immigration is included in the model.
**Paper ID 4**

**Regional Economic Integration and Intra-Regional trade: Evidence from the ASEAN Free Trade Area**

Normaz Ismail  
*Universiti Putra Malaysia, Malaysia*

This study empirically investigates the effect of trade creation and trade diversion in ASEAN. Using the gravity model, this study examines whether the formation of the ASEAN Free Trade Area (AFTA) resulted in an increase in intra- and extra-regional trade for the period 1984 to 2003. From basic gravity variables, the study found that GDP, population, relative endowment, distance and common language are the main determinants of bilateral trade in ASEAN. The ASEAN dummies used to measure the intra ASEAN trade indicate that there was trade creation among the five ASEAN members. Closer examination also shows that the trade creation among the ASEAN countries is enhanced after the establishment of AFTA. The member countries trade more with each other right after the formation of AFTA and during the financial crisis than during the subsequent recovery period. There is no evidence of trade diversion in pre-AFTA analysis but there is strong evidence of this during the post-AFTA period.

**Paper ID 7**

**Possibilities and Consequences of the Merging of the Emerging Countries**

Sema Kalaycioglu  
*Isik University, Turkey*

In this paper, economic rationality behind clustering emerging economies is first investigated. Common economic denominators and differences of Brazil, Russia, India, China and Turkey (BRIC) are determined to explore the potentials regarding economic relations between them in the form of trade and investment. The policy choices and economic challenges of BRIC throughout the 1980s, 1990s and the early 2000s are briefly visited. The second part of the paper is devoted to the inquiry of whether Turkey may qualify to be counted among the group or not. Turkey’s trade relations with respect to the BRIC and potentials for trade creation
between BRIC are also investigated in this part. In the third part, the paper explores the economic growth and trade prospects of BRIC, as well as the challenges they constitute for other global actors.

**Paper ID 36**

**Equilibrium Coalition Structure of ASEAN-Ten and ASEAN-Ten-Plus-Three**

Wai Heng Loke  
*University of Malaya, Malaysia*

This paper aims to assess the equilibrium coalition structure of ASEAN-10 plus 3 (APT, i.e. a free trade comprising all existing 10 ASEAN members plus Japan, China and Korea). Numerical simulation exercises are conducted on a simple static computable general equilibrium trade model with product differentiation and optimal tariffs. The study follows Goto and Hamada’s (1999) treatment on asymmetric bloc size by assuming that a larger country has more provinces than a smaller country has. The relative sizes between countries are based on ASEAN and the three northeastern countries’ GDP. The illustrative simulation results, based on a model that highlights the effects of country/trading bloc size on the desire/incentive of a country to join an FTA suggest that while ASEAN-10 may expand, APT does not seem to be an equilibrium coalition structure. This is mainly due to the fact that the two largest economies, Japan and China, although may gain by joining the APT, their welfare levels can be maximised by forming an FTA between the two alone. The paper concludes that for APT to be attractive for all, ASEAN members need to maintain their niche to be part of the entire production chain in the East Asia region.

**Paper ID 242**

**Globalization of Silk Trade: A Comparative Analysis between China and India**

Kishor Goswami  
*Indian Institute of Technology, India*

Asia being the global hub of silk industry flourished with the elimination of textile and clothing quota restrictions. Countries such as China and
India turn the situation into their favor and dominate the world silk market. However, the performances of the industry in the two countries are different with different politico-economic environments. The present study attempts to compare the performance of silk trade in China and India. China continues to be the world’s leading producer and exporter of silk. The country contributed 42.04% of total world export of silk in 2005. In contrast, India’s share in world’s silk export in 2005 was 12.39%. It is found that the USA is the major export destination of final products for both China and India. However, India is the major importer of pure silk fabrics, silk filament and raw silk from China. The import of raw silk between 2004–05 and 2005–06 has increased by 23.41%. Out of the total raw silk imported, 96.76% was from China. It is found that India is a very good market for China for both raw silk and final products. The increased import of raw silk and silk fibre to India negatively affected the domestic producers and forced the Indian government to impose anti-dumping duties. Self-sufficiency in domestic production of raw silk and suitable business protection for domestic producers of silk may be a solution. As a confidence building measure, the anti-dumping disputes should be dissolved through proper dialogues involving respective ministries and trade organizations from both countries.

Paper ID 274

Litigation in the Internet Age: An Empirical Analysis of Shareholder Wealth Implications

Wen Li Chan and Eng Tuck Cheah
University of Nottingham in Malaysia, Malaysia

In light of how the Internet has revolutionized the way businesses could be conducted, it is necessary to examine the impact of filings and settlements of Internet-related litigation (cyberlitigation) on shareholder wealth. From a sample of announcements compiled through a full-text search of 1995-2005 Wall Street Journal archives, it was found that plaintiffs suffered statistically significant wealth losses upon the filing of cyberlitigation. The type of legal issue had power to explain cross-sectional variation in these wealth effects. Further, investors preferred cyberlitigation outcomes to be determined by courts, as evidenced by wealth declines to plaintiffs and defendants in settlements.
This paper investigates the role of renewable technology in reducing poverty in the Aral Sea Basin (ASB) of Central Asia. At present, renewable technology is not penetrating the region due primarily to historical, political and financial-economic barriers. Over 55 million people across Central Asia reside in the ASB area, which is being ecologically degraded primarily through the unsustainable management of land and water resources for the production of cotton and wheat. These pose the greatest barriers to development and human wellbeing in the region. The paper aims to explore the opportunities and challenges of adopting alternative energy sources in the region, and compare these to similar experiences in other developing and transition economies. Unique water and land use issues in Central Asia and the need for rapid conservation of scarce water and land resources to ensure long term development and welfare in the region are being investigated. The paper also assesses potential costs of implementing renewable technologies in the ASB area, discussing barriers to entry, current investment trends, and the role of international donors and regional cooperation in promoting the diffusion of low-carbon technologies. Primary focus will be given to photovoltaic energy for water purification and desalinization. We argue that innovative solutions, such as solar powered desalination and purification to secure safe and sufficient water resources, may present an important sustainable route to poverty reduction and more sustainable development in the region. Furthermore, renewable methods of providing clean and sufficient water supplies to the region’s growing population and water-thirsty agricultural industry will also offer crucial and timely solutions in climate mitigation by reducing dependency on carbon-based fuels.
**Paper ID 176**

**Growth and Poverty in India – An Analysis of Inter-State Differences**

Paramjeet Kaur Dhindsa and Seozy Bhatia  
*Guru Nanak Dev University, India*

The object of this paper is to analyse differences in poverty levels across states in India during the period 1991–2001. In doing so, it seeks to focus on inter-state differences in economic growth as an explanation. The important objective of the study is to find out the relationship and significance of physical infrastructure and human resource development in reducing poverty. The results of the study prove that relationship between poverty and Infrastructure Development Index (IDI) as weakening over time, whereas the relationship of poverty with Human Resource Development Index (HDI) has got stronger over time. Thus, human development has become more relevant for poverty alleviation than infrastructure development between states.

**Paper ID 156**

**Poverty and Growth in Cameroon During 1996–2001**

Fambon Samuel  
*FSEG University Yaounde II, Cameroon*

According to macroeconomic data, the Cameroon economy recovered during 1996–2001, following the devaluation of the CFA franc relative to the French franc, which took place in January 1994. However, there remains a cause for concern in the country as to whether the economic growth recorded in official statistics has trickled across the various strata of society to improve the living conditions of the population, especially those of the poor. This paper therefore aims to address the issue by examining the extent, distribution and dynamics of poverty in Cameroon during the post-devaluation period between 1996 and 2001. The analysis of poverty will use the cost of basic needs (CBN) method to estimate poverty lines, and the FGT-class of indexes developed by Foster, Greer, and Thorbecke (1984) to determine the incidence, intensity and severity of poverty. Moreover, the study will decompose changes in poverty into growth and redistribution components by using the Shorrocks (1999) method of dynamic decomposition of poverty. The data used will be
drawn from ECAM I and ECAMII household surveys covering the entire national territory and conducted respectively in 1996 and 2001 by the National Institute of Statistics (NIS).

**Paper ID 260**

**Status, Fertility and the Great Transition**  
Frederic Tournemaine  
*University of the Thai Chamber of Commerce*

We develop an overlapping generation model to examine how the relationship between social aspirations, fertility and education affect growth performances. Results are twofold. First, we show that stronger status motives heighten the desire of parents to have fewer children which may foster economic development through the channel of education. Second, we show that, in some cases, government authorities might be advised to postpone the introduction of an economic policy in order to maintain the process of economic development.

**Paper ID 272**

**Estimation of Marginal Abatement Cost for Waste Water Treatment in Bangkok**  
Nantarat Tangwitoontum  
*Chulalongkorn University, Thailand*

Unlike previous papers that examine either a direct or reverse relationship between income distribution and per capita GDP growth independently of one another, this paper tries to combine the two causal links together by estimating a model in which distribution and growth are jointly determined. Using data of 188 countries, averaging for each country from year 2000 to year 2004, this paper finds that inequality and growth are indeed simultaneously correlated with other economic, social and political factors. Therefore, policy-makers should take these simultaneities into account in designing policy so that an equitable society with sustainable growth could be achieved.
Invited Speaker

First Impressions on the European Economic and Monetary Union – lessons for Asia

Joergen Orstrom Moller
Institute of Southeast Asia Studies, Singapore

A short overview of the run-up to the European Economic and Monetary Union (EMU) from the Werner Plan in 1971 to the Treaty of Maastrict in 1992 is presented with special focus on two fault lines: (1) decision-making invested in the member states and institutions; and (2) emphasis on economic policy and monetary policy. Specific issues on the role of the Bundesbank, the battle between creditor and debtor countries, on who to bear the burden of adjustment and the reconciliation of the conflicting economic and political positions that led to EMU are discussed. Most of the literature looks at EMU from the perspective of the free market model but the European experience suggests that the EMU can function in another setting when other policy measures are brought in to compensate for the deviations from the free market model. It is concluded that even during the early days, the advantages of the formation of EMU have undoubtedly outweighed the disadvantages.

Paper ID 210

Financial Liberalization and Monetary Policy Cooperation in East Asia

Hwee Kwan Chow, Peter Kriz, Roberto Mariano and Augustine Tan
Singapore Management University, Singapore

As countries in East Asia embark on financial liberalization, a key issue that confronts policymakers is the greater complexity of risks that is injected into the financial system. In particular, capital account liberalization may potentially increase the vulnerability of individual countries to external financial shocks. This paper advocates the optimally cascading of financial liberalization that is consistent across three dimensions: the extent of domestic financial liberalization; the degree of exchange rate flexibility; and the scope of capital account liberalization. Unless the process of liberalization is properly managed, it could provoke destabilizing capital flows and lead to volatile exchange rates. Smooth
responses to fluctuating capital flows require accelerated institutional reforms in individual countries and an upgraded regional financial infrastructure. We argue that informal monetary arrangements, sequenced from simple to more intensive commitments, can go a long way in improving sovereign and regional institutions both to handle ongoing financial liberalization and to promote intra-regional currency stability.

**Paper ID 85**

**An East Asian Currency Union?**

David Kim  
*University of Sydney, Australia*

Following Mundell (1961), a key pre-condition for a successful monetary union is that member countries face similar shocks for a coordinated macroeconomic policy response. Using three alternative but nevertheless complementary vector autoregression (VAR) models, this paper provides a broad set of evidence on the nature of macroeconomic shocks across the ASEAN plus 3, namely, China, Japan and Korea. I find that macroeconomic shocks are quite heterogeneous in this region, as much so across China, Japan and Korea as within the ASEAN group. Judging from the historical properties of macroeconomic shocks alone, there is little justification for the formation of an East Asian currency union in the near future.

**Paper ID 163**

**Cointegration Among ASEAN + 3 Countries**

M. Azali and Chin Lee  
*Universiti Putra Malaysia, Malaysia*

As the Asian economies have moved towards closer economic ties and trade integration in recent years, the establishment of regional exchange rate arrangement is becoming an important regional policy concern, particularly in the wake of the Asian currency crisis of 1997. Financial integration in ASEAN+3 is assessed in this paper by examining the time-series stochastic behaviour and cointegration in a set of eight ASEAN+3 currencies in pre-crisis, crisis and post-crisis periods. Significant non-stationarity, and the presence of unit roots were documented for each
currency in each sample period. The results of cointegration analysis showed that the currencies are not cointegrated during the pre-crisis period. Evidence of cointegration was found among a few Asian currencies in the crisis and post-crisis periods. These findings have important implications for understanding the potential of developing a common currency area.

**Paper ID 49**

**Long-Run Stability of Demand for Money in China with Consideration of Bilateral Currency Substitution**

Yongqing Wang  
*University of Wisconsin, USA*

We previously examined money demand in China using quarterly data up to 2002 and employing stability tests in conjunction with cointegration analysis, found that M1, but probably not M2, money demand in China is stable. In the present study, we further examined money demand in China by incorporating into the money demand model foreign interest rates and exchange rates on a country-specific, bilateral basis. CUSUM and CUSUMSQ tests were used together with cointegration analysis to show that Chinese money aggregate M1 is cointegrated with its determinants and stable in the long run. There is some doubt with the cointegration of M2 with its determinants. The domestic income and interest rate play a crucial role in China’s money demand. However, Chinese money market appears to lack significant currency substitution with most of the 20 foreign economies examined.

**Paper ID 17**

**What Determines the Current Account Balances in Mena Countries?**

Aleksander Aristovnik  
*University of Ljubljana, Slovenia*

The main aim of the paper is to examine the empirical link between current account balances and a broad set of economic variables proposed by the theoretical and empirical literature. The paper focuses on the Middle East and North Africa (MENA), an economically diverse region, which has so far mainly been neglected in such empirical analyses. For this purpose, a dynamic panel regression technique is used to characterize
the properties of current account variations across selected MENA economies in the period 1971–2005. The results, which are generally consistent with theoretical and previous empirical analyses, indicate that higher domestic and foreign investment, government expenditure and foreign interest rates have a negative effect on the current account balance. On the other hand, a more open economy, higher oil prices and domestic economic growth generate an improvement in the external balance, whereas the latter implies that the domestic growth rate is associated with a larger increase in domestic savings than investment. Finally, the results show a relatively high persistency of current accounts and reject the validity of the stages of development hypothesis as poorer countries in the region reveal a higher current account surplus or lower deficit.

**Paper ID 15**

**Cross-Country Evidence on the Link Between Health and Macroeconomic Volatility**

Tauhidur Rahman  
*University of Arizona, USA*

Empirical studies on the determinants of growth have established a negative relationship between a country’s economic volatility and growth, but the relationship between health and economic volatility has not been examined, even though investment in human capital has been recognized as an important determinant of economic growth. The importance of health in determining long-run growth and the potential effects of volatility on health suggest that the negative relationship between volatility and growth could work through the effect of volatility on health. This reasoning motivates this paper. Using a cross-section of Asian and non-Asian countries, we explore the impact of macroeconomic volatility on health outcomes. We find that greater income volatility, defined as the standard deviation of the rate of GDP per capita growth, has a negative effect on health outcomes. The estimated coefficients suggest that a strong effect on health outcomes results from a reduction in income volatility.
Hosting the Olympic Games requires significant expenditures by the hosting country government. Recognizing this, hosting countries often argue that the net effect of the Olympics on the economy will be positive. The 1988 Olympics held in Seoul are examined. Using a panel approach the other Asian Tiger economies as benchmarks growth implications from holding the Olympics are searched for. Under numerous specifications, there is little evidence to support GDP growth associated with hosting the Olympic Games.

Identifying Aggregate Demand and Supply Shocks in Bangladesh

Omar H.M.N. Bashar

University of Melbourne, Australia

This paper explores the relative roles of aggregate demand and supply shocks in affecting the Bangladesh economy. There is a conventional belief that supply-side shocks are the predominant shocks in Bangladesh. Our preliminary analysis of the cyclical behaviour of prices indicates that both demand and supply shocks are relevant in Bangladesh. In an attempt to investigate this issue further, we introduce a Bivariate SVAR model, where the aggregate demand and supply shocks are identified from the VAR residuals using a long run restriction proposed by Blanchard and Quah (1989). The Blanchard-Quah (BQ) approach forces the two shocks to be orthogonal. As argued by Cover et al (2006), this assumption is problematic, as policy actions often cause demand and supply shocks to be correlated each other. Following Cover et al (2006) we thus employ a modification of the standard BQ approach, in which the two shocks are allowed to be correlated. Strong evidence is found for the hypothesis that aggregate demand and supply shocks are interrelated in Bangladesh. Impulse response functions and the variance decompositions indicate a very steep short run aggregate supply curve and suggest that inflation is demand-driven whereas the output level is basically supply-driven. Supply
shocks, however, appear to play a greater role in determining inflation in the modified model compared to those in the standard BQ model.

**Invited Speaker**

**Poverty, Policy Reforms for Resource-use and Economic Efficiency: Neglected Issues**

Clement Tisdell  
*University of Queensland, Australia*

It is widely believed that in developing countries, open-access to natural resources, inadequate private property rights and lack of development of market systems adds to the incidence of poverty. Increased economic efficiency is seen as a powerful force for reducing the extent of poverty in developing countries in the long run. While this may be so, it ignores the depth and incidence of poverty that can be generated during adjustments to policy reforms. This possibility constrains policy choices as is shown theoretically for natural resource policies and for agricultural adjustment policies giving Asian examples. Social, behavioral and institutional features are also considered that may result in poverty lock-in of some groups. It is essential to consider dynamic processes and not to rely solely on comparative statics when assessing economic policies to reduce poverty and increase economic efficiency. It is also important to take into account institutional constraints on policy choices.

**Paper ID 175**

**Does private participation in energy infrastructure support poverty reduction?**

Bianca Gusenbauer  
*Vienna University of Economics, Austria*

The impacts of private participation in energy infrastructure on poverty reduction deconcentration and privatization are global phenomena under the New Public Management that have also hit the developing countries. The international donors have supported the delegation of political decision-making power to sub-national levels and the privatization of infrastructure. In this discussion, the impact of infrastructure on poverty reduction is widely accepted and the participation of private investors is
regarded as an essential source of improvement of the infrastructure endowment of developing countries. Nevertheless, it has been realized that private capital is not a panacea and that private investments also have their shortcomings. This paper is based on an extensive literature review and semi-structured interviews that were conducted with experts in the field and stakeholders of the case studies. First of all, the paper will provide a discussion of the definition of poverty and poverty reduction. Furthermore, the private participation in energy infrastructure will be analyzed and possible impacts on poverty reduction elaborated. Concluding, two case studies will be presented on the basis of the earlier literature review.

*Paper ID 122*

**Inclusive Growth and Challenges of Poverty in India**

R.S. Solunke, B.S. Mhaske and V.B. Kakade  
*Dr. B.A.M.U. Aurangabad M.S., India*

The Indian economy on the eve of the Eleventh Five Year Plan is in a much stronger position than it was a few years ago. The average growth rate in the Tenth Plan period (2002-03 to 2006-07) is likely to be about seven percent. Though this performance reflects the strength of the economy in many areas, it is also true that large parts of our population are still to experience a decisive improvement in their standard of living. The percentage of population below the poverty line is declining, but only at a modest pace. Problems like health, education, and clean drinking water remain more severe in some states than in others. This is particularly true in rural areas. In India, various anti poverty schemes and programmes have been launched by the central and the state governments since independence. Some major anti poverty programmes such as Integrated Rural Development Programme (IRDP) / Swarn Jayanti Gram Swarozgar Yojana (SGSY) Jawahar Rozgar Yojana / Jawahar Gram Samridhi Yojana (JGSY) / Employment Assurance Scheme (EAS) / Employment Guarantee Scheme (EGS) have definitely yield positive results. The implementations of these antipoverty programmes have effectively reduced the poverty rate in the rural areas of India.
A Note on Southeast Asian Hysteretic Unemployment

Eng Yoke Kee and Wong Chin Yoong
Universiti Tunku Abdul Rahman, Malaysia

The present paper attempts to examine if unemployment rates in Southeast Asia demonstrate hysteresis, and to find out the propagation mechanism at work. By using the standard Augmented Dickey-Fuller (ADF) test, Schmidt and Phillips, and Lee and Strazicich LM unit root test respectively without and with structural breaks, we found that our sampled countries exhibit no hysteresis in unemployment rates. We then set up a standard New Keynesian dynamic IS-AS model to propose that the underlying factors are greater economic openness alongside preference over inflation stabilization in the policy reaction function. Southeast Asian that integrates well into the world economy with relatively free flow of foreign goods, capitals and labors has obtained greater flexibility in labor markets. The latter should be an important factor that destructs the insider-dominated wage determination mechanism, the bedrock of hysteresis in unemployment, as labor replacement now become less costly. The model also suggests that enhanced price flexibility signals that the central bank shall respond less to the output gap. According to the derived nonhysteretic unemployment condition, the monetary policy should be driven mainly towards stabilizing the inflation rates. The informal pegging to US dollar of Southeast Asian currencies over the years naturally serves as prima facie to the preference on stabilizing the inflation rates, which, in turn, contributes to the absence of hysteresis in unemployment.

Invited Speaker

Markets, Rules and History: Some Surprising Externalities

Peter Hammond
Stanford University, USA

Externalities arise in all but the most special social and economic environments. Even without classical externalities, pecuniary externalities arise whenever the decisions by a single agent or a policy maker affect market clearing prices. Even without pecuniary externalities, rule externalities arise when the economic environment would be affected if a
positive proportion of agents changed their behaviour simultaneously. Such rule externalities are ubiquitous, and include the widespread and historic externalities that have been discussed in previous work.

**Paper ID 16**

**Multinational Companies in Low-Income Markets: An Analysis of Social Embeddedness in Southeast Asia**  
Dina Badry  
*University of St. Gallen, Switzerland*

The market-based activity of multinational companies (MNCs) in low-income markets is increasingly capturing the attention of academics. Still, empirical and theoretical work is missing on how MNCs should approach these markets. Social embeddedness has been identified as one critical success factor for the operations of MNCs in low-income markets. The importance of social relations to local partners has been stressed to gain a market understanding and to access critical knowledge. Following this logic, the purpose of this paper is to examine the concept of social embeddedness in the context of low-income markets in more detail and with specific focus on the Southeast Asian context.

**Paper ID 158**

**Intergenerational Transmission of Happiness in Singapore: An Exploratory Study**  
Kong Weng Ho  
*Nanyang Technological University, Singapore*

We develop a simple model of happiness transmission across generations and test its theoretical implications using household data collected in Singapore. We found that the relative importance of the determinants of happiness (namely family relations, friendship, work/school performance, religion, health and money) varies across generations and the influence of parental happiness on children depends also on the religious beliefs of the parents.
The Results of Monte Carlo Simulation on an Agent-Based Model with Quality Uncertainty

Papusson Chaiwat
Chulalongkorn University, Thailand

This paper presents the results of behavior of both consumers and firms when they faced quality uncertainty during the competition by using simulation techniques. Quality uncertainty will lead to market failure, which decreases the welfare of consumers and distorts profits among firms. Especially in the market with more uninformed consumers or higher probability that firm will successfully cheat consumers, consumers experience a decreasing value of utility. The results show that the Nash equilibrium in a market with some uninformed consumers is the situation in which the firms that produce the highest quality and the lowest quality in the market will use a separating price strategy as their dominant strategy. However, the firms that produce medium quality products will use a pooling price strategy. Uninformed consumers are easily deceived by firms when all producers know that some consumers do not have complete information about quality. The middle quality firms have incentives to create the unclear quality to consumers by using a pooling price strategy to increase profits. The utility of consumers in this situation is not maximized because some consumers suffer more from consuming low quality products purchased at a higher price. Consumers will adjust their taste to eliminate quality uncertainty. Welfare of buyers is better although there are some losses from cheating. This utility is lower than in a market that does not have quality uncertainty.

A Study of COMPAS Model for Anti-Dumping Investigations – An Application on the H-Beam Industry in Taiwan

Shu Yuan Lee
Chihlee Institute of Technology, Taiwan

The Commercial Policy Analysis System (COMPAS) model was developed and used by the United States International Trade Commission (USITC) to analyze the potential impact of unfair trade to a specific
domestic industry. In the model, perfect competition is generally assumed. The purpose of this study is to extend the assumption of market structure from perfect competition to oligopoly. The COMPAS model is modified to incorporate different market structure ranging from perfect competition to oligopoly. We use the H-beam industry in Taiwan as an example where there are only two major producers. According to our empirical analysis, the prefect competition assumption tends to overstate the negative effects of the dumping activities against the domestic industry. Moreover, simulation results show that COMPAS model with an oligopoly market structure experiences more of a price-effect than a perfectly competitive one.

Paper ID 125

Changes in Product Quality in Intra-Industry Trade and Adjustment Costs: The China and ASEAN Experience

A.K.M. Azhar\textsuperscript{1}, Robert J.R. Elliott\textsuperscript{2} and Junting Liu\textsuperscript{3}
\textsuperscript{1}Universiti Putra Malaysia, Malaysia, \textsuperscript{2}University of Birmingham, UK and \textsuperscript{3}Liaoning University, China

In recent years, China’s rapid industrialization and export-led-growth has led to fears that significant competitive pressures are being exerted on the exports from the rest of East Asia. The common belief among East Asian economies is that to remain competitive they must move production up the value chain, that is, to improve the quality of their exports relative to those of China. In this paper, we document and examine the differences in the quality of intra-ASEAN trade flows. More specifically, we combine two strands of the recent international trade literature concerned with the measurement of intra-industry trade (IIT): measures of marginal or dynamic IIT that are concerned with the adjustment implications of changes in IIT; and measures of vertical and horizontal intra-industry trade that are concerned with the differences in the quality of products that are imported and exported from the same industry. By applying a new dynamic measure of quality differentiated IIT we are able to show how the emergence of China has affected the quality of exports and imports to and from Malaysia to China and then discuss the possible adjustment implications of such changes in export quality, for example on the prospects of the relatively low skilled workers in these countries.
**Paper ID 188**

**Corruption and Tariffs as Barriers to Imports**

Pushan Dutt¹ and Daniel Traca²

¹INSEAD, Singapore and ²Solvay Business School, Belgium

This paper looks at the role of corruption as a barrier to imports, highlighting the interaction with nominal tariffs. It shows, in a theoretical model, that the effect of corruption is non-linear and conditional upon the level of nominal tariffs. In particular, we show that, while corruption taxes trade in an environment of low tariffs, it may create trade enhancing effects, when nominal tariffs are high. The trade enhancing effect dominates at low levels of corruption, suggesting that, at high tariffs, trade flows are an inverted-U shaped function of corruption. These predictions, including the inverted-U shape, are borne out in the data, within the framework of an augmented gravity model. The trade enhancing effect dominates for about 20% of the observations.

**Paper ID 3**

**The Effects of Exchange Rate Variability on Malaysia’s Disaggregated Electrical Exports**

Koi Nyen Wong and Tuck Cheong Tang

Monash University in Malaysia, Malaysia

This paper examines the influence of exchange rate variability on the demand for Malaysia's top five electrical exports by Standard International Trade Classification (SITC) product groups. The empirical results indicate that foreign income and prices are important determinants of export demand for all of the five electrical exports, in both the long run and the short run over the period of 1990–2001. Most importantly, this paper supports the view that exchange rate variability has an adverse effect on Malaysia’s electrical exports. This paper is important to policy-makers for the design of both exchange rate and trade policies to enhance export growth that can lead Malaysia’s transition towards high technology industrialization.
Paper ID 21

Measuring Indicators for Sustainability of Agricultural Systems: Applying Fractional Programming

Vali Borimnejad
Islamic Azad University, Iran

This paper attempts to present a structure for quantifying and specifying the sustainability constraints of agricultural systems. For this purpose, an agricultural system in Kerman province is investigated.

Paper ID 83

Land and Caste in Andhra Pradesh

Estharla Krishna Rao
University of Hyderabad, India

Agriculture plays a vital role in the process of economic development of a country, particularly in the initial stages of economic development. The importance of agricultural development essentially depends on the land tenure system, the availability of irrigation and other inputs like fertility of land and technology. Land being a factor of production in all stages of the economic development plays a diabolical role in the life of rural people. It is not only a prime source of income but also a symbol of social status in rural India. Around 85% of the rural population of India, directly or indirectly, lives on the land and its produce. By and large, the size of income in rural areas continues to be closely related to the amount of land owned or controlled. The land distribution pattern in India in agriculture continues to be skewed. The skewed distribution of land especially in India is important because of its association with the caste system. Large landowners belonged to the so-called upper castes, the cultivators belonged to the middle castes and the agricultural workers mostly belonged to the weaker sections such as Scheduled Castes and Scheduled Tribes. In this context, an attempt is made in this paper to study the access to land for Dalits at Andhra Pradesh state level during the pre- and post-independence periods. It also assesses the impact of land reforms on Dalit’s economic conditions.
Spatial Determinants of Agricultural Production at the District Level in Vietnam

Ngo Quang Thanh
Wageningen University, Netherlands

Our results confirm the relevance of the classical determinants of agricultural production at district level in Vietnam by using spatial econometric techniques. The level of agricultural production depends on the structure of educational levels of female labourers. We also find a positive impact of institutions. Lastly, we find no support of rural electrification for the use of irrigation although both electrification and irrigation have a positive impact on the level of agricultural production, and non-linear relationships between fertilizer for rice and for other food and the level of agricultural production. Post-cultivation investment in technology helps to increase the value-added of agricultural products and the choice of cultivation pattern significantly increases the value of agricultural production.

Pollution Implications of Electricity Generation in the Malaysian Economy: An Input-Output Approach

Abul Quasem Al-Amin, Chamhuri Siwar\textsuperscript{1}, Abdul Hamid Jaafar\textsuperscript{1} and Mohammad Nurul Huda Mazumder\textsuperscript{2}
\textsuperscript{1}Universiti Kebangsaan Malaysia and \textsuperscript{2}Multimedia University, Malaysia, Malaysia

The electric power industry is playing an important role in the economic development in Malaysia, and electricity has become a vital factor sustaining the well-being of the Malaysian people. Burning fossil fuels such as coal, oil, gas or hydropower for produces electricity but at the same time it creates by-products such as CO2, SO2 and NOx that pollute when released into environment, changing the planet’s climate and harming ecosystems. This paper examines the Malaysian economy-wide implications for 1991 and 2000 of electricity generation for the emission of polluters like CO2, SO2 and NOx using input-output analysis. It allows
for the calculation of pollution effects throughout the economy as well as alternative electricity generation and performs scenario analysis of the Malaysian economy from 2000 to 2020.

Invited Speaker

To Trade or Not to Trade: The Endowment Effect and Manipulations of the Reference State

Jack Knetsch¹ and Wei-Kang Wong²

¹Simon Fraser University, Canada and ²National University of Singapore, Singapore

Recent reports suggest that the evidence of a disparity between people’s valuations of gains and otherwise commensurate losses may be due to experimental procedures used to elicit such observations. Evidence from new experiments, reported here, indicates that the presence or absence of the valuation disparity may instead be due to impacts of procedures on the reference states that people perceive when making their choices. Further, the controls on valuation procedures that appear necessary to eliminate the valuation disparity are not likely to be reflected in many important cases for which valuations are normally made.

Paper ID 248

The Wisdom of Simple Strategies – An Appreciation of Walrasian Behavior

Weihong Huang

Nanyang Technological University, Singapore

In an oligopolistic market where all firms produce the same product with the same technology and therefore same cost structure, a firm that behaves as a naive price-taker which ignores its impact on the market always perform no worse or even better than its rivals in equilibrium in term of profits achieved. This is true regardless of the types of strategies taken by its rivals. When the number of firms in the market is large, the naive price-taker may achieve higher profits in both relative and absolute terms. Such a paradoxical outcome is generic because it is simply the result of the assumption of the convexity of cost functions.
An Analysis of Privatization and Union Behavior

Tsai Chen Shen¹ and Fang Yueh Chen²
¹Tatung Institute of Commerce and Technology, Taiwan and ²National Chung Cheng University, Taiwan

This paper investigates the pricing strategies of system providers under varying degrees of compatibility in a hardware/software system industry. We consider duopolistic hardware manufacturers acting as two-sided platforms between software developers and consumers where the network of one side affects the utilities (or profits) of the other side. Our result shows that, in equilibrium when the degree of compatibility is sufficiently small, cross subsidization occurs in a way that the revenue derived from sales of software variety compensates the loss of hardware units sold compared to the incompatibility case. In addition, the higher the degree of compatibility, the greater is the extent of cross subsidization. Such cross subsidization also occurs when there is a sufficiently large population of consumers.

Will Investing in Health Stimulate Growth? Evidence from a Panel of OECD Countries

Paresh Kumar Narayan
Griffith University, Australia

The goal of this paper is to examine whether investing in health will stimulate growth. We study this important relationship for a panel of 5 countries, namely the USA, the UK, Japan, Switzerland and Canada. We model the relationship by augmenting the aggregate production function with health. Our modelling exercise follows three steps. In the first step, we investigate the integrational properties of the data and find them to be integrated of order one. In the second step, using five different panel cointegration tests, we find overwhelming evidence for cointegration among the three variables. In the third step, using five different long run panel estimators, we find a positive and statistically significant impact of per capita health expenditure on per capita GDP, implying that investing in health will stimulate growth.
Illegal Immigration in a Heterogeneous Society

Theodore Palivos and Chong K. Yip

University of Macedonia, Greece and Chinese University of Hong Kong

This paper examines the effects of illegal immigration in a neoclassical growth model with heterogeneous labor inputs. The economy on average must gain in the steady state as well as in transition in terms of per capita real income and consumption. However, the distribution effects of migration between skilled and unskilled workers are in general ambiguous. This is because all sources of income of both groups are affected and some of these changes tend to move income in opposite directions. The overall effect of an increase in immigration on the wealth of each group is ambiguous. However, calibration shows that the wealth distribution is worsened as the number of migrants increases. We next study a small open economy version of the basic model. With the real interest rate given at the world level, we can show that the asset holding of the skilled must rise while that of the unskilled can go on either direction. Nevertheless, if the compensation from the transfer of the penalty is not large enough to cover the loss due to the lower real wage for the domestic unskilled workers, then the wealth distribution of the domestic economy must worsen both in the steady state and in transition.

Efficiency, Growth and Convergence Across Chinese Provinces: A Non-Parametric Approach

Daniel J. Henderson, Kiril Tochkov and Oleg Badunenko

State University of New York at Binghamton, Texas Christian University, USA and European University Viadrina

Since the introduction of market reforms in 1978, the Chinese economy has exhibited phenomenal growth. However, the unprecedented economic boom at the national level conceals uneven growth patterns across provinces. The objective of this paper is to determine the sources of growth at the provincial level in China and to examine their impact on regional inequality. It differs from previous works in two major aspects. First, the study uses a nonparametric production-frontier approach
allowing a more comprehensive decomposition of growth into components attributable to technological change, technological catch up, and physical and human capital accumulation. Second, we examine inter-provincial convergence by analyzing the entire distribution of provincial output per worker and its dynamics over the sample period 1978-2000. Our results indicate that (1) the distribution of output per worker across Chinese provinces is multimodal with relatively few provinces in the upper modes and the majority of provinces in the larger “poor” mode. (2) Technological change is decidedly nonneutral, with virtually all progress taking place in the highly capital-intensive region of input space. (3) The phenomenal growth of Chinese provinces was mainly driven by physical capital accumulation, thus questioning the sustainability of their growth performance. (4) Capital deepening helped drive convergence between provinces. This was primarily driven by the initially poor coastal provinces catching up due to intensive capital deepening along with large efficiency improvements. (5) Minimal technological progress and human capital accumulation are key factors responsible for the regional disparities in China.

Paper ID 223

Social Transformation for the Asian Countries Through CSR

M.V.Shetty
Multimedia University, Malaysia

The researcher after discussions with luminaries in the field, review of literature and reflective thinking has summarized the issues related to introduction of CSR successfully. He classified them as key drivers, supportive drivers and propellants. The ten drivers are direction, team growth, clarity and simplicity, commitment to society, best practices, holistic networked growth, ethical practices & value oriented relationships and integrity & accountability. The supportive drivers of CSR are pro-active participation, motivation, dedication, cooperative approach and humanitarian outlook. The propellants to these supportive drivers are Social Concern and spiritual maturity or development (not religious one please) and selfless attitude. The steps to introduce this concept were outlined with a hypothetical model.
Paper ID 37

The J-Curve at the Industry Level: Evidence from Trade Between U.S. and Australia

Mohsen Bahmani-Oskooee and Yongqing Wang
University of Wisconsin, USA

We disaggregate the data between Australia and the U.S., and consider the trade of 108 industries. We discover short-run effects of currency depreciation on the trade balance in 64 industries. The long-run effects in 35 cases support J-Curve.

Paper ID 33

Retail Bank Interest Rate Pass-Through

Ilyas Siklar and Bilge Kagan Ozdemir
Anadolu University, Turkey

This paper intends to investigate the relationship between a money market rate and different banks’ retail lending rates by empirically examining the pass-through process between these interest rates in the banking system of Turkey. By doing so, we also aim to highlight the main factors that influence the price setting behaviour of banks. Since the process of capital account liberalization was completed by the end of 1989, we estimate our model for the period between January 1990 and December 2005. Our initial results, on the basis of a (vector) error-correction and vector autoregressive models suggest that the pass through from the market rate to lending rate is not complete for all lending rates. In addition, the adjustment speed of bank rates varies across bank classifications and alternative interest rate types.
Paper ID 58

Determinants of International Bank Lending from the Developed World to East Asia

Reza Siregar\(^1\) and Keen Meng Choy\(^2\)
\(^1\)IMF-Singapore Training Institute and University of Adelaide, Australia  
\(^2\)Nanyang Technological University, Singapore

We examine the various factors that can potentially explain the collapse and recovery in foreign bank lending from selected OECD countries to nine East Asian countries by applying a suitably extended gravity model of international trade to a panel dataset spanning the period of 1990–2004. In so doing, we are interested to answer the following questions: Do geographical distances and trade volumes between source and host countries account for the uneven distribution of bank loans to the region? Have generalized declines in economic risk, political risk and improvements in the quality of the bureaucracies in the region been responsible for the return of capital flows to East Asia? Why did loans by Japanese banks to East Asia experience a much more severe drop compared to the loans by US and UK banks during the post-1997 crisis period? Furthermore, what factors contributed to the most drastic declines in bank loans to two groups of economies: (a) the largest Southeast Asian economies, namely Indonesia and Thailand; and (b) the financial centers of East Asia, namely Hong Kong and Singapore? Our findings suggest that, beyond the traditional variables in the gravity equation, macroeconomic, institutional, and political factors help to shape the direction and magnitude of cross-border bank lending.

Paper ID 119

Optimal Monetary Policy under Imperfect Factor Mobility

Takeshi Kudo\(^1\), Tamon Takamura\(^2\) and Tsutomu Watanabe\(^3\)
\(^1\)Nagasaki University, \(^2\)Ohio State University  
\(^3\)Hitotsubashi University, Japan

In this paper, we construct a two-sector model with imperfect factor mobility and difference of price-adjustment speed between the sectors, and characterize the optimal response of monetary policy to an asymmetric productivity shock. Main results of our analysis are the following. First, a
policy objective trade-off between the output stability and the optimal allocation of resources exists. A slightly tighter monetary policy is optimal, in the sense of marginal costs equalization of the two objectives. Second, the higher the sensitivity of capital mobility to a difference of returns, the smaller the interest cut is needed. Third, if the capital is immobile between the sectors, the policy rule insisted by Aoki (2001) is the optimal response.

Paper ID 233

Monetary Policy Regimes: Exchange Rate and Inflation Dynamics in Pakistan

Safia Qamar Minahj¹ and Mohammad Nishat²
¹University of Karachi and ²Institute of Business Administration, Pakistan

This paper investigates the impact of monetary policy on the relationship between inflation and exchange rates in Pakistan. The openness of the emerging markets exposes the economy to foreign shocks, both commodity and financial markets, and introduces additional channels for policy. For controlling inflation in Pakistan, the central Bank's policy instrument such as interest rate, affects output first directly, but also indirectly through its impact on the exchange rate. While the direct interest channel will dampen investment and employment through the high cost of borrowing, as in a closed economy, the indirect channel will reduce net export demand by appreciating the exchange rate. So there must be a strong setup of possible interrelationship among the interest rate, exchange rate and inflation rate. Some other variables are also responsible to affect them. The purpose of this paper is to test the relationship between these variables based on monthly data from 1982 to 2006. The simultaneous equation technique is used to test this relationship. The study also distinguishes the relationship dynamics during different monetary regimes in Pakistan i.e. during financial reforms and non reforms periods.
**Paper ID 269**

**Genetic Tests and Intertemporal Screening in Competitive Insurance Market**

Winand Emons  
*University of Bern, Switzerland*

We consider successive generations of non-altruistic individuals carrying a good or bad gene. Daughters are more likely to carry their mother’s gene than the opposite one. Competitive insurers can perform a genetic test revealing an agent's gene. They may condition their quotes on the agent's or on her ancestors' genetic status. In equilibrium generation one is bribed to take the test with an unconditional quote. The insurer uses this information to profitably screen a finite number of generations of their offspring. The offspring of good gene carriers subsidize the tested generation.

**Paper ID 256**

**Ex Ante Efficiency Implies Incentive Compatibility**

Yeneng Sun  
*National University of Singapore, Singapore*

We show that when agents become informationally negligible in a large economy with asymmetric information, every ex ante efficient allocation must be incentive compatible. This means that any ex ante core or Walrasian allocation is incentive compatible. The corresponding result is false for fixed finite-agent economies with asymmetric information. An example is also constructed to show that the ex post version of the result does not hold. Furthermore, we show that the result is sharp in the sense that it will fail to hold if one relaxes any of the main assumptions, namely, strong conditional independence on the information structure, strict concavity on the utility functions, type independence on the utility functions and endowments.
**Paper ID 144**

**Delayed Dynamics in Heterogeneous Competition with Product Differentiation**

Akio Matsumoto\(^1\) and Ferenc Szidarovszky\(^2\)

\(^1\) Chuo University, Japan and \(^2\) University of Arizona, US

Heterogeneous duopolies with product differentiation and isoelastic price functions are examined in which one firm is quantity setter and the other is price setter. The reaction functions and the Cournot-Bertrand (CB) equilibrium are first determined. It is shown that the best response dynamics with continuous time scales and without time delays is always locally asymptotically stable. This stability can be however lost in the presence of time delays. Both fixed and continuously distributed time delays are examined, stability conditions derived and the stability regions determined and illustrated. The results are compared to Cournot-Cournot (CC) and Bertrand-Bertrand (BB) dynamics. It turns out that continuously distributed lags have smaller instabilizing effect on the equilibria than fixed lags, and both homogeneous (CC and BB) competitions are more stable than the heterogeneous competitions.

**Paper ID 244**

**Partial Compatibility and Cross Subsidization of Hardware/Software Systems in the Presence of Two-Sided Network Effects**

Dachrahn Wu and Mei-Hua Chang

National Central University, Taiwan

This paper investigates the pricing strategies of system providers under varying degrees of compatibility in a hardware/software system industry. We consider duopolistic hardware manufacturers acting as two-sided platforms between software developers and consumers where the network of one side affects the utilities (or profits) of the other side. Our result shows that, in equilibrium when the degree of compatibility is sufficiently small, cross subsidization occurs in a way that the revenue derived from sales of software variety compensates the loss of hardware units sold compared to the incompatibility case. In addition, the higher the degree of compatibility, the greater is the extent of cross subsidization. Such cross subsidization also occurs when there is an increasing size of consumers.
Evidence of Bubbles in the Singapore Stock Market

Gary Rangel\(^1\) and Subramaniam S. Pillay\(^2\)
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We tested for the evidence of stock price bubbles in the Singaporean stock market from January 1975 to January 2007. Four different tests were used namely excess volatility tests, unit root/cointegration tests, duration dependence tests, and the intrinsic bubbles model. All four tests indicate that stock price bubbles were present during the sample period. All tests results conform to the theoretical literature on asset price bubbles except for the results on the intrinsic bubbles model which concludes that Singaporean stock market investors under react to dividends. We find this result hardly surprising considering the anecdotal evidence which indicates the Singaporean stock market investors place more emphasis on capital gains as compared to dividends. A behavioral explanation for this result is also possible whereby investors buy past winners and sell past losers.

Determinants of Corporate Cash Holdings: A Case Study of Pakistan

Talat Afza and Sh. Muhammad Adnan
COMSATS Institute of Information Technology, Pakistan

Maintaining appropriate level of liquidity within the organization is fundamental towards the smooth operations of firms. Managers have a tendency to hold large proportion of firm assets in the form of cash and cash equivalents in order to reinvest on other physical assets, payments to stockholders and to keep cash inside the firm (Almeida et al, 2002). The level of cash a firm maintains is characterized by its policies regarding capital structure, working capital requirements, cash flow management, dividend payments, investments and asset management. In the literature, the impact of these factors is normally analyzed under the framework of Tradeoff Model, Myers’ Pecking Order Theory and Jensen’s Free Cash Flow Theory, e.g. Opler et al. (1999), Ozkan and Ozkan (2002), and Ferreira and Vilela (2004). The current study focuses on determining the
level of corporate cash holdings of non-financial Pakistani firms, across different firm sizes and different industries. Data for the period 1998-2005 for the firm size, growth opportunities, cash flow, net working capital, leverage, cash flow uncertainty and dividend payments are statistically analyzed to determine the impact of these factors on corporate cash holdings. The findings of the study conform with the earlier research and reflect that firm size, cash flow, cash flow uncertainty, net working capital, and leverage significantly affect the cash holdings of non-financial firms in Pakistan.

**Paper ID 157**

**Does Capital Requirement Induce Banks to Limit Risk-taking? Evidence from Indonesia**

Rasyad A. Parinduri and Yohanes E. Riyanto  
*National University of Singapore, Singapore*

We examine the impact of capital requirement on banks’ risk taking in Indonesia using dynamic panel models. We found some evidence that regulator could enforce capital requirement: banks increase their capital ratio when their CAR is lower than, or approaching the eight percent regulatory minimum. They do so primarily by raising capital, thus increasing the numerator of CAR. Banks whose capital and risk, hence CAR, are below their own CAR minimum threshold, however, prefer reducing risk rather than increasing capital to reach their own threshold.
Optimal Portfolio Selection in a Fuzzy Environment

K. Mangaraj and P. C. Padhan
Xavier Labour Relation Institute, India

In financial management, there has always been the problem of investment decisions with the objective of maximizing the expected return over a given time horizon. Such decisions are to be based on the evaluation of income expectations and the risk preferences of the individuals or institutions. Since the mean-variance approach of Markowitz, there has been a lot of works in this direction including the Multi-Criteria Decision-Making Approach. Also, portfolio selection problem under uncertainty can be transformed into a problem of decision-making in a fuzzy environment. This paper deals with a portfolio selection approach based on fuzzy goal programming for the securities which have been taken considering the $\beta$ coefficient of the linear regression model. A real life situation has been considered taking ten A-rated securities of Bombay Stock Exchange based on their latest market capitalization. From the findings of the study, it can be concluded that, the proposed method can be taken as a tool for selecting an optimal portfolio.

Subcontracting Relationship of Indian SMEs with a Global TNC: Do SMEs Gain and How?

R. Sudhir Kumar and M. H. Bala Subrahmanya
Indian Institute of Science, India

TNCs having their production bases in developing countries provide increasing opportunity for local SMEs to have subcontracting relationships with these TNCs. Even though some theoretical and a few empirical studies throw light on the nature of assistance provided by TNCs to local SMEs through subcontracting relationships, none of the studies so far analyzed the diversity of assistance that subcontracting SMEs of India would be able to obtain from a TNC using quantitative measurement. This paper probes the extent of linkages and diversity of assistance that Indian subcontracting SMEs would be able to obtain from a TNC customer based on primary data from SME subcontractors of a major TNC automobile
manufacturer. Statistical analysis of direct assistance revealed that SMEs receive more of product and purchase process assistance. The extent of assistance for their process related, marketing, human resource and financial requirements is low whereas the assistance for their organisational know-how requirements is moderate. The major indirect benefits received by these SMEs are knowledge transfer, business volume, superior work culture, reputation and quality improvement.

**Paper ID 128**

**Inclusive Financial Infrastructure and Emergence of SHGs: Lessons from India**

Ambika Prasad Pati  
*North Eastern Hill University, India*

Despite the presence of a broad based financial infrastructure rural India is still languishing under the paucity of adequate finance. Most particularly the very poor section of society is deprived of any form of finance from formal sources. As per the latest survey, 79 percent of rural population does not have any access to credit. The exclusion of such a vast segment of the population warranted a new form of intermediary known as self help groups. Over a period of more than a decade, they have been able to extent their outreach to more than 33 million households with an excellent track record of high recovery, less cost of intermediation and easy accessibility of financial services. Although in India they have started their operation a little late but recent years have shown a remarkable growth. However, high intra-regional disparity hinders the growth of a balanced and inclusive financial infrastructure. The emergence of SHG activities and their recent growth rate promises to be a gap filler in the existing financial infrastructure of the country. Coupled with high recovery around 90 percent and minimal operating cost, the sustainability of this financial intermediary seems to be very good and if nurtured properly by the state governments, NGOs, MFIs and banks, SHGs can be very effective intermediaries in transformation of rural society. Considering the potential of SHGs in transforming economies elsewhere an inclusive financial infrastructure is the sine qua non for the faster and sustainable growth of emerging India.
**Paper ID 229**

**Exploring Rural Markets for Private Life Insurance Players in India**

P.K. Gupta  
*Centre for Management Studies, India*

In spite of high urbanization in India, rural India still lacks in terms of availability of various financial products especially the risk products like insurance. Rural insurance statistics still indicates a significantly low penetration and poor density even after the privatization of insurance sector in 1999. Rural India offers a tremendous scope for insurers where the protection of human life and income generating assets is a matter of concern. Regulators have also tried to impose rural insurance obligations for the insurance companies. Except Life Insurance Corporation of India (LIC) representing the public sector, which has predominantly in existence and monopoly for decades, most of the private players have not been able to tap the opportunities in the rural life insurance market to a satisfactory level. This paper examines the present state of affairs of rural life insurance in India and attempts to explore the causes, which led to poor penetration of rural life insurance markets. A survey of the rural customers has been conducted to examine their perception and attitude towards buying life insurance products. This paper also analyzes the rural insurance marketing practices of private life insurance players in India and offers suggestive remarks for capturing the rural potential.

**Paper ID 214**

**Structure, Employment and Productivity Growth in the Indian Unorganized Manufacturing Sector: An Industry Level Analysis**

Raj Rajesh  
*Centre for Multi-Disciplinary Development Research, India*

The paper analyzes the size, growth and productivity performance of the unorganized manufacturing sector in India during 1978–79 to 2000–01. The study shows evidence of increase in size with a slowdown in the reforms period. Evidence indicates that the rate of growth varies widely across the two-digit industries but the variation in growth rate is smaller in the 90s. Textiles and machinery goods were the fastest growing segments of Indian unorganized manufacturing sector in the reforms period. Both
the partial factor productivity approach and total factor productivity approach reflect that the productivity of the sector has improved during the period under study. The decomposition of productivity growth into technical change and efficiency change reveals that the latter has been the major contributor to TFPG during the period under study. It is also found that capital intensity and wage rate are essential factors for augmenting labor productivity levels in the sector.

**Paper ID 110**

**Calculating Poverty Measures from the Beta Income Distribution**

Duangkamon Chotikapanich¹, William Griffiths², Wasana Karunarathne² and D.S. Prasada Rao³

¹Monash University, ²University of Melbourne and ³University of Queensland, Australia

Data for measuring poverty and income inequality are frequently available in a summary form that describes the proportion of income or mean income for each of a number of population proportions, ordered according to increasing income. While various discrete measures can be directly applied to data in this limited form, these discrete measures typically ignore inequality within each group. To overcome this problem Chotikapanich, Griffiths and Rao (2007) proposed a method of moments estimator for fitting a generalized beta distribution to limited data. They examined shifts in the income distributions and Lorenz curves for the period 1988 to 1993. In a subsequent paper [Chotikapanich et al (2007)], the authors estimated generalized beta income distributions for 91 countries and used these estimates to examine changes in global inequality over the period 1993 to 2000. In this paper we extend this work to the estimation of poverty measures. We show how values of poverty measures (the head-count ratio, the poverty-gap ratio, and measures suggested by Foster, Greer and Thorbecke, Watt, Atkinson and Sen) can be computed from the parameters of beta distributions. The methodology is illustrated using World Bank data for Bangladesh, Thailand, urban and rural India, and urban and rural China for two periods around 1993 and 2000. The sensitivity of poverty assessments and their changes to the poverty threshold is examined. Regional poverty is measured by treating the regional income distribution as a mixture of beta income distributions.
**Paper ID 151**

**Welfare Effects of Scrappage Subsidies**

Diya Mazumder\(^1\) and Ruhai Wu\(^2\)

\(^1\)Soka University of America and \(^2\)Florida Atlantic University, USA

This paper evaluates how information asymmetry in private automobile markets affects programs to accelerate vehicle retirement, also known as scrappage programs. We use a dynamic framework where agents have heterogeneous preference for car quality. Cars can either be new, or used. While all new cars have the same quality, used cars can be of high- or low-quality. The quality of a car is perfectly correlated with emissions. The goal of a scrappage program is to induce car owners to voluntarily scrap low-quality used cars. One key result is that in the presence of adverse selection a subsidy that maintains an active resale market unambiguously makes all types of consumers better off. However, if this option of implementing the subsidy does not exist, then the only other way to induce effective scrappage in our framework is to shut down the used car market. Welfare implications suggest that it might be better not to do anything rather than have a scrappage program such as the latter.

**Paper ID 86**

**Privatization of Higher Education in Malaysia**

G.Sivalingam

*Monash University Malaysia, Malaysia*

The study will trace the external factors influencing the liberalization, deregulation and privatization of higher education in Malaysia from 1970 to the present and to analyze the effects of liberalization and privatization on the modes of privatization and the internal restructuring of institutions of higher learning to increase efficiency, reduce costs and improve quality. In the 1970s, higher education was a small sector and was monopolized by the public sector and there was considerable public resistance to the establishment of private universities. The received knowledge was that returns to primary schooling were higher than returns to higher education and hence the shift of the public budget away from higher education to primary education. The impetus for the privatization of higher education came after the 1985-1986 economic crisis, which placed limits on the
expansion of the public provision of higher education. The privatization of higher education was to facilitate educational reform to produce quality graduates that could transform Malaysia from an agrarian economy to an industrialized and knowledge-based economy by 2020 for the primary purpose of enhancing the competitiveness of the Malaysian economy. The 1996 Private Higher Educational Institutions Act, 1996 and 1997 East Asian economic crisis further opened the country to elite foreign universities to increase the supply of quality graduates to increase Malaysia’s competitiveness. The liberalization of education therefore facilitated the process of globalization and Malaysia’s deeper integration with the world economy as a regional center of academic excellence and as an exporter of educational services.

**Paper ID 43**

**Attitudes and Low Sex Ratios – The Experience of Tamil Nadu, South India**

S. Mumtaj Begum and Christianna Singh  
*Lady Doak College, India*

Tamil Nadu in South India has always registered a low sex ratio but the significant decline in child sex ratio in recent years is a cause of concern. This paper examines the effect of socio-economic characteristics on the actual probability of having sons through a maximum likelihood logistic estimation for Madurai District, Tamil Nadu. The study uses field data collected from 300 samples drawn from varied strata within Madurai District. The attitude of preferring sons to daughters has economic and socio-cultural utility dimensions. From the economic utility dimension, sons are more likely than daughters to provide labour, earn wages, brings in a daughter-in-law to help with household work and give old age support for parents. From the socio-cultural utility dimension, in India’s patriarchal system of families, having at least one son is mandatory in order to carry on the familial line and to perform the last rites (religious rituals) of the parents, which alone will ensure peace to the departed souls. Many sons constitute additional status to families. It is observed that economic betterment affects negatively this broad measure of attitudinal bias in addition to mother’s education. State intervention to provide basic education and health facilities like schools and health centres, especially in rural areas would be effective in bringing about a change in attitudes to arrest the declining child sex ratio.
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Financial Globalization, Growth and Stability: Implications for Asia

Keynote Address by Professor Joseph Stiglitz
Nobel Laureate in Economics, 2001
Chairman, Brooks World Poverty Institute
PARALLEL SESSIONS

Please note the following changes to the parallel sessions which came too late to be incorporated into the conference booklet.

- **Session 1.2: Political Economics**
  Paper ID 102 to be presented at Session 3.1 instead.

- **Session 1.4: Public Economics**
  Paper ID 261 to be replaced by Paper ID 248:

  The Wisdom of Simple Strategies – An Appreciation of Walrasian Behavior
  **Weihong Huang** (Nanyang Technological University)

- **Session 1.5: Demography and Fertility**
  Paper ID 25 will not be presented:

  Dragon Children: Identifying the Causal Effect of the First Child on Female Labor Supply with the Chinese Lunar Calendar
  **James P. Vere** (University of Hong Kong)

- **Session 3.1: Corporate Finance**

  Paper ID 121 should have one more co-author.

  Role of Institutional Investors and Firm Performance in an Emerging Market
  **Choudhary Slahudin** (University of Management and Technology, Pakistan)
  **Talat Afza** (COMSATS Institute of Information Technology, Pakistan)

  Paper ID 111 has been rescheduled to Session 7.2 and will be replaced by Paper ID 102:

  On the Costs of Not Loving Thy Neighbour as Thyself: The Trade, Democracy and Military Expenditure Explanations Behind India-Pakistan Rivalry
  **S Mansoob Murshed** (University of Birmingham)

- **Session 3.5: Labour Markets and Migration**

  Paper ID 252’s title should be changed to:

  The Political Economy of Trade Unions
  **Rosalind Chew** (Nanyang Technological University)
• **Session 4.1: Economic Growth Centre (EGC) Session on Development and Income Distribution**

Paper ID 264 will not be presented:

Banking Sector Reform and Corporate Governance: The Bangladesh Experience  
**Thaikom Arun** (University of Manchester)  
**Masrur Reaz** (DfiD, Bangladesh)

and it will be replaced by Paper ID 73:

Asian Picture of High Growth and Poverty/Ill-Being – A Study of 40 Asian Economies  
**Neela Mukherjee** (Development Tracks, India)  
**Amitava Mukherjee** (UN ESCAP, Bangkok)

• **Session 5.3: Macroeconomic Theory**

Paper ID 220 should have one more co-author.

Information Lag and Stability for Continuous Dynamics  
**Yang Zhang** (University of Macau)  
**Weihong Huang** (Nanyang Technological University)

• **Session 6.6: Behavioural Economics**

Paper ID 248 to be replaced by Paper ID 261:

A Proposal for a “Hurry Up” Flow-Through Tax for Business Entities  
**Mark Gillen** (University of Victoria, Canada)

• **Session 7.2: Money and Banking**

Paper ID 233 will not be presented:

Monetary Policy Regimes: Exchange Rate and Inflation Dynamics in Pakistan  
**Safia Qamar Minahj** (University of Karachi, Pakistan)  
**Mohammad Nishat** (Institute of Business Administration, Pakistan)

and it will be replaced by Paper ID 111:

Ownership and Performance: Evidence from an Emerging Market  
**Subba Reddy Yarram** (University of New England, Australia)  
**Balasingham Balachandran** (Monash University)  
**G. Sivalingam** (Monash University in Malaysia)