



Draft

Economic Research Southern Africa Activity

April 2011 – March 2012

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Director's Statement

ERSA is a National Funded programme designed to both broaden the scope of economic research in South Africa, and to deepen its quality in order to ensure greater international exposure of economic research conducted in Southern Africa.

Toward this end ERSA publishes a Working Paper series, provides financial incentives to researchers to publish their papers in peer reviewed scholarly journals, run Workshop programmes in 5 core research areas, and provides extensive support to graduate students in economics in Southern Africa.

The transition to Section 21 Company Status is now complete, and the requisite governance, financial and administrative requirements have been complied with.

For the Working and Policy Paper series of ERSA, the number of published Working, Policy Papers and Occasional has now risen to 300.

Publications in peer reviewed journals associated with the ERSA paper series also continues to rise steadily. The number of published papers has now risen to 119, of which 69 have appeared in international journals, and 50 in South African journals.

Workshop activity continues across research groups. During 2011-2012, 8 workshops were held, and attendance at the workshops continues to represent a diverse representation of national institutions and demographics. A total of more than 154 institutions, of which 114 were South African, have been represented at ERSA workshops from the inception of the programme.

Under the ERSA scholarship scheme, 20 scholarships have been awarded to date, 17 for Masters, and 3 for PhD study.

During the course of 2011 – 2012, 3 Masters students, and 2 PhD students met the stipulated criteria for second (Masters) and third (PhD) years of study and funding of R80000 per student was approved by the scholarship committee and awarded to the respective students.

The administrative staff of ERSA have provided close and diligent support to the ERSA programmes, in a year in which a considerable additional burden from the transition to Section 21 Company status for ERSA was placed on them. My sincere thanks to them for their efficiency and dedication in performing their work.

Similarly, the contributions of both group convenors and the members of the editorial committee of ERSA, who provide substantial inputs of time to ensure the smooth functioning of the paper and workshop series of ERSA require the

strongest possible recognition, as well as the thanks of the economics community in South Africa who benefit from their continuing efforts.

Finally, the continuing financial support from the National Treasury, which has provided long term funding to the ERSA initiative, deserves ongoing thanks and recognition. There is no doubt in my mind that the strength of research activity in economics in South Africa would be far weaker at present, without the extensive support that National Treasury has extended to the profession over the past 6 years.

A handwritten signature in black ink, appearing to read 'J Fedderke', is centered within a light gray rectangular box.

Johann Fedderke
Director

Summary of Existing ERSA Mechanisms

Economic Research Southern Africa (ERSA) is a programme whose primary objectives are:

- To provide for the management of a research programme focused on growth, employment and broadening participation in the South African economy.
- To create a network of economic researchers based in South African universities and to deepen economic research capacity in Southern Africa.
- To expand and broaden economic research capacity in Southern Africa, train and mentor young economists and create a supportive network to link Southern African economic researchers.
- To draw a broad and representative range of South African economists into a programme of policy-oriented research, and to encourage independent and expert economic research.

ERSA employs five mechanisms designed to facilitate research activity in economics:

- The Research Group Programme
- A Working Paper and Policy Paper series.
- A Workshop Series.
- An Academic Visitorship programme.
- A programme of prizes for the best economics students in South Africa

In terms of governance, the Director of ERSA is accountable to the Board of ERSA for the use of the funding, and to the Academic Committee of ERSA for the academic content, direction and quality of its activities.

The ERSA Board

Membership of the ERSA Board consists of representatives of the donors to the ERSA programmes, the private sector and representatives of the academic community of economists in South Africa. Specifically, membership consists of:

- The Chair of the Board: Elias Masilela
- The Chair of the Academic Committee: John Luiz
- The Director of ERSA: Johannes Fedderke
- Private Sector Representative: Christopher Loewald
- Nominated Representative Academic Community: Waldo Krugell
- National Treasury: Ismail Momoniat

The Academic Committee

Membership of the Academic Committee is determined by professional standing, and in the case of the Director of ERSA in ex office terms.

Membership for the 2011/12 period was as follows:

- Tania Ajam, Financial and Fiscal Commission
- Meshach Aziakpono, GSB, University of Stellenbosch
- Sophia du Plessis, University of Stellenbosch
- Lawrence Edwards, University of Cape Town
- James Fairburn, University of KwaZulu-Natal

- Johannes Fedderke, Director: ERSA
- Jan van Heerden, University of Pretoria
- John Luiz, Chair, Graduate School of Business, UCT
- Alain Kabundi, University of Johannesburg
- Steve Koch, University of Pretoria
- Asrat Tsegaye, University of Fort Hare
- Nicola Viegi, University of Pretoria

Meetings of the Academic Committee in order to provide oversight functions over the work of ERSA, and in order to consider any proposals placed before Academic Committee occur in June and November of each calendar year.

Current ERSA Office Bearers

The ERSA programme does not currently have full-time staff, other than two administrators. It has a Director, and three Deputy Directors who contribute time to its activities on a part-time basis. Currently these office bearers are as follows:

- Director: Johannes Fedderke
- Deputy Directors:
 - Shakill Hassan
 - Jan van Heerden
 - Nicola Viegi
- Administrator: Gloria Halland
- Program Co-Ordinator: Yoemna Mosaval

The Research Group Programme

The objective of the ERSA research programmes are to identify leading researchers in core areas of research activity in economics in which there is critical mass, and to build networks of young scholars and emerging graduate students around the established researchers.

Currently, ERSA recognises five core research groups.

These have been in the following areas:

- Macroeconomics and Economic Growth
- Microeconomics, Labour and Inequality
- Trade and Industrial Organisation
- Economic History
- Public Economics

Research groups typically meet 2 times a year for workshop programmes relating to the presentation of new research findings, for networking and for the hosting of training workshops in new methodological departures in their areas.

The Working and Policy Paper Series

ERSA publishes two paper series. Publication is both in hard copy format, as well as in electronic form on the ERSA website, at www.econrsa.org.

The Working Paper series is intended to carry research output that is of the strongest possible academic quality.

The Policy Paper series emphasises findings that are policy relevant, but also aspire to highest possible standards of analytical rigour.

The key difference between the two series is thus principally one of the immediacy to policy relevance.

Completed papers are submitted to the ERSA office for evaluation. Evaluation is completed by the ERSA editorial team, consisting of the Director and Deputy Directors of ERSA, for assignment to referees. Referee's reports require author responses, and determine acceptance into the ERSA paper series.

Acceptance into the ERSA paper series is associated with a small financial incentive; publication in a peer reviewed learned journal is associated with an additional financial incentive, determined by the international academic standing of the journal in terms of the ISI rating service.

The Workshop Programme

One of the prime purposes of ERSA is to facilitate the exchange of ideas, in order to generate an acceleration of research activity.

An important mechanism designed to increase the interaction of academic and policy researchers will be the conduct of regular research workshops, in which invited participants present relevant research findings, identify new agendas for future work, and explore opportunities for collaboration.

The intention is to allow for workshops with three possible focuses:

- *Research Workshops*: Workshops whose primary purpose is to present research findings from both Southern African and international researchers that are "cutting-edge". The purpose of the workshops is to disseminate findings amongst researchers and policy makers, and to explore avenues for further work.
- *Training Workshops*: Workshops whose primary purpose is to disseminate new research techniques to as wide and inclusive an audience of Southern African researchers as possible. The primary objective of these workshops is to ensure that Southern African researchers remain abreast of international analytical innovations and research directions, and to disseminate national research strengths to as wide and inclusive a set of researchers as is feasible.
- *Networking Workshops*: Workshops whose primary purpose is to stimulate networks of researchers around research clusters, in order to realise critical mass in important research questions facing the Southern African region. Particularly important here is the inclusion of researchers from less active research institutions, in order to facilitate their participation in research initiatives and debates. Equally, the initiative is designed to include new researchers, and graduate students, in order to expose them to leading national and international researchers.

The opportunity to host workshops is open to any institution and/or researcher in Southern Africa. Applications are considered by the Academic Committee of ERSA, assessed for quality, and approved or rejected accordingly.

In addition to these workshops, the three research groups of ERSA each hold three networking workshops a year, in order to disseminate their research findings.

The Academic Visitorship Programme

The intention of the visitorship programme is to facilitate the interaction of South African researchers in economics with leading international scholars. In particular, the objective is to enable the transfer of human capital to South African researchers, as well as the collaboration of South African researchers with international scholars on research programmes of common interest.

The explicit intention of the academic visitorship programme is to:

- Attract leading international scholars.
- Facilitate academic exchange between Southern African institutions.

It is vital to note that the intention of the programme is not only to attract and interact with leading international scholars, but also to allow Southern African academics to increase the extent of their interaction, including in particular academics from historically disadvantaged institutions.

The Economics Prize Programme

As a means of incentivizing study in economics, ERSA introduced a mechanism for the recognition of student performance in the economics discipline.

To this end, ERSA grants monetary awards to the best two economics students in South Africa across all universities, in each year of study. The prizes nevertheless allow universities to recognize the best achievers in each year of study, and to motivate them to study further in economics.

Report from the Chair of the Academic Board 2011/2012

The consolidation of ERSA as an independent entity was largely concluded over the past year. The positions of the Deputy Directors have been further formalized through the advertising and filling of these posts, and there has been a smooth transition in almost all Working Groups in terms of the appointment of new conveners. As a result the Academic Committee continues to perform well in its duties of oversight over academic matters.

ERSA outputs as measured by working papers, workshops and in published journal articles have remained excellent and we see an increasing diversity of academics and practitioners making use of ERSA mechanisms.

Over the past year members of the Academic Committee visited all academic economics departments to ensure that we remain relevant to the economics community and that we are able to respond to their changing needs. The feedback that we received was very positive.

The Academic Committee continued its role in providing oversight of the academic management of ERSA activities. Again I would like to thank the members of the Committee for their tireless input. They have thereby demonstrated the ethos of ERSA of providing a network of scholarship and collegiality.

John Luiz
Chair Academic Committee
June 2012

1. The Workshop Programme

Introduction

The Workshop Programme of ERSA continues to be one of the most active and widely used mechanisms that ERSA makes available to researchers in Southern Africa.

During 2011-2012, ERSA has hosted a total of 8 workshops across a wide range of areas in economics. The workshops have served the purpose of research dissemination, of training, as well as networking amongst researchers and policy makers, in order to lower transactions and dissemination costs of new results. In addition, ERSA pays close attention to the need to include young graduate students and academics from universities that have not traditionally been central to research activity in economics in South Africa, in order to allow wider participation in core research and policy debates that concern economists.

The areas covered by the workshops have included the following:

- Public Economics: Health Equity, Health Reform and Policy Options
- Economic History: Colonial Data and Economic History Research
- Trade and IO: Contemporary Analysis and Quantitative Techniques for Competition Analysis
- Macro: Monetary Economics and Macroeconomic Modelling.

A full list of workshops, including their institutional affiliation, the location in which they were held, for the April 2011– March 2012 period, is listed in Table 1. A fuller description and report back for each workshop can be found in Appendix I.

Use of the workshop mechanism has been widespread by different universities in South Africa. Organisers of workshops have included the University of Cape Town, North West University, the University of Pretoria and the University of Stellenbosch. the University of the Witwatersrand amongst other contributors and participants.

International participation has been more widespread, and includes the following presenters:

1. Dr George Kopits, Monetary Council, National Bank of Hungary, and Central European University, Stockholm, Sweden – 4th Meeting of the Public Economics Workgroup, 3-4 May 2011
2. Caryn Bredenkamp, World Bank, Washington DC, USA - presented at the Health Equity Training workshop and Health Symposium on 30 June and 1 July 2011, respectively.
3. Adam Wagstaff, Research Manager, Human Development & Public Services team Development Research Group (DECRG) World Bank, Washington DC, USA - presented at the Health Equity Training workshop and Health Symposium on 30 June and 1 July 2011, respectively.
4. Heather McLeod, Integrated Healing, New Zealand presented at the Health Symposium on 1 July 2011.
5. Robert (Bob) Allen, Professor of Economic History, Nuffield College, United Kingdom, presented at the Colonial Data & Economic History Research in South Africa, in Johannesburg, from 2-4 November 2011.

6. Professor Toker Doganoglu, Department of Economics, University of Southern Denmark – Quantitative Techniques for Competition Analysis, 29-31 March 2012.

A total of 421 people attended the eight ERSA workshops of 2011/12. A breakdown of the attendance by demographic characteristics is provided in Table 1 below. What is clear is that attendance at conferences is not only diverse in terms of demographic characteristics, but also in terms of institutional affiliation as illustrated by Table 2.

Table 1 : Demographics of Workshop Attendance: April 2011 – March 2012

Name of Workshop	Date	Institution/ Place	WM	BM	WF	BF	Total
Fourth meeting: Public Economics Workgroup	May 11	Stellenbosch	37	16	11	5	69
Public Economics: Health Equity Training Workshop	June 11	Stellenbosch	20	13	16	11	60
Public Economics: Health Symposium	July 11	Stellenbosch	20	13	16	11	60
Economic History: Colonial data & Economic history research in South Africa	Nov 11	Cape Town	15	8	8	3	34
Trade and IO: Contemporary Analysis of International Trade	Jan 12	Potchefstroom	8	12	12	3	35
Macro: Second annual monetary economics & Macroeconomic Modelling workshop	Mar 12	SARB	23	24	5	8	60
Public Economics: Fifth Public Economics Workshop	Mar 12	Johannesburg	28	25	11	6	70
Trade and IO: Quantitative Techniques for Competition Analysis	Mar 12	Pretoria	9	15	4	5	33
Total			160	126	83	52	421

Table 2: Institutions represented at ERSA Workshops

ABSA
Accounting, University of Stellenbosch
Actuaries Without Frontiers
African Bank
Alexander Forbes
American Cancer Association
Applied Fiscal Research Centre (AFReC)
Association for Savings & Investment South Africa (ASISA)
Australian National University
Bank of Namibia
BANKSETA
Benguela Health Group
Black Sash
British Museum
Bureau for Economic Research (BER)
Cadiz Securities
Central European University
Clinton Foundation
Community of Mandela Rhodes Scholars
Competition Commission South Africa
Consultative Group on International Agricultural Research (CGIAR)
Council for Scientific & Industrial Research (CSIR)
De Nederlandsche Bank
Denmark
Departamento de Historia Economica e Instituciones Universidad Carlos III
Department of Agriculture, Fishing and Foresteries
Department of Agriculture, Forestry & Fishing
Department of Economic Development, Environment & Tourism, Mpumalanga
Department of Health
Department of Labour
Department of Mineral Resources
Department of Trade and Industry
Development Bank of South Africa
Development Policy Research Unit (DPRU)
Discovery
Discovery Financial Consultants
DNA Economics
East London Industrial Development Zone
Eastern Cape Department of Health
Econex
Edward Nathan Sonnenbergs Inc
ERSA
Ferere Hospital East London
Financial & Fiscal Commission
Financial Planning Institute
Financial Services Board
Free State Treasury

Frost & Sullivan
Gauteng Provincial Government
Genesis Analytics
Ghana Statistical Services
Harvard University
Health Systems Trust
Helen Suzman Foundation
Hollard Insurance
Human Sciences Research Council (HSRC)
Independent
INSTAT – Madagascar
International Development Research Centre, Canada
International Monetary Fund
J-PAL
KPMG
KZN Treasury
Liberty Life
London School of Economics
Lund University
Mapungubwe Institute for Strategic Reflection
Medical Research Council
Mercantile Law, University of Stellenbosch
Mosswick Investments
Mpumalanga Department of Finance
Mpumalanga Provincial Government
National Energy Regulators of South Africa
National Film and Video Foundation
National Treasury
National Youth Development Agency
Nelson Mandela Metropolitan University
Northern cape Provincial Government
Norwegian University of Science & Technology
Old Mutual
Oxford Policy Management
Oxford University
Oxford University Press
P&DM Wits
Pan-African Investment & Research Services
Parliament
Penn State University
Presidency Office
Provincial government WC
Quantec
Rand Merchant Bank
RBB Economics
Renaissance Capital
Resolve
Rhodes University

Royal Netherlands Institute of Southeast Asian and Caribbean Studies
SA Savings Institute
Sanlam
South African Government
South African Institute of International Affairs
South African National Treasury
South African Reserve Bank
South African Revenue Services
Southern African Labour & Development Research Unit (SALDRU)
Standard Bank
Stanlib
Stats SA
Stellenbosch Business School
Stockholm University
Thebe Employee Benefits
Trade and Industrial Policy Strategies
Transunion
Treatment Action Campaign
Tshwane University of Technology
United States Census Bureau
Universidad de la Republica
Universite de Montreal
Universitie Cheikh Anta Diop
University Kyoto
University of Alberta
University of Arizona
University of California, Berkley
University of Cape Town
University of Cape Town (Historical Studies)
University of Cape Town: Graduate School of Business
University of Dar es Salaam
University of Fort Hare
University of Frankfurt
University of Glasgow
University of Gothenburg
University of Guanajuato – Mexico
University of Helsinki
University of Johannesburg
University of KwaZulu Natal
University of Limpopo
University of Pretoria
University of South Africa
University of Southern Denmark
University of Stellenbosch
University of the Free State
University of the North West
University of the Western Cape
University of the Witwatersrand

University of the Witwatersrand: Graduate School of Business
University of Tilburg
University of Toulouse 1
University of Tuebingen
University of Venda
University of Zululand
Utah Valley University
Utrecht University
Walter Sisulu University
Western Cape Department of Health
World Bank

2. The Working and Policy Paper Series

The ERSA Working and Policy Paper series remain very active, and constitutes a core element of the ERSA initiative to stimulate the range and depth of research in economics in Southern Africa.

Currently the Working Paper and Policy Paper series function through the submission of completed papers to ERSA, for consideration by the Editorial Committee of ERSA. The Editorial Committee consists of the Director and two Deputy Directors of ERSA. The ERSA Director and Deputy Directors meet telephonically once a week to discuss submissions and to decide on reviewers and status of the papers.

Submissions are subject to standard academic peer review, and acceptance into the series results in a R 5000 financial pay-off. Subsequent publication in peer reviewed journals attracts an additional financial reward, on a nonlinear scale depending on the professional status of the journal accepting the paper. Journal rankings are provided by the ISI Thomson Web of Science impact factor adjusted ranking according to the total citations criterion, which is an international standard for journal rankings in economics.

The core objective of the mechanism is the provision of a clear incentive mechanism to researchers to both increase output, and to attempt to place their work in as highly placed a journal internationally as is feasible.

The rate of publication of working papers still remains at a satisfactory level. In the last annual report, ERSA was able to report the publication of 214 Working Papers and 20 Policy Papers. Since April 2011 to date, this has increased to 279 Working Papers, and 20 Policy Papers.

The distribution of the topics of papers is wide ranging, and represents the general coverage of the ERSA mechanism.

What is especially pleasing about the papers appearing in the ERSA series is that they are meeting a high success rate in terms of publication in peer reviewed journals. To date, 119 out of the 299 Working and Policy Papers have been published, with a number of additional papers forthcoming. Thus the publications rate currently stands at 40%. Also noteworthy is that of the published papers, 69 have appeared in international journals, and 50 in Southern African journals, giving a 72% proportion for international as opposed to local publication rate.

The evidence is thus consistent with stated objective of ERSA to increase the publications profile of South African economists, and in particular to raise the international profile of Southern African based publications in economics. Given the structure of the financial incentive mechanisms surrounding the Working and Policy Paper series, this is not altogether surprising.

Table 3 : ERSA Working Paper – Publication Breakdown

Number	Author/s	Title	Journal	Ranking
01	J Fedderke, C Kularatne & M Mariotti	Mark-up Pricing in SA Industry	2007, Journal of African Economies	International
02	M Demertzis & N Viegi	Inflation Targets as Focal Points	2008, International Journal of Central Banking	International
03	S Hassan	Optimal timing of defections from price-setting cartels in volatile markets	2006, Economic Modelling,	International
05	J Fedderke, J Luiz & R de Kadt	Using Fractionalization Indexes: deriving methodological principles for growth studies from time series evidence	2008, Social Indicators Research,	International
06	L Edwards & A Behar	Trade liberalisation and labour demand within SA manufacturing firms	2006, Studies in Economics and Econometrics,	National
12	J Fedderke & A Romm	Growth Impact and Determinants of Foreign Direct Investment into SA, 1956-2003	2006, Economic Modelling,	International
15	J Fedderke & J Luiz	The Political economy of institutions, stability and investment: a simultaneous equation approach in an emerging economy – the case of SA	2008, Journal of Development Studies,	National
18	J Fedderke & P Flamand	Macroeconomic News 'Surprises' and the Rand/Dollar Exchange Rate	2005, Studies in Economics & Econometrics,	National
21	K Pauw & L Edwards	Evaluating the general equilibrium effects of a wage subsidy scheme for SA	2006, South African Journal of Economics,	National
22	J Fedderke & J Luiz	Fractionalization and long-run economic growth: Webs and direction of association between the economic and the social – SA as a time series study	2007, Applied Economics,	International

23	J Fedderke & G Szalontai	Industry concentration in SA manufacturing industry: trends and consequences, 1972-96	2008, Economic Modelling,	International
24	S Koch	The AID and MAID Systems: South African Household Data Pitfalls	2007. Studies in Economics and Econometrics,	National
26	J Fedderke	An analysis of industry concentration in SA manufacturing, 1972-2001	2009, Applied Economics	International
27	J Fedderke	Technology, human capital and growth	2006, SARB, Banco de Mexico and the People's Bank of China (eds). Economic Growth, Proceedings of a G20 seminar held in Pretoria, SA on 4 – 5 August 2005.	International
28	J Kibambe & S Koch	South African Hospital Efficiency: DEA Applied to a Gauteng Sample of SA Public Hospitals	2007, South African Journal of Economics	National
29	J Fedderke & J Luiz	Does human generate social and institutional capital? Exploring evidence from time series data in a middle income country	2008, Oxford Economic Papers	International
32	A Zimper	A fixed point characterization of the dominance solvability of lattice games with strategic substitutes	2007, International Journal of Game Theory	International
33	W Simbanegavi	Informative Advertising: Competition or Cooperation?	2009, Journal of Industrial Economics	International
36	Z Bogetic & J Fedderke	Forecasting investment needs in SA's Electricity and Telecom Sectors	2006, South African Journal of Economics	National
38	P Burger & M Marinkov	The SA Phillips curve: How applicable is the Gordon model?	2008, South African Journal of Economics	National
39	J Fedderke & Z Bogetic	Infrastructure and growth in SA: Direct and indirect productivity impacts of 19 infrastructure measures	2009, World Development	International

40	A Guerdjikova and A Zimper	Flexibility of choice versus reduction of ambiguity	2008, Social Choice and Welfare	International
42	N Samouilhan	The relationship between international equity market behaviour and the JSE	2006, South African Journal of Economics	National
43	J Fedderke	Industry structure and labour markets flexibility in the SA manufacturing sector: A time series and panel data approach	2011, Economic Modelling	International
47	U Schmidt & A Zimper	Security and potential level preferences with thresholds	2007, Journal of Mathematical Psychology	International
49	N Samouilhan	The Price of Risk on the JSE	2007, South African Journal of Economics	National
50	A Kabundi	Synchronization between SA and the US: A structural dynamic factor analysis	2009, South African Journal of Economics	National
51	R Gupta	Forecasting the SA Economy: A DSGE-VAR approach	2010, Journal of Economic Studies	International
52	E Muchapondwa, F Carlsson & G Kohlin	Can local communities in Zimbabwe be trusted with wildlife management?: Evidence from contingent valuation of elephants	2008, South African Journal of Economics	National
54	P Aghion, M Braun & J Fedderke	Competition and productivity growth in South Africa	2008, Economics of Transition	International
55	J Geldenhuys & M Marinkov	Robust estimates of Okun's Coefficient for South Africa	2007, South African Journal of Economics	National
56	D Lam, C Ardington & M Leibbrandt	Schooling as a lottery: Racial differences in school advancement in urban South Africa	2010, Journal of Development Economics	International
57	D Casale & D Posel	Bridewealth and the marital earnings premium for men	2010, Economic Dev & Cultural Change	International

58	A Zimper	Half empty, half full and the possibility of agreeing to disagree	2009, Journal of Economic Behaviour and Organization	International
59	C Ardington, A Case and V Hosegood	Labor supply responses to large social transfers: longitudinal evidence from South Africa	2009, American Economic Journal, Applied Economics	International
60	W Simbanegavi	Exchange Rates and Product Variety	2009, International Journal of Finance and Economics	International
61	D Posel & C Muller	Is there evidence of a wage penalty to female part-time employment in South Africa?	2008. South African Journal of Economics	National
63	D Hodge	Economics, realism and reality: a comparison of Maki and Lawson	2008, Cambridge Journal of Economics	International
64	N Pillay	Theory consistent formal risk measures	2010, Oxford Bulletin of Economics and Statistics	International
65	W Akpalu, E Muchapondwa & P Zikhali	Can the restrictive harvest period policy conserve mopane worms in Southern Africa? A bio-economic modelling approach	2009, Environment and Development Economics	International
67	M Bittencourt	Inflation and financial development: Evidence from Brazil	2010, Economic Modeling	International
68	R Gupta & J Uwilingiye	Measuring the welfare cost of inflation in South Africa	2008, South African Journal of Economics	National
72	H Amusa	Fiscal Illusion at the local sphere: An empirical test of the flypaper effect using SA municipal data	2008. South African Journal of Economics	National
75	S Muller	Begging the question: Permanent Income and Social Mobility	2010, Economic Letters 108: 291-295	International
76	C Ardington, M Leibbrandt	Orphanhood and Schooling in SA: Trends in the vulnerability of orphans between 1993 & 2005	2009, Economic Development and Cultural Change	International
77	A Hofmeyr, J Burns and M Visser	Income Inequality, Reciprocity and public good provision: An experimental analysis	2007, South African Journal of Economics	National

78	J Fedderke & Simbanegavi	Price Elasticities and Pricing Power in Emerging Markets: The Case of Petrochemical-Derived Plastics in South Africa	2012, South African Journal of Economics	National
79	M Aziakpono	Exchange rate pass-through to import prices in SA	2008, South African Journal of Economics	National
81	R Gupta & E Ziramba	Costly tax enforcement and financial repression	2008, Review of Banking, Finance and Monetary Economics	International
83	A Hofmeyr	Social networks and ethnic niches: An econometric analysis of the manufacturing sector in SA	2010, South African Journal of Economics	National
84	L Bonga-Bonga	Modelling the rand-dollar future spot rates: The Kalman Filter approach	2008, African Finance Journal	National
86	M Bittencourt	Macroeconomic performance and inequality: Brazil 1983-1994	2008, The Developing Economies	International
89	W Boshoff & J Fourie	Ship Traffic and the economy of the Cape Colony: 1652-1794.	2010, European Review of Economic History	International
90	E Muchapondwa	Estimation of the aggregate agricultural supply response in Zimbabwe: the ARDL approach to cointegration	2009, Afjare	International
91	W van der Merwe & J Burns	What's in a name? Racial identity and altruism in post-apartheid South Africa	2008, South African Journal of Economics	National
92	A Zimper	Asset pricing in a lucas 'fruit-tree' economy with the best and worst in mind	2011, Journal of Economic Dynamics & Control	International
95	J Luiz	Perceptions regarding entrepreneurship in an emerging and culturally diverse economy: A SA survey	2011, SAJEMS	National
97	A Zimper	Revisiting independence and stochastic dominance for compound lotteries	2008, B E Journal of Theoretical Economics	International
98	L Bonga-Bonga	National savings and fiscal policy in SA: An empirical analysis	2009, Acta Academica	National

101	M Bittencourt	Macroeconomic performance & inequality: Brazil 1983-1994	2009, The Developing Economies	International
102	E Giovannetti	Asymmetry and discrimination in internet peering: evidence from the LINX	2009, International Journal of Industrial Organization	International
103	S Das	Adaptive Bayesian Analysis for Binomial Proportions	2009, South African Statistical Journal	National
104	A Zimper	On attitude polarization under Bayesian learning with non-additive beliefs	2009, Journal of Risk and Uncertainty	International
109	E Gilbert	Does survivorship bias really matter? An empirical investigation into its effects on the mean reversion of share returns on the JSE securities Exchange (1984-2006)	2010, Investment Analysts Journal, Vol 72	National
111	J Fedderke, & W Simbanegavi	SA Manufacturing industry structure and its implications for competition policy	2008, Journal of Development Perspectives	National
113	D Casale & D Posel	Unions and the gender wage gap in South Africa	2010, Journal of African Economies	National
115	L Rangasamy	How persistent is SA's inflation	2009, South African Journal of Economics	National
116	W Krugell	Local municipalities and progress with the delivery of basic services in SA	2010, South African Journal of Economics	National
118	J Luiz	Factors influencing foreign direct investment of SA financial services firms in sub-saharan Africa	2009, International Business Review	International
119	D Hodge	Growth, employment and unemployment in SA	2009, South African Journal of Economics	National
122	L Bonga Bonga	Forward exchange rate puzzle: joining the missing pieces in the rand-US dollar exchange market	2009, Journal of Studies in Economics and Econometrics	National
130	W Akpalu	Ostracism and common pool resource management in a developing country: young fishers in the laboratory	2011, Journal of African Economies	International
135	E Muchapondwa	Assessing the viability of small-scale wind turbines in different scenarios in SA	2011, Journal of Energy in Southern Africa	National

139	R Seymore	The impact of an electricity generation tax on the SA economy	2010, Journal of Studies in Economics and Econometrics	National
141	J van Heerden	Is Water Shedding Next?	2009, Water SA	National
142	S Koch	Dynamic Health Care Decisions and Child Health in SA	2010, Journal of Income Distribution	International
144	F Gwenhamo	Foreign direct investment in Zimbabwe: the role of institutional factors	2011, South African Journal of Economics	National
146	M Aziakpono	Dynamic returns linkages and volatility transmission between SA and the world market equity markets	2009, Journal of Studies in Economics and Econometrics	National
147	H Bezuidenhout	A regional perspective on Aid and FDI in Southern Africa	2009, Int Adv Econ Res	International
149	A Kabundi	Could we have predicted the recent downturn in the South African housing market?	2009, Journal of Housing Economics	International
150	J Luiz	Evaluating the performance of SA economics departments and economists	2009, South African Journal of Economics	National
153	D Posel & D Casale	Sex ratios and racial differences in marriage rates in South Africa	2011, Applied Economics	International
154	S Hassan	In sample predictability does not imply opportunities for profitable trading in real time: evidence from the cross-section of SA common stocks	2011, Australian Journal of Management	International
155	M Reid	Loud and Clear? Can we hear when the SARB speaks?	2010, South African Journal of Economics	National
156	S Hassan	The equity premium and risk-free rate puzzles in a turbulent economy: evidence from 105 years of data from SA	2010, South African Journal of Economics	National
157	Er Danan, A Guerdjikova & A Zimper	Indecisiveness aversion and preference for commitment	2011, Theory and Decision	International
160	D Igan, A Kabundi et al.	Three cycles: Housing, credit and real activity	2011, Journal of Housing Economics	International

161	U Schmidt & A Zimper	The harmonic sequence paradox reconsidered	2011: British Journal of Mathematical and Statistical Psychology	International
162	J Luiz & R Fidal	An economic analysis of sports performance in Africa	2011, International Journal of Social Economics	International
165	J Fedderke	Measuring institutions: indicators of political rights, property rights and political instability in Malawi	2011, Social Indicators Research	International
173	J Rossouw, V Padayachee & A Bosch	Inflation expectations and inflation credibility revisited: a multinomial analysis of SA data	2011, SAJEMS	National
178	R Hasson	Climate change diasaster management: Mitigation and adaptation in a public goods framework	2010, Ecological Economics	International
181	D Casale & D Posel	English language proficiency and earnings in a developing country: the case of South Africa	2011, The Journal of Socio-Economics	International
182	S Hosking	The value of the trout fishery at Rhodes, North Eastern Cape, Sa: A travel cost analysis using count data models	2011, Journal of Environmental Planning and Management	International
183	M Sarr et al	On the Looting of Nations	2010, Public Choice	International
184	J Fourie	A history with evidence: Income inequality in the Dutch Cape Colony	2011, Economic History of Developing Regions	International
187	Z Chinzara	Macroeconomic uncertainty and emerging market stock market volatility: the case for South Africa	2011, South African Journal of Economics	National
189	R Naraidoo & I Paya	Forecasting monetary policy rules in South Africa	2011, International Journal of Forecasting	International
195	N Monkam	Mobilizing tax revenue to finance development: The case of property taxation in francophone Africa	2011, Public Finance & Management, Vol 11	National
203	R Inglesi-Lotz & J Blignaut	SA's electricity consumption: A sectoral decomposition analysis	2012, Applied Energy	International

205	D Posel	Gendered trends in poverty in the post-apartheid period: 1997-2006	2011, The Journal of Socio-Economics	International
208	A Zimper	Optimal liquidity provision through a demand deposit scheme: The Jacklin critique revisited	2012, German Economic Review	International
210	D Casale	Relative standing and subjective well being in Sa, the role of perceptions expectations and income mobility	2011, Social Indicators Research	International
212	S Koch	An analysis of Specialist Surgeons and their practices	2011, SAJEMS	National
215	F Tregenna	What are distributional implications of halving poverty in South Africa when growth alone is not enough?	2011, Applied Economics	International
217	H Ngalawa	Dynamic effects of monetary policy shocks in Malawi	2011, South African Journal of Economics	National
221	D Liu	Business Cycle and Bank Capital Regulation: Basel II Procyclicality	2012, Economic Modelling	International
227	K Brick et al.	Risk Aversion: Experimental Evidence from South African Fishing communities	2012, American Journal of Agricultural Economics	International
232	M Kohler	Measuring the impact of trade finance on South African export flows	2011, SAJEMS	National
237	K Behrens & A Pholo-Bala	Do rent seeking and interregional transfers contribute to urban primacy in sub-saharan Africa?	2011, Papers in Regional Science	International
238	G Verhoef	Global since Gold: The globalization of conglomerates: explaining the experience from SA: 1990-2009	2011, The Globalization of South African Conglomerates, 1990-2009	National
239	M du Preez et al	The recreational value of beaches in the Nelson Mandela Bay area, South Africa	2011, J Stud Econ Econometrics	National
240	A Zimper	Do Bayesians learn their way out of ambiguity?	2011, Decision Analysis	International
243	W Akpalu	Demand for cooking fuels in a developing country: To what extent do taste and preferences matter?	2011, Energy Policy	International

248	S Koch	Does one size fit all? Heterogeneity in the valuation of community forestry programmes	2011, Ecological Economics	International
258	M du Preez et al	Measuring the indirect costs associated with the establishment of a wind farm: An application of the contingent valuation model	2012, Journal of Energy in Southern Africa	
Policy Papers				
01	J Fedderke	From Chimera to Prospect: SA Sources of and Constraints on Long Term Growth, 1970-2000	2006, in Borat, H. and Kanbur, R., eds., Poverty and Policy in Post Apartheid South Africa, HSRC Press	National
02	S Koch & M Peet	Non-tariff Barriers Faced by SA Firms: Are there any Lessons?	2007, South African Journal of Economic and Management Sciences	National
07	Z Bogetic & J Fedderke	International Benchmarking of South Africa's Infrastructure Performance	2006, Journal of Development Perspectives	International
10	C van Walbeek	Official revisions to SA National accounts data: magnitudes and implications	2006, South African Journal of Economics	National
13	Evan Blecher	The impact of tobacco advertising bans on consumption in developing countries	2008, Journal of Health Economics	International

Statement by the Chair of the ERSA Editorial Committee

The Board
ERSA
Dear Sirs/Madams

Prof JH van Heerden
School of Economic Sciences
University of Pretoria
19 May 2012

ERSA Working Paper Series – April 2011 – March 2012

On behalf of the editorial committee I would briefly like to report on the state of the ERSA Working Paper Series (hereafter "The WPS").

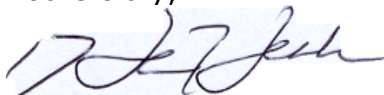
Since the start of the WPS about four years ago to date, we have accepted and published 279 papers and 20 policy papers. The popularity of the WPS has been growing, and this is clear from the fact that in the last year there were 124 papers received and sent out for review. Five of these were accepted unconditionally, eighteen were rejected outright, while most others were sent back with comments to be revised and resubmitted. During the said year 63 working papers were published.

The editorial committee consisting of Johann Fedderke from Penn State University, Nicola Viegi and myself, Jan van Heerden from University of Pretoria, correspond on a weekly basis via email and telephone conference to discuss new and revised submissions, referee reports, and other related matters. We work by consensus and decide to which referees all papers should be sent, and how to respond to the referee reports.

The WPS has become the premier series to publish the first versions of significant research articles, and the fact that it is peer reviewed, helps authors to prepare their work for publication in academic journals. The standard of the papers has definitely improved during the last year, and we find fewer submissions of an obvious low standard.

In conclusion, the ERSA Working Paper Series has become very well known in and around South Africa and will continue to encourage more and better research in Economics in the future.

Yours truly,



Jan van Heerden
Professor of Economics

3. ERSA Sponsored Visitors

ERSA provides funding for international visitors to attend both ERSA Workshops and stand alone visits to South African academic institutions.

See below a list of international visitors to ERSA Workshops in the 2011 – 2012 period.

1. Dr George Kopits, Monetary Council, National Bank of Hungary, and Central European University, Stockholm, Sweden – 4th Meeting of the Public Economics Workgroup, 3-4 May 2011
2. Caryn Bredenkamp, World Bank, Washington DC, USA - presented at the Health Equity Training workshop and Health Symposium on 30 June and 1 July 2011, respectively.
3. Adam Wagstaff, Research Manager, Human Development & Public Services team Development Research Group (DECRG) World Bank, Washington DC, USA - presented at the Health Equity Training workshop and Health Symposium on 30 June and 1 July 2011, respectively.
4. Heather McLeod, Integrated Healing, New Zealand presented at the Health Symposium on 1 July 2011.
5. Robert (Bob) Allen, Professor of Economic History, Nuffield College, United Kingdom, presented at the Colonial Data & Economic History Research in South Africa, in Johannesburg, from 2-4 November 2011.
6. Professor Toker Doganoglu, Department of Economics, University of Southern Denmark – Quantitative Techniques for Competition Analysis, 29-31 March 2012.

Stand alone visits are intended to initiate an exchange of leading research methodologies between SA based researchers and leading international academics. Ideally, the purpose is to build long-term collaboration research activity between SA and international researchers.

4. ERSA Economics Prizes

As a means of incentivizing study in economics, ERSA introduced a mechanism for the recognition in student performance in the economics discipline.

To this end, the Academic Board introduced monetary awards to the best two economics students in South Africa across all universities, in each year of study. While very moderate in amount, the prizes nevertheless allow universities to recognise the best achievers in each year of study, and to motivate them to continue studying further in economics.

The prizes are R1000 for the first placed student, and R800 for the second placed student.

The following universities have applied for and are being awarded the prizes for their top students and are also given a donation of R3500 towards hosting a departmental social function to honour their top students. Details of student prize winners are listed in Table 4.

Table 4: Prize Winning Students

Institution	Placing	First Year	Second Year	Third Year	Honours	Masters	PhD
Monash U	First Place	R.J. Albuquerque	A.D.D.N. Mouzinho	S. Dhanji			
	Second Place	G. Amadhu	G.A. Mcloughlin G.F. Kessy	T. Lunenburg			
Nelson Mandela Metropolitan U	First Place	L. Taonezvi	M.B. Nicholls	F.F. Mlambo	B.K. Phelps	T.W. Ndavi	N. Kaseke
	Second Place	S. Ndlovu	P.G.F. McEwan	D.S. Gate	S. Klaas	L. Cloete F. Nyika	D.E. Lee
North West U	First Place	N. Smit	E. Voogt	J.A. Scholtz	G. Bird	C. Claassen	
	Second Place	V. Labuschange	A. Smith C. Kasselmann	J.M. Shrimpton	C. Booysen	A.N. Holemans	
Tshwane U of Technology	First Place	M.C. Sgudla	M.L. Mfati	J. D. Mabulango	P.P. Mashamaite		
	Second Place	M.P. Malahela	S.M. Mangolela	M.D. Mashianoke	T.J. Dlamini		
U Cape Town	First Place	C. Andrews	S. Payne	N. Lloyd	J. Kennedy	V. Sokolovski	N. Branson
	Second Place	G. Geffen	M. Newman	C. Shenkar	E. Fry	M. MacDevette	C. Mphuka
U Fort Hare – Alice	First Place	N. Rukuni	L. Ntshika	F. Hlabanu	T. Chitenderu		
	Second Place	J.R. Chiwara	B.T. Maoya	G. Toringepi	O. Nyahokwe		
U Fort Hare – E.L	First Place	O.T. Murire	N.N. Dube	K. Wade	P. Chipote		
	Second Place	O.N. Muchenje	D. Dewing	S. Alexander	R. Murapa		
U Free State	First Place	C. Venter	M. Scheepers		A. Meggersee	C.T. Lee	
	Second Place	D. Nicolov	M. Maandemela		R. Meggersee	E. Niishinda	
U Johannesburg	First Place	L. Langer	P.J. Venter	M.A. Home	P.M. Chappel	L. Fourie	
	Second Place	C. Jansen v Rensburg M. Munetsi T. Mupanduki K.V. Selepe	M. Ngobeni	T. Alberts	M.T. N. Nkhonjera	M. Ntene	
U Limpopo	First Place	M.E. Boshielo	K.J. Ledwaba	S. Mbewe	M.P. Bele		
	Second Place	M.L. Tema	K.P. Mabusela	M.P. Mabalala	A.A. Kutu		

U Pretoria	First Place	C. Du Plessis	L.A. Kruger	A.B. Trembling	J. Dlamini	F. Hartley	R. Inglesi-Lotz
	Second Place	B. Pretorius	K. Padayachee	M.L. Combrinck	W. Nyakabawo	T. Alton	E. Sekyere
U Stellenbosch	First Place	N. Lester	A.J. Doyle	R. Meyer	D. Marais	H. v Broekhuizen	
	Second Place	M.C. Ball	A.A. Plantinga	C.F. Kreuser	W. Du Plessis	N. Katzke	
U Western Cape	First Place	A. Musa	F. Chiparawasha	R. Flowers	M.M. Petersen	S.C. Mujuta	
	Second Place	R.P. Munetsi	I. Musa	B. Plaatjes	E. Baidoo	S. Murozvi	
Wits U	First Place	J. McFarlane	Z. Kretzmer	N. Dreyer	S. Drury	T. Naughtin	
	Second Place	A. Makuyana	N. Kruger	M. Ngarachu	Z. Asmal	J. Hartford	

5. ERSA Economics Scholarships

While the ERSA Scholarship programme is currently in abeyance, 5 students from the 2009/2010 co-hort, were successful in meeting the criteria for a second and/or third year of study, and payment of R80000 per student was approved by the scholarship committee consisting of, Jan van Heerden (chair), Meshach Aziakpono, John Luiz and Sophia du Plessis.

See below list of 2nd and 3rd year Scholarship Awardees for 2011-2012.

Table 5: ERSA 2nd year Scholarship Awardees

Student Name	Institution	Course
Kristoff Potgieter	2 nd Year University of Cape Town	Master's degree
Rahma Mohamed	2 nd Year University of Cape Town/ Tilburg	Master's degree
Nondumiso Gumede	2 nd Year Rhodes University	Master's degree
Lauren Tavener-Smith	2 nd year University of Stellenbosch	PhD
Justin Visagie	3 rd Year University of Michigan	PhD

Appendix I: Workshop Reports: April 2011 – March 2012

1. 4th Public Economics Workshop: 3-4 May 2011, STIAS, Stellenbosch, Cape Town - Workshop convenors: Ronelle Burger and Krige Siebrits

Selecting themes for the workshop

Based on the discussion of the members at the third public economics workshop, the committee decided to focus the fourth public economics workshop on two pressing South African public policy issues, namely the need for sustainable public finances and job creation (see appendix for a description of these problems as outlined in our call for papers).

Recruiting speakers

The committee formulated and distributed a call for papers around these themes to all ERSA members. To ensure that our response would guarantee depth in these areas of expertise, we compiled a list of experts in the workshop theme areas (with their email addresses) and asked Yoemna to update the ERSA data base. In addition, we contacted a number of experts personally/directly to ask them to serve either as speakers or as discussants. We found that at this stage where this working group is still building its brand, it was important to contact prospective speakers personally. I would estimate that at least half of the speakers were convinced to attend the event via a conversation with one of the committee members (mainly Ian Stuart and Ronelle Burger).

We made a decision to devote a large chunk of our budget to invite George Kopits, a high profile researcher in the field of fiscal rules, to be the keynote speaker at our event. Anecdotal evidence suggests that this has helped to raise the profile of the working group (both amongst researchers and amongst government) and has helped to boost attendance.

Experiments with new formats

In addition, the committee also wanted to give group members exposure to new techniques in public economics and therefore organised a breakfast session with J-PAL's Kamilla Gumede on the use of Randomised Control Trials in policy assessments. This was packaged as a voluntary extra component and not part of the main programme. To attract participants to this session we offered breakfast.

Estian Calitz volunteered to help set up a tax reform roundtable session involving the following researchers and practitioners: Jac Laubscher (Group Economist, Sanlam), Niek Schoeman (Professor of Economics, UP), Ismail Monomiat (Head: Tax and Financial Sector Policy, National Treasury) and George Kopits.

Getting the mix right

The committee felt that one of the main benefits that the ERSA public economics forum brings to the table is the mixture of top level policy makers and researchers. Consequently, Ian Stuart played a key role in planning this workshop - providing names of key role players and helping to establish contact with them – all in an effort to ensure that they are part of this discussion.

To signal this bridging role clearly, the session on fiscal rules was introduced by Matthew Simmonds, Deputy Director General: Budget Office. We asked Les Kettledas (Deputy Director General for Labour Policy) to introduce the session on unemployment. He was not available however and sent a chief director, Setsomi Molapo, on his behalf.

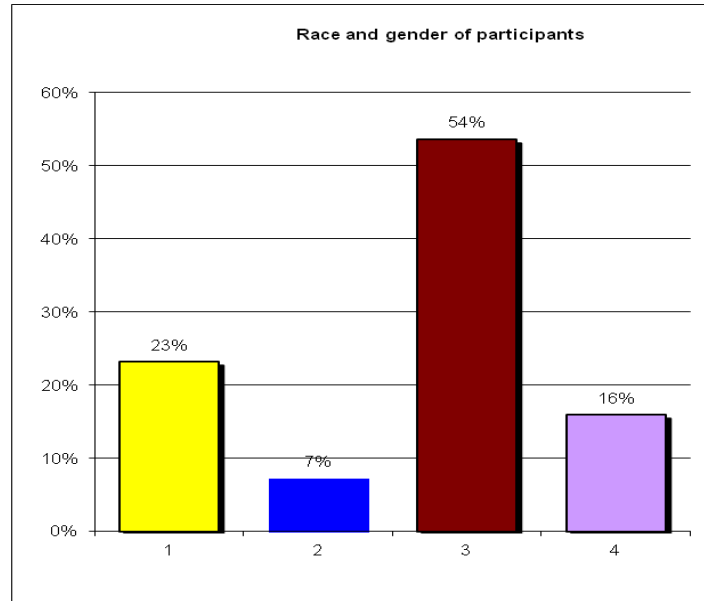
Budget issues

In terms of the budget the main expenditure has been on the arrangements surrounding George Kopits' travel. This was the first time that the Stellenbosch team members organised an ERSA workshop and we were not experienced at dealing with speakers of this calibre. At an advanced stage of our conversation with him, it became clear that he was expecting a business class ticket and given his hectic schedule, his profile and reputation, his age and also his lack of institutional funding support, we felt that we had no choice but to explore whether ERSA would be willing to make an exception. On the side of government there was also by this stage considerable interest and anticipation around Kopits' visit. We were very grateful that ERSA was willing to make an exception in this case and realise that the standard policy is for invited guests to fly economy class. However, it is important to point out that our conversations with various other conference organisers have indicated that top level speakers do require business class flights, so there is a realistic risk that an inflexible policy may cause ERSA to lose out on such opportunities.

In terms of the specifics: George Kopits' flight presented a challenge for the budget – both because we had planned for an economy level flight and because he had to change the flight on short notice. Additionally, there were also some expensive changes due to a last minute meeting with National Treasury (which was supposed to include Pravin Gordhan), requiring a stay over in Cape Town at the same hotel as the Treasury staff (i.e. Mount Nelson).

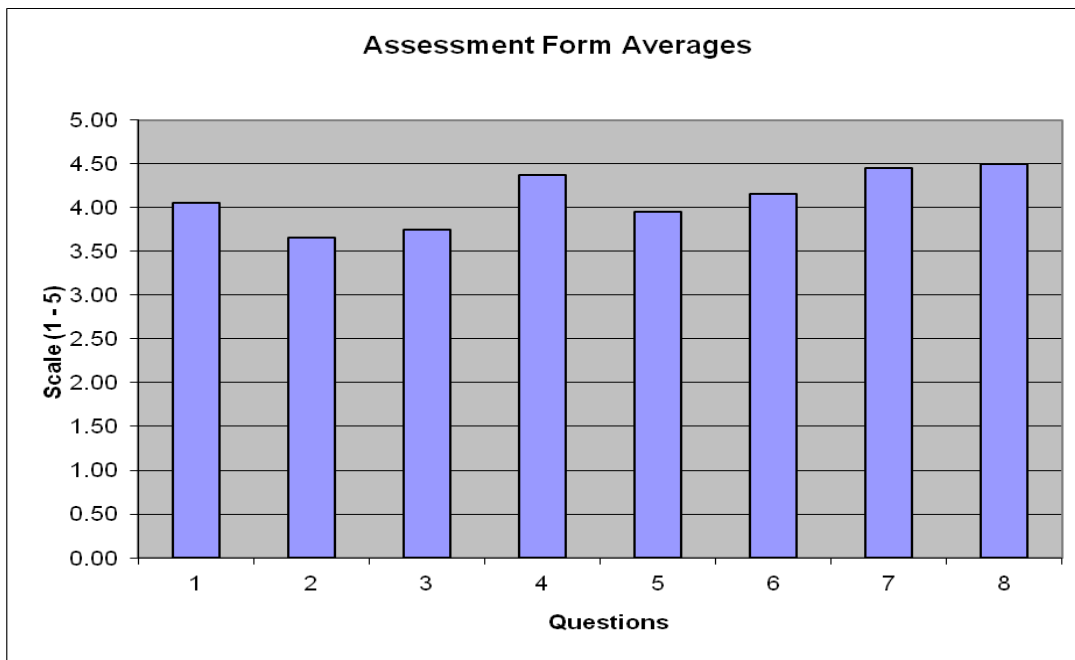
Attendance

The workshop was well attended with more than 60 high profile researchers and policy makers participating in the event. While there were a fair proportion of black males (23%), black females (7%) and white females (16%), the majority of participants were white males (54%). While the ERSA committee would like its meetings to be more representative, it is also important to acknowledge that it is in this regard constrained by its partner institutions. (See Graph 1.)



Feedback from participants

We were overwhelmed by the positive nature of informal feedback from participants. The structured feedback supports this impression with most respondents scoring the conference high – in the region between 4 and 5 out of 5. The lowest scoring dimensions were timing of workshop sessions and the pace of the workshop (Q2 and Q3). If we use the written comments to interpret these scores, the focus would have to be on better timekeeping for sessions. The best scores were achieved with respect to the opportunity for discussion and feedback (Q4) and the quality of the workshop venue (Q7) and organisation (Q8). 2 See Graph below for more detail.



Key lessons learnt and remaining challenges

- *Challenges relating to high profile keynote speakers:* While Dr George Kopits' presence clearly was a big plus in terms of raising the profile of the event, ensuring the quality of the discussion and attracting participants, his high profile offered challenges to budgeting and planning.
- *Balancing variety and focus:* The working group includes dedicated public economists who are interested in most aspects of the field as well as individuals whose interest in public economics is limited to very specific issues. In an attempt to keep this eclectic crowd happy, we experimented with sessions that have depth (labour and fiscal rules), but also offered variety (with two themes and sessions on tax reform and new methods) to ensure that there is something for everybody.
- *Importance of personal networks:* At this stage individual networks and conversations are still crucial for ensuring participation and attracting speakers and discussants
- *Time requirement:* Planning and managing a workshop is time consuming
- *Building the brand:* We hope that this workshop has helped to establish the ERSA public economics workshop as a worthwhile and useful event for both policy makers and researchers. But it will take at least another year or perhaps more for this to become a marked event on calendars. It is difficult to host an event that attracts both policy makers and researchers. On both sides there is much to gain from more such interaction, but on the medium term the success of such events may hinge on offering sufficient depth and expertise, but with a firm focus on the issues and the findings and what they imply for policy.

Appendix: Description of workshop themes in call for papers

- **Sustainable management of public finances:** In his recent Budget Speech delivered on 23 February 2011, the Minister of Finance announced that the National Treasury is proposing guidelines for sustainable management of the public finances in South Africa. Informed by the principles of countercyclicality, long-term debt sustainability and inter-generational equity, the proposal provides for the adoption of an annual target for the structural budget balance consistent with long-term growth, the desired level of public debt and inter-generational considerations; explication of the costs of existing and new programmes that require a long-term commitment; and formulation of a timeline to bring the budget back on target following large fiscal shocks.

The workshop will be an ideal opportunity to discuss the notion of fiscal guidelines and the details of the Treasury's proposal. Budget balance and other fiscal rules have proliferated in industrial and emerging-market economies since the second half of the 1990s (the IMF reported in 2009 that the number of its member countries with formal fiscal rules increased from seven in 1990 to 80 early in 2009), and the experiences of these

countries and the large body of theoretical research on the effectiveness of such rules are rich sources of ideas for such discussion.

- Job creation: Unemployment is a persistent and pervasive problem in the South African economy and society. Research has shown that there are many dimensions to the problem. On the labour supply side it is important to consider the potential contribution of large scale investment in training and education to correct the misalignment between the skills required by employers and those on offer in the labour market. Others blame the notoriously high unemployment levels on what they regard as excessive costs relating to employment and argue that these costs constrain job growth. Examples of such costs range from inflated wages set by unions and bargaining councils, difficulties relating to hiring and firing decisions to transport costs.

Analysis has shown that youth unemployment is particularly high in South Africa compared to other countries. The risk of labour market scarring at the start of an individual's work life means that this problem will have carry through effects and provides additional motivation for addressing the problem. Wage subsidies for young workers have been proposed as a solution, but there are also indications that the quality of education may be an important contributor to the high levels of unemployment.

2. Health Equity Training workshop 30 June and Health Symposium 1 July 2011, Stellenbosch, Cape Town - Workshop convenors: Ronelle Burger and Alex van den Heever

Selecting themes for the workshop

Health reform emerged as a potential theme when Ian Stuart said it was high on the priority list for Treasury due to the proposed NHI plan. Given that two members of the committee, Ronelle Burger and Alex van den Heever, had an interest in this area, it seemed like a natural choice.

Getting the right people in the room

Alex van den Heever had an excellent established network of researchers and practitioners, which was a huge asset in the planning process. Alex van den Heever and Di McIntyre helped to compile a list of experts (with their email addresses). Due to the ideological polarisation and intense distrust between researchers working on public health issues, it was very important to get the balance right: i.e. to ensure that it is clear that this is not a meeting held by one ideological camp. This meeting was intended as an effort to extend an olive branch and to facilitate dialogue across these fragmented islands of expertise.

After we had compiled our list of experts we sent the list to Yoemna to update the ERSA data base. We contacted a number of experts personally/directly to ask them to serve either as speakers or as discussants, which had also been the practice with previous public economics workshops.

Collaboration with the World Bank

At the same time we started a conversation with the World Bank about potential speakers and Adam Wagstaff was identified as an obvious choice. The dialogue with him was a long and a sensitive one given the bank's intricate politics and all the bureaucratic red tape. The initial preference for a very small and intimate gathering of experts was partly due to such concerns.

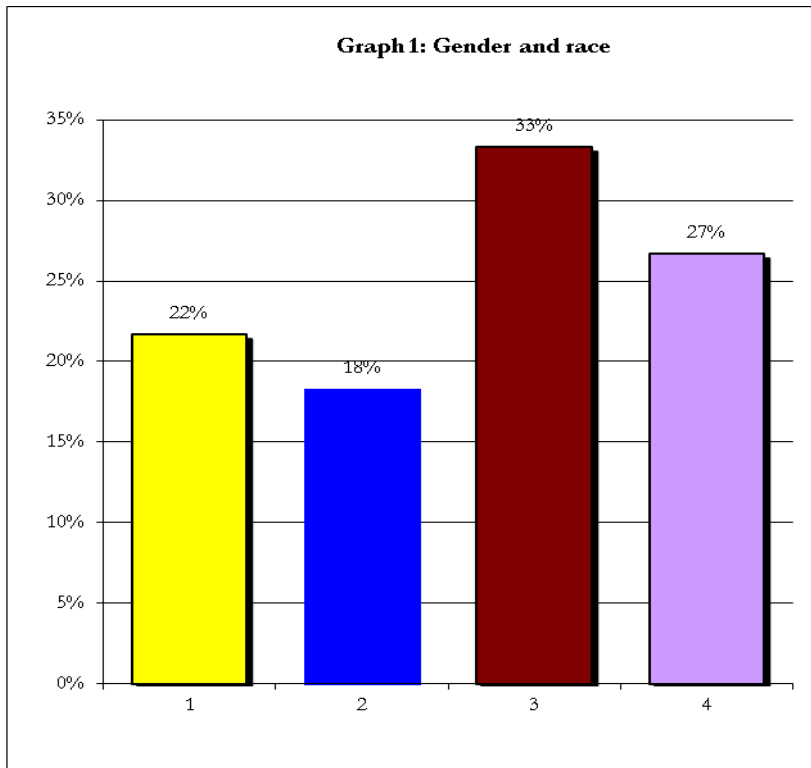
Given Adam's interest in health equity and his association with a programme within the World Bank that distributes software and provides training to support such analysis, we started discussions about adding a day of training to the planned one-day symposium. The idea was that the training would be funded primarily by the World Bank.

The challenge of achieving fairness and access

The initial agreement from the committee was that this symposium would use only one half of a workshop budget. However, the organisers soon realised that it would be difficult to meet ERSA's equity and fairness goals within such a constrained budget and it was decided that it would be better to expand the budget to that of a full workshop so that we could meet the required fairness and access criteria. This was agreed via a discussion with the full public economics committee.

Attendance

The workshop was well attended with more than 60 high profile researchers and policy makers participating in the event. While there were a fair proportion of black males (22%), black females (18%) and white females (27%), the majority of participants were white males (33%). While the ERSA committee would like its meetings to be more representative, it is also important to acknowledge that it is in this regard constrained by its partner institutions. (See Graph 1 below.)

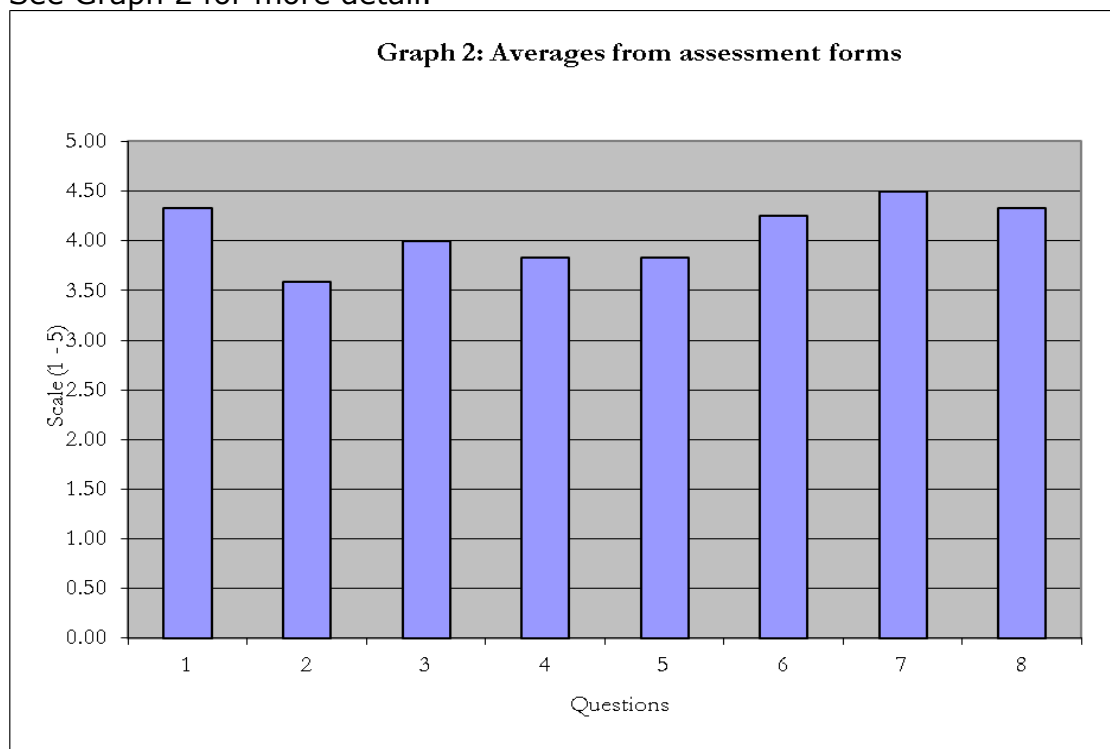


Feedback from participants

Most respondents appeared to give positive feedback regarding the workshop with it scoring in the region around 80% on average for most dimensions, with 70% as a lower bound and 90% as an upper bound for the averages. The lowest scoring dimensions were timing of workshop sessions (Q2) [which is valid criticism – the workshop sessions overran badly due to poor time keeping in the first half of the workshop]. The other two low scoring dimensions were opportunity for discussion and feedback (Q4) and relevance to progress with academic work (Q5). Lower scoring on Q4 may link to concerns regarding timing – the programme was very full. The somewhat lower scoring on Q5 may be due to the focus on health reform and policy implications. But the upside is that policy makers such as Andrew Donaldson appeared to be very pleased with the depth and relevance of the sessions. This resonates with the feedback here – the highest scores are achieved on Q1 which measure the quality and focus of workshop content and Q6, which captures the relevance to the progress in the policy context. Respondents

also appeared to be very satisfied with the workshop venue (Q7) and the organisation of the workshop (Q8).

See Graph 2 for more detail.



Key lessons learnt and remaining challenges

- *The plus and minus sides of partners:* While having the World Bank and UCT's HEU on board was critical to show legitimacy and to signal that this will not be a "one-camp" (just representing one narrow ideological view) workshop, due to the sensitivities around the NHI it was extremely time consuming to obtain agreement on decisions and keep the partners happy.
- *Importance of personal networks:* Individual networks and conversations are crucial for ensuring participation and attracting speakers and discussants for a highly specialised workshop such as this one
- *Time requirement:* Planning and managing a workshop is time consuming
- *More such workshops:* There is still long way to go in terms of healing ideological rifts, but this workshop represented a starting point in this journey. The vision is to continue such workshops with NRF funding.
- *Scope for more microeconomic research in health economics* Adam Wagstaff's presentation showcased a number of international studies using new microeconomic ideas and techniques, which have not been used in South Africa. The planned SA health reform may provide the required urgency and prominence to encourage local researchers to explore these new areas.

3. Colonial Data & Economic History Research in South Africa, Kopanong, Johannesburg, 2-4 November 2011

The workshop focused on the availability of colonial data, and for that purpose, we invited Prof. Robert Allen from Oxford University to be the guest speaker. He is especially well known for his work on the birth of the industrial revolution, which entailed working extensively with colonial data. Prof. Allen presented some of his work at the workshop, and also facilitated a very productive discussion on colonial data, brainstorming the possible uses of such data.

The workshop brought together 31 participants from 11 South African universities and 3 participants from Sweden. Of the 34 participants, 12 were postgraduate students.

Prof. Allen opened the workshop with a presentation entitled 'What are the questions colonial data can help answer?' This was followed by two presentations relating to the labour market and informal settlements.

The second day he presented a paper on why some countries are rich and others are poor. This was followed by four research papers. The afternoon's round-table discussion on colonial data in Africa showcased some of the existing data and also the data that has not yet been digitally stored. During the last session of the day, two research papers on cape colonial data were presented.

The last day of the workshop commenced with the presentation of three research papers, one by a postgraduate student. The workshop was concluded with a very productive discussion on economic history research ideas, facilitated by Prof. Allen.

Overall the response of the participants was very positive, and the interaction between the researchers was most fruitful. I thank ERSA for their administrative and financial support. Economic history in South Africa would not have been embraced such enthusiasm and experienced such growth were it not for this.

Yours faithfully,
Sophia du Plessis
(Convener)

4. Contemporary Analysis of International Trade, Elgro Hotel, Potchefstroom, 23 – 25 January 2012

This workshop built on a series of earlier workshops arranged by ERSA's Trade and Industrial Organisation research group. The course was structured around a number of objectives, including:

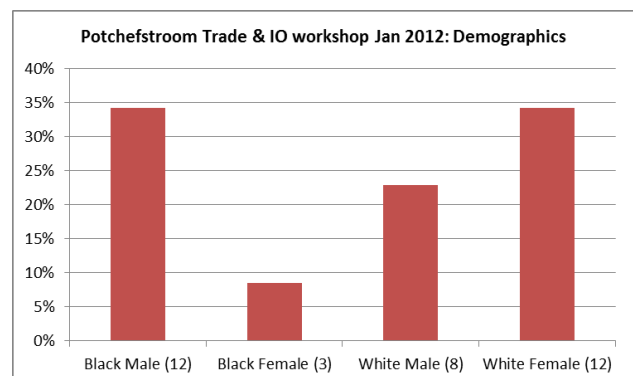
- a) Training: The course completed the review of material from Robert Feenstra's postgraduate textbook, *Advanced International Trade* (Princeton UP, 2004), that commenced in the earlier 2010 Summer School
- b) Presentation of original research: An opportunity was provided participants to present draft research and research proposals
- c) Introduction of contemporary topics in international trade

Topics covered included (a) trade and growth, (b) the political economy of trade policy, (c) firm-level data and international trade, (d) microeconomic evidence on pricing behaviour and (e) geography and trade. The full outline is attached as an appendix.

The programme was carefully structured around the content of the course. Most sessions commenced with a presentation of the theory, followed by a presentation of an empirical paper that applied the theory to the South African or African context. The intention was to consolidate the theory through empirical application and to highlight possibilities for future research. The latter was particularly relevant in the sections dealing with contemporary topics in international trade (micro-price analysis, firm-level analysis). The approach of linking theory and empirical papers by local academics/researchers worked very well.

The programme also provided an opportunity for participants to present preliminary research or research proposals.

35 participants registered for the course with an additional 3 occasional participants from North West University. The participants came from a diverse set of institutions including National Treasury (4), SARS (2), Competition Commission (1), Department of Trade and Industry (1) and seven Universities (25). 43 percent of the participants came from historically disadvantaged backgrounds and 43 percent were Female (see figure).



The organising team consisted of Neil Rankin, Jim Fairburn, Waldo Krugell and Lawrence Edwards. The University of the North West contributed extensively towards the organization of the programme and hosted the group for a dinner event. Their support helped to make this a very successful workshop.

Lawrence Edwards
Convenor

Appendix: WORKSHOP OUTLINE

Events

Mon 23 January – North West University event, Tues 24 January - Course dinner

Course Outline

Day 1: Monday 23 January

Topic 1: Trade and Growth

Presenter: Jim Fairburn, Reading: ch 10 Feenstra

Empirical paper: Nicholas N. Ngepah "International Trade and Agricultural Production: Evidence from the SADC Sub-region"

Topic 2: Firms and International Trade

Theory: Presenter - Neil Rankin: Overview of field (starting from stylized facts, leading to recent theoretical advances to account for these observations).

Empirical paper: Neil Rankin "Possibilities for research using available data (and hopefully to be available SSA data)"

Topic 3: Economic Geography

Theory: Presenter - Waldo Krugell: Overview of field (starting from stylized facts, Krugman's core model and extensions)

Empirical paper: Waldo Krugell "Putting the economy in its place: Geographical economics in South Africa."

Day 2: Tuesday 24 January

Topic 1: Temporary trade barriers

Theory: Presenter - Lawrence Edwards: Theory: Reciprocal dumping model;

Reading: Feenstra 2004: ch7, 241-249

Empirical paper: Edwards, L. (2011). "South Africa's Use of Temporary Trade Barriers: Pre and Post-Crisis" in Chad Bown (ed.) *The Great Recession and Import Protection: The Role of Temporary Trade Barriers*. London, UK: CEPR and the World Bank, 2011.

Topic 2: Microeconomic Evidence on Price-Setting

Theory: Presenter - Neil Rankin

Empirical papers (30 minutes each)

Paper 1: Mamello Nchake "Trade agreements and border effects: Product level study of SACU and the CMA"

Paper 2: Lawrence Edwards and Neil Rankin. "Is Africa Integrating? Evidence from Product Markets"

Paper 3: Aron, J, K. Creamer, J. Muellbauer and N. Rankin. "Exchange Rate Pass-Through to Consumer Prices in South Africa: Evidence from Micro-Data."

Day 3: Wednesday 25 January

Topic 1: Decision Support Model

Wilma Viviers and team

Topic 2: The Political Economy of Trade Policy

Theory and empirics

Presenter: Lawrence Edwards; Reading: Feenstra 2004: ch 9, Casale, D. and Holden, M. (2002), Gawande, Kishore and Pravin Krishna (2003)

Topic 3: Research project briefs

Three PhD and Research proposals were presented

5. Second Annual Monetary Economics & Macroeconomic Modelling Workshop, South African Reserve Bank, Pretoria, 1-2 March 2012

The macroeconomic working group in collaboration with the Chair in Monetary Economics at the University of Pretoria and the South African Reserve Bank has promoted an annual workshop on monetary economics and macroeconomic modeling. The first meeting was held at the SARB Conference Centre in Pretoria the 10th and 11th of March 2011. The workshop saw the presentation of 15 papers by researchers from 8 different universities and from the central bank and was attended by almost 50 researchers from universities, the Central Bank, National Treasury and other research institutions. This appointment will be a regular fixture in the national research calendar and will be replicated the 1st and 2nd of March 2012.

6. Quantitative Techniques for Competition Analysis, Kievits Kroon, Pretoria, 29-31 March 2012

This workshop introduced basic methods of demand estimation for the purpose of market definition, identification of conduct and merger simulation. The course consists of both lectures and computer-based empirical applications.

Topics covered included: Structural Demand Estimation, Short-Run Oligopoly and Identification of Conduct, Identification of Conduct, Demand Estimation, and Applications to competition policy

The workshop was closely structured around the 2009 textbook by Davis, P. and E. Garces, "Quantitative Techniques for Competition and Antitrust Analysis" (Princeton University Press). All participants were provided a copy of the textbook

Various international academics taught on the course: Professors Massimo Motta (Barcelona Graduate School), Lukasz Grzybowski (University of Cape Town) and Toker Doganoglu (University of Wuerzburg).

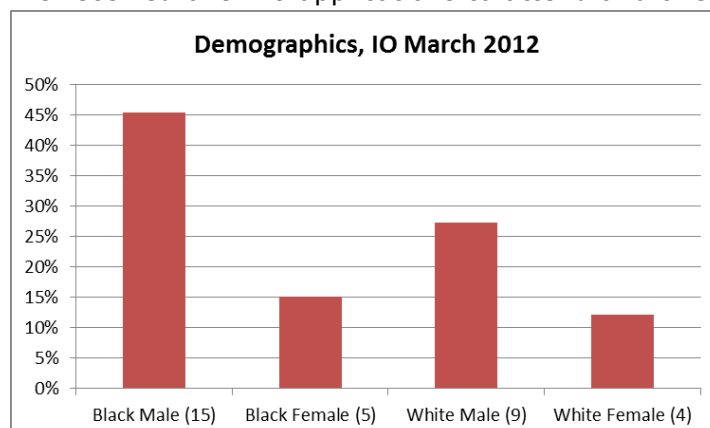
Many of the prior workshops held by the ERSA Trade and IO group have focussed on international trade. One objective of this workshop was to re-prioritize the field of international organisation including competition analysis. The material was relatively advanced requiring completion of advanced courses in microeconomics and econometrics. One concern emerging from the course is that many of the local institutions do not have capacity to support research in this area.

A unique feature of the course was the collaboration between the ERSA group and the Competition Commission who financed the participation by Masimo Motta. The Competition Commission is interested in developing the field of competition analysis including the support and promotion of PhD candidates. This workshop served as a first step towards a possible deeper engagement between the ERSA trade and IO group and this institution.

A second feature of the course, was the provision of accommodation to all participants including those in the surrounding areas. The aim was to facilitate the building of a network of researchers, policy-makers and academics in the field. The effectiveness of this approach needs to be weighed up against the cost of providing accommodation to all participants.

The course was over-subscribed. We received over 40 applications to attend and this excludes some potential applicants from private sector institutions who were informed that numbers would be restricted. In total, there were 31 participants, excluding the academics teaching on the course.

60 percent of the participants came from historically disadvantaged backgrounds



and 27 percent of the participants were Female (see figure).

A high proportion of participants came from the Competition Commission (9). There was also very strong demand from private sector institutions. We restricted the number of private sector participants to 5. There was a relatively high number of participants from historically disadvantaged universities (6 participants), but these participants came from only 2 institutions.

Various issues emerged from this workshop.

Firstly, the principals regarding collaboration between ERSA groups and external institutions needs to be defined. Such collaboration presents opportunities for growth of ERSA.

Secondly, processes and principles within ERSA regarding private-sector participation in the courses need to be developed.

Lawrence Edwards
Convenor

Appendix II: ERSA Working and Policy Papers published: April 2011- March 2012

Working Paper 214

Title: Economies of Scale and Pension Fund Plans: Evidence from South Africa

Author(s): Albert Touna Mama, Neryvia Pillay and Johannes W. Fedderke

Date of Publication: April 2011

Classification-JEL: G23, H55, L13

Abstract: The focus of this paper is on the presence of economies of scale in administering pension funds. We make use of a unique dataset with extensive information on South African retirement funds from 1996 to 2006. For almost fifty years now, South Africa has operated under a system with small social security benefits but with considerable options and freedom to long-term savers. The dataset contains aggregate information for various fund types, fund classes, as well as different benefit structures. Estimates of a translog cost function provide evidence of unused economies of scale in the industry. We also find that established funds have a substantial cost-advantage over young funds.

Working Paper 215

Title: What are the Distributional Implications of Halving Poverty in South Africa when Growth Alone is not Enough?

Author(s): Fiona Tregenna

Date of Publication: April 2011

Classification-JEL: D30, D31, I32

Abstract: The South African government has set a target of halving poverty by 2014. Using microdata from the 2005/6 Income and Expenditure Survey, this article frames government's stated target of halving poverty by 2014 in terms of specific measures of the poverty gap and poverty headcount ratio. With the poverty line as defined here, about half the South African population is classified as poor. Even so, the aggregate poverty gap is only about 3% of GDP. Projections of poverty in 2014 under various growth scenarios indicate that growth alone will be insufficient to halve poverty by then. It would take average annual growth of 8.7% between 2006 and 2014 to halve both the poverty gap and poverty headcount ratio with the current distribution of income and expenditure. However, projections of the effects of a range of growth and distributional scenarios on poverty, using a new method for simulating pro-poor distributional change, indicate that halving poverty appears feasible with moderate growth rates and fairly mild pro-poor distributional change. The results are indicative as to the scale of distributional changes necessary to halve poverty under various growth scenarios.

Working Paper 216

Title: Aftercare of inward foreign direct investment: A case study of South Africa

Author(s): Benjamin Manasoe and Ronald Mears

Date of Publication: May 2011

Classification-JEL: P450

Abstract: Attraction of new inward foreign direct investment (FDI) globally, especially in the developing countries, is problematic. Economic development practitioners have recently started to prioritise the retention and growing of existing investments to enhance their economic development agenda. The purpose of this

paper is to analyse and investigate the relationship between inward FDI and investment aftercare in South Africa (SA). Only a few studies have been carried out on the topic at the global level and none on SA as far as could be ascertained. A structured questionnaire was used to collate data, and 30 face-to-face interviews were conducted with 16 investment aftercare practitioners and 14 executives from the investment promotion agencies (IPAs) in seven of the nine provinces of SA. The main finding of the study is that although investment aftercare services are essential, they receive limited funding, staff and attention, and have not yet been developed in SA.

Working Paper 217

Title: Dynamic Effects of Monetary Policy Shocks in Malawi

Author(s): Harold Ngalawa and Nicola Viegi

Date of Publication: May 2011

Classification-JEL: E52, E58

Abstract: This paper sets out to investigate the process through which monetary policy affects economic activity in Malawi. Using innovation accounting in a structural vector autoregressive model, it is established that monetary authorities in Malawi employ hybrid operating procedures and pursue both price stability and high growth and employment objectives. Two operating targets of monetary policy are identified, viz., bank rate and reserve money, and it is demonstrated that the former is a more effective measure of monetary policy than the latter. The study also illustrates that bank lending, exchange rates and aggregate money supply contain important additional information in the transmission process of monetary

Working Paper 218

Title: Does School Education Reduce the Likelihood of Societal Conflict in Africa?

Author(s): Julius Agbor

Date of Publication: May 2011

Classification-JEL: 043, 015, 011

Abstract: This paper empirically tests the hypothesis that education, as measured by the average schooling years in the population aged 15 and above, reduces the likelihood of societal conflicts in Africa. It focuses on a sample of 31 African countries during 1960-2000 and uses both panel ordered probit and multinomial logistic estimation models. Using an aggregated measure of all intrastate major episodes of political violence obtained from the Political Instability Task Force (PITF) as proxy for conflict, and controlling for the extent of political participation, income inequality, labour market conditions, neighborhood effects, different income levels, natural resource revenues, youth bulge, inflation, ethno-linguistic and religious fractionalisation and urbanisation; the results suggests that education effectively reduces the likelihood of intra-state conflicts in Africa. This finding is robust to alternative model specifications and to alternative time frames of analysis. The evidence also suggests that, sound macroeconomic policies, by way of rapid per capita GDP growth, better export performance and lower inflation are means of effectively reducing the likelihood of conflicts while neighborhood effects are a significant driver of internal conflicts in African states. Therefore, in the battle to reduce the frequency of intrastate conflicts, African governments should complement investments in education with sound macroeconomic policies while seeking mutually beneficial solutions to all major internal conflicts, with a view to minimising their spill-over effects.

Working Paper 219

Title: Constructing Institutional Measures: Indicators of Political and Property Rights in Mozambique, 1900-2005

Author(s): John Manuel Luiz, Luis Brites Pereira and Guilherme Oliveira

Date of Publication: May 2011

Classification-JEL: N470, K000, O550

Abstract: In this paper we focus on the role of political and economic institutions in Mozambique's development. We produce a set of institutional indicators for Mozambique for the period 1900 through to 2005. The first index tracks political freedoms and is unique in its duration and complexity. The second index is a measure of property rights for Mozambique and such a measure has not existed previously and certainly not for this length of time. The construction of these indices is a painstaking process through historical records but it provides us with a richness of institutional data previously not available. The new institutional indices will allow us to explore the role of the institutional environment in determining economic growth and development in Mozambique over time.

Working Paper 220

Title: Heterogeneity Happens: How Rights Matter in Economic Development

Author(s): Johannes Fedderke, Robert Klitgaard and Kamil Akramov

Date of Publication: May 2011

Classification-JEL: O10, D99

Abstract: The paper examines how much governance matters for long run economic development in poor countries.

Working Paper 221

Title: Business Cycle and Bank Capital Regulation: Basel II Procyclicality

Author(s): Guangling (Dave) Liu and Nkhahle E. Seeiso

Date of Publication: June 2011

Classification-JEL: E32, E44, G28, E50

Abstract: This paper studies the impacts of bank capital regulation on business cycle fluctuations. To do so, we adopt the Bernanke et al. (1999) "financial accelerator" model (BGG), to which we augment a banking sector to study the procyclical nature of Basel II claimed in the literature. We first study the impacts of a negative shock to entrepreneur's net worth and a positive monetary policy shock on business cycle fluctuations. We then look at the impacts of a negative shock to the entrepreneurs' net worth when the minimum capital requirement increases from 8 percent to 12 percent. Our comparison studies between the augmented BGG model with Basel I bank regulation and the one with Basel II bank regulation suggest that, in the presence of credit market frictions and bank capital regulation, the liquidity premium effect further amplifies the financial accelerator effect through the external finance premium channel, which in turn, contributes to the amplification of Basel II procyclicality. Moreover, under Basel II bank regulation, in response to a negative net worth shock, the liquidity premium and the external finance premium rise much more if the minimum bank capital requirement increases, which in turn, amplify the response of real variables. Finally, small adjustments in monetary policy can result in stronger response in the real economy, in the presence of Basel II bank regulation in particular, which is undesirable.

Working Paper 222

Title: Determinants of Foreign Direct Investment of South African Telecommunications Firms into Sub-Saharan Africa

Author(s): John M. Luiz and Henry Stephan

Date of Publication: June 2011

Classification-JEL: F23 L86 O55

Abstract: The study investigates the main factors considered by South African telecommunications firms when making a decision to undertake Foreign Direct Investment (FDI) into Sub-Saharan Africa (SSA). This encompasses the reasons for investing, the methods of entry into the identified market and the factors influencing their decision. The methodology employs a survey questionnaire which was sent to telecommunication firms representing more than 70% of the revenue generated by this sector in SSA. The research reveals that market size, regulatory environment and government policy are the three most important factors influencing the decision to undertake FDI. Furthermore, the main reasons for deciding to enter SSA are for market and profit growth due to saturation in their existing markets, as well as for diversification of risk. Telecommunications firms wishing to enter SSA must be prepared for an unstable and uncertain policy environment and understand that the cost of starting a new venture in SSA is high.

Working Paper 223

Title: Effects of climatic conditions and agro-ecological settings on the productive efficiencies of small-holder farmers in Ethiopia

Author(s): Temesgen Tadesse Deressa

Date of Publication: June 2011

Classification-JEL: C53 Q25 Q54

Abstract: This study argues that the adaptation measures farmers take to reduce the negative impacts of climate change do affect farmers' efficiency of production. To support this argument, two steps were followed to understand how climatic factors especially long term average seasonal rainfall and temperature; and agro-ecological settings affect production efficiency in Ethiopian agriculture. In the first step, the stochastic frontier approach was employed to analyze the farm level technical efficiency. In the second step, the tobit regression model was adopted to analyze how climatic and agro-ecological settings affect efficiency scores derived from the first step. Results from the first step indicated that the surveyed farmers have an average technical efficiency of 0.50; with significant output elasticity of labor, draft power and tractor. Results from the tobit regression model showed that soil types, run-off, seasonal climatic conditions and agro-ecological settings affect technical efficiency in Ethiopian agriculture.

Working Paper 224

Title: Antitrust market definition using statistical learning techniques and consumer characteristics

Author(s): Willem H. Boshoff

Date of Publication: June 2011

Classification-JEL: L4 L1 C1 D1

Abstract: Market definition is the first step in an antitrust case and relies on empirical evidence of substitution patterns. Cross-price elasticity estimates are preferred evidence for studying substitution patterns, due to advances in IO econometric modelling. However, the data and time requirements of these models

weigh against their universal adoption for market definition purposes. These practical constraints — and the need for a greater variety of evidence — lead practitioners to rely on a larger set of less sophisticated tools for market definition. The paper proposes an addition to the existing toolkit, namely an analysis of consumer characteristics for market definition purposes. The paper shows how cluster analysis can be used to identify meaningful groups of substitutes on the basis of homogeneity of their consumer profiles. Cluster analysis enforces consistency, while recent bootstrap techniques ensure robust conclusions. To illustrate the tool, the paper relies on data from a recently concluded radio merger in South Africa.

Working Paper 225

Title: The Impact of Trade Liberalization on Micro Enterprises: Do Banks Matter? Evidence from Indian Manufacturing

Author(s): Asha Sundaram

Date of Publication: June 2011

Classification-JEL: F16, J32, L24, O14, O17

Abstract: This paper looks at the impact of trade liberalization on output, factor intensity and labor productivity of micro enterprises with differential access to banks. It uses Indian data on micro enterprises employing fewer than ten workers in the manufacturing sector and finds that trade liberalization, measured by a fall in the tariff, is associated with higher enterprise output, capital-labor ratios and labor productivity in districts with a larger number of bank branches per capita. Evidence is consistent with strong complementarities between trade liberalization effects and better access to credit and greater economic dynamism due to greater bank presence in the enterprise's location. In addition, the research points to greater likelihood of outsourcing of production activity to micro enterprises in more open industries. The study highlights the role of credit market institutions, labor regulation and linkages between micro enterprises and large firms in determining the effects of trade liberalization on developing country manufacturing.

Working Paper 226

Title: Gasoline, diesel fuel and jet fuel demand in South Africa

Author(s): Willem H. Boshoff

Date of Publication: June 2011

Classification-JEL: C22 R41

Abstract: In recent years, the price and income elasticity of fuel demand in South Africa has featured prominently in energy and competition policy proceedings and in major corporate planning projects. The paper investigates the price and income elasticity of gasoline (petrol), diesel and jet fuel demand in South Africa. Such a study is essential, given the significant structural change in fuel consumption behaviour over the 1990s and the paper builds compare the results of econometric models based on a longer sample period covering 1982Q1 to 2010Q4 and a shorter sample period covering 1998Q1 to 2010Q4. The econometric model is based on an autoregressive distributed lag (ARDL) model, reduced to a parsimonious specification using an automated reduction algorithm.

Working Paper 227

Title: Risk Aversion: Experimental Evidence from South African Fishing Communities

Author(s): Kerri Brick, Martine Visser and Justine Burns

Date of Publication: July 2011

Classification-JEL: D81 and Q22

Abstract: We estimate the risk attitudes of a large sample of small-scale fishers from various fishing communities along the west coast of South Africa, using subjects' choices over lotteries with real monetary prizes. We find that participants are moderately risk averse and that risk attitudes vary with certain socio-demographic variables. In particular, females are found to be more risk averse than their male counterparts, while quota holders are more risk loving. Logistic regression analysis indicates that risk attitudes have implications for non-compliance with fisheries regulation. Specifically, greater risk aversion translates into a reduction in the odds of catching illegally. Furthermore, in the case of gender, female fishers and female fishers with fishing rights are more likely to comply with fisheries regulation. These findings have important implications for the characterisation of risk attitudes in fisheries policy applications and for the management of marine resources.

Working Paper 228

Title: Fiscal regime changes and the sustainability of fiscal imbalance in South Africa; a smooth transition error-correction approach

Author(s): Samuel S. Jibao, Niek Schoeman and Ruthira Naraidoo

Date of Publication: July 2011

Classification-JEL: C22 C51 H62

Abstract: In addition to the conventional linear cointegration test, this paper tests the asymmetry relationship between fiscal revenue and expenditure, by making a distinction between the adjustment of positive (budget surplus) and negative (budget deficit) deviations from equilibrium. The analysis uses quarterly data for South Africa. The paper reveals that government authorities in South Africa are more likely to react fast when the budget is in deficit than when in surplus, and that the stabilisation measures used by government are fairly neutral at low deficit levels; that is, at deficit levels of 4% of GDP and below. We conclude that an attempt to achieve fiscal sustainability via a reduction in expenditure on sectors conducive to economic growth might be prone to create social and political shocks, which could render such fiscal policy unsustainable. In South Africa the main fiscal challenge, therefore, is to find ways through which the recent gains in fiscal solvency can be consolidated.

Working Paper 229

Title: Clean Fuel-Saving Technology Adoption in Urban Ethiopia

Author(s): Abebe Damte and Steven F. Koch

Date of Publication: July 2011

Classification-JEL: D12 Q49

Abstract: The heavy dependence and inefficient utilization of biomass resources have contributed to the depletion of forest resources in Ethiopia, while the use of traditional cooking technology, one source of inefficient biomass resource use, has been linked to indoor air pollution and poor health. In response, the government and other institutions have pushed for the adoption of new cooking technologies. This research examines the speed of adoption of Mirt and Lakech cook stoves — two examples of new cooking technologies — in urban Ethiopia. In terms of the duration analysis, adoption has been increasing over time; income and wealth are important contributors to adoption, and substitute technologies tend to hinder adoption. However, it was not possible to consider prices or perceptions related to either the technologies or biomass availability in the duration models, and, therefore, additional research is needed to inform policy further with respect to household technology adoption decisions.

Working Paper 230

Title: Finding the benefits: Estimating the impact of the South African child support grant

Author(s): Marisa Coetzee

Date of Publication: August 2011

Classification-JEL: I38 H53 C21 D13

Abstract: The paper estimates the impact of the South African Child Support Grant (CSG) on child health, nutrition and education. Data from the 2008 South African National Income Dynamics Study (NIDS) are used. Two non-experimental treatment evaluation techniques, both relying on propensity scores, are applied to six different outcome variables. Using propensity score matching with a binary outcome variable, no convincing evidence of improvements on any of the outcome variables is found. A second technique is therefore also applied, using a generalised form of the propensity scores. This follows the approach of Hirano and Imbens (2004) and Agüero et al. (2009). The generalised approach estimates a positive treatment effect for children's height-for-age and progress through the school system. Although these estimates do provide some evidence of the positive effect of the Child Support Grant on the lives of children, the estimates are small and do not provide clear evidence that the transfers received by caregivers are spent mainly on improving the well-being of beneficiary children. Some potential and plausible explanations for this result are discussed in the paper. Nevertheless, the findings seem to suggest that some of the cash transferred through the Child Support Grant appears to be spent on improving the well-being of children.

Working Paper 231

Title: Indicators of Political and Economic Institutions in Tanzania: 1884 – 2008

Author(s): B.P. Zaaruka and J.W. Fedderke

Date of Publication: August 2011

Classification-JEL: E02 K00 N4 O1

Abstract: This paper is part of series of studies focusing on the measurement and definition of institutions. This paper presents a database on institutional measures for Tanzania for the period 1884 to 2008. These indicators are used to assess the nature of political and economic institutional transformation from the colonial legacy to the modern outcome, using Tanzania as a natural experiment. The paper argues that despite changes in colonial regimes, the broader framework of institutions remained partly the same. This is reflected in the post-independence period in Tanzania, where the title of the president was substituting the governor titles in some land laws. Similarly, draconian laws similar to the colonial laws were enacted to curtail political freedom in the post-independence period.

Working Paper 232

Title: Measuring the Impact of Trade Finance on South African Export Flows

Author(s): Marcel Kohler and Adrian Saville

Date of Publication: August 2011

Classification-JEL: F10 F30

Abstract: Trade finance (or short-term credit) plays a crucial role in facilitating international trade yet is particularly vulnerable to financial crises as banks increase the pricing on all trade finance transactions to cover increased funding costs and higher credit risks. Whereas South Africa's financial institutions largely managed to strengthen their capital positions during the global financial crisis, the country's trade flows and access to capital (in particular trade finance and its costs) were hit hard by

the crisis. Little is known about the extent of shortages or 'gaps' in trade finance and the impact of this on South Africa's recent trade performance. Whilst our research recognises that access to trade finance is not the main cause of South Africa's trade contraction, our research suggests that a one percentage point increase in the interbank lending rate of our trade partner could reduce exports by approximately ten percent, all else equal.

Working Paper 233

Title: Bank concentration and the interest rate pass-through in Sub-Saharan African countries

Author(s): T. Mangwengwende, Z. Chinzara, and H. Nel

Date of Publication: August 2011

Classification-JEL: E52 E58 G28

Abstract: This study investigates the link between bank concentration and interest rate pass-through (IRPT) in four sub-Saharan countries. It also analyses whether there is asymmetry in IRPT and whether such asymmetry is related to changes in bank concentration. By applying a number of econometric methods including Asymmetric Error Correction Models, Mean Adjustment Lag (MAL) models and Autoregressive Distributed Lag models on monthly data for the period 1994-2007, the study found some evidence of a relationship between bank concentration and IRPT in all four countries. However, the results reveal that bank concentration has a stronger influence on the magnitude of its adjustment rather than its speed. Of particular note in this investigation is the fact that the findings support both the Structure-Conduct-Performance hypothesis and the competing Efficient-Structure hypothesis in the banking industries of the four countries. While there is some evidence supporting the view that bank lending and deposit rates adjust asymmetrically to changes in policy rates, there is very limited evidence that these asymmetries are a result of bank concentration. The key implication of the result for African countries is that increased bank concentration through bank consolidation programmes designed to strengthen banking industries should not be viewed with cynicism in so far as monetary policy transmission is concerned because concentration does not necessarily undermine the effectiveness of monetary policy.

Working Paper 234

Title: What Price the Court of St. James? Political Influences on Ambassadorial Postings of the United States of America

Author(s): J.W. Fedderke and D. Jett

Date of Publication: August 2011

Classification-JEL:

Abstract: This paper explores the appointment of career diplomats and political appointments to ambassadorial positions, across a range of characteristics that serve to indicate the attractiveness of the posting. The results of the paper suggest that political appointees are more likely to become ambassadors in high income OECD countries, that are strong tourist destinations, are located in Western Europe, and that carry lower hardship allowances, than are career diplomats. We also show that the greater the personal or bundled campaign contributions to a presidential campaign, the more lucrative the posting the contributor can expect in terms of per capita GDP, tourist volumes, hardship allowances, and the more likely the posting will be in Western Europe, and the less likely it will be in Central and South Asia or Sub-Saharan Africa. Finally, we identify a range of prices for personal and bundled campaign contributors for a set of lucrative posts. Depending on circumstance, we

establish that the price range for the Court of St. James lies between \$650,000 and \$2.3 million.

Working Paper 235

Title: The Rand as a Carry Trade Target: Risk, Returns and Policy Implications

Author(s): Shakill Hassan and Sean Smith

Date of Publication: August 2011

Classification-JEL: F31; G15; E58

Abstract: We analyze the returns to targeting the Australian, New Zealand, and South African currencies, through Japanese yen-funded speculation - with a particular focus on the South African rand, for which the carry trade is often seen as a source of exchange rate volatility. Targeting the rand through forward currency speculation produces returns which are as volatile, but with higher mean, and smaller probability of rare but large losses, than a buy-and-hold investment in the stock market - which is stochastically dominated in the second-order sense by the rand-targeting trade; and generates a larger return-to-volatility ratio than the Australian and New Zealand dollars - the two most common carry targets. Speculative positions and debt flows driven by the carry trade cause an exchange rate process characterized by gradual appreciations punctuated by infrequent but potentially large and rapid depreciations. The consequent level of currency instability is affected by whether inflows cause overheating, and how the central bank responds to the associated inflationary pressure.

Working Paper 236

Title: Measuring Institutions: Indicators of Political and Economic Institutions in Namibia: 1884 – 2008

Author(s): B.P. Zaaruka and J.W. Fedderke

Date of Publication: August 2011

Classification-JEL: E02 K00 N4 O1

Abstract: This paper presents a database on institutional measures for Namibia for the period 1884 to 2008. Using the techniques of principal components and factor analysis in aggregating these indicators, the study does two things. First, it illustrates a methodology for constructing de jure and de facto institutional measures by means of using pieces of legislation and quantitative data, respectively. Secondly, these indicators are used to assess the nature of political and economic institutional transformation from the colonial legacy to the modern outcome using Namibia as a natural experiment. The new indicators while covering a long time period (1884-2008), correlate fairly well with some of the widely used institutional indices produced by the Freedom House and the Heritage foundation.

Working Paper 237

Title: Do rent-seeking and interregional transfers contribute to urban primacy in sub-Saharan Africa?

Author(s): Kristian Behrens and Alain Pholo Bala

Date of Publication: September 2011

Classification-JEL: D72; F12; R12

Abstract: We develop an economic geography model where mobile skilled workers choose to either work in a production sector or to become part of an unproductive elite. The elite sets income tax rates to maximize its own welfare by extracting rents, thereby influencing the spatial structure of the economy and changing the available

range of consumption goods. We show that either unskilled labor mobility, or rent-seeking behavior, or both, are likely to favor the occurrence of agglomeration and of urban primacy. In equilibrium, the elite may tax the unskilled workers but does not tax the skilled workers, and there are rural-urban transfers towards the agglomeration. The size of the elite and the magnitude of the tax burden that falls on the unskilled decrease with product differentiation and with the expenditure share for manufacturing goods. All these results are broadly in line with observed patterns of urban primacy and economic development in sub-Saharan African countries.

Working Paper 238

Title: "Global since Gold" The Globalisation of Conglomerates: Explaining the Experience from South Africa, 1990 – 2009

Author(s): Grietjie Verhoef

Date of Publication: September 2011

Classification-JEL: L14 L21 L32 M48 N60 N67 N87 N97 O31 O32

Abstract: The internationalisation of enterprises is one of the essential ways to strengthen the competitiveness of firms from developing countries (UNCTAD, 2005c: 3). Strong growth in outward foreign direct investment (OFDI) from developing countries has become the distinguishing feature of the twenty-first century. This OFDI flows from state-owned enterprises, sovereign wealth funds (SWF) as well as private enterprises operating as multinational companies from a home base or as free-standing companies. Multinational corporations have commenced activities since the 1960s by moving operations to resource-rich, low-cost labour and capital markets (Wilkins, 1970; 1974; 1988; Jones, 1994; 2005). The first wave of OFDI during the 1960s and 1970s was motivated by efficiency and market-seeking factors. This wave was dominated by firms from Asia and Latin America. A second wave of OFDI followed in the 1980s, led by strategic asset seeking enterprises from Hong Kong, Taiwan, Singapore and South Korea (Dunning et al., 1996; UNCTAD, 2005b: 3s). Since the 1990s China, Brazil, India, Russia (the so-called BRIC countries) Malaysia, Turkey and South Africa are among the countries expected to add significantly to OFDI growth (UNCTAD, 2005c: 4). The flow of investment funds from developed countries was expected, but the reverse trend displayed the emerging capacities in countries and firms outside the core of the international economy, which challenged the dominance of developed countries and companies from developed countries. These developments have prompted several questions: how do developing country firms succeed in entering global markets? Do these firms improve their competitiveness through OFDI? This paper investigates this phenomenon from the experience of South Africa. The emergence of EMNC (Emerging Market Multinational Corporations) prompted extensive analysis and debates about the nature of and motives for EMNCs, but has also led to more in-depth analysis of specific country characteristics and firm-specific reasons for OFDI.

Working Paper 239

Title: The recreational value of beaches in the Nelson Mandela Bay area, South Africa

Author(s): Mario Du Preez, Deborah Ellen Lee and Stephen Gerald Hosking

Date of Publication: September 2011

Abstract: Using beach visitation data collected via the administration of a questionnaire to 226 respondents, this paper estimates a random utility model of beach recreation. The relative value of selected attributes of beaches is estimated, and the recreational values of lost access to four Blue Flag beaches in the Nelson Mandela Bay area, namely Kings beach, Humewood beach, Hobie beach and Wells

Estate beach, respectively are calculated to be R44.73, R24.61, R37.85 and R2.68 per person, per trip.

Working Paper 240

Title: Do Bayesians learn their way out of ambiguity?

Author(s): Alexander Zimper

Date of Publication: September 2011

Classification-JEL: C11, D81, D83

Abstract: In standard models of Bayesian learning agents reduce their uncertainty about an event's true probability because their consistent estimator concentrates almost surely around this probability's true value as the number of observations becomes large. This paper takes the empirically observed violations of Savage's (1954) sure thing principle seriously and asks whether Bayesian learners with ambiguity attitudes will reduce their ambiguity when sample information becomes large. To address this question, I develop closed-form models of Bayesian learning in which beliefs are described as Choquet estimators with respect to neo-additive capacities (Chateauneuf, Eichberger, and Grant 2007). Under the optimistic, the pessimistic, and the full Bayesian update rule, a Bayesian learner's ambiguity will increase rather than decrease to the effect that these agents will express ambiguity attitudes regardless of whether they have access to large sample information or not. While consistent Bayesian learning occurs under the Sarin-Wakker update rule, this result comes with the descriptive drawback that it does not apply to agents who still express ambiguity attitudes after one round of updating.

Working Paper 241

Title: The impact of social housing developments on nearby property prices: A Nelson Mandela Bay Case Study

Author(s): M. Du Preez and M.C. Sale

Date of Publication: September 2011

Classification-JEL: R00, R23

Abstract: Social housing projects often face substantial "Not-in-my-backyard" (NIMBY) sentiment and as a result are frequently plagued by local opposition from communities who argue that nearby property prices will be affected adversely by these developments. International hedonic pricing studies conducted have, however, produced mixed results with some concluding that social housing developments may in fact lead to an improvement in surrounding property values. There is, however, a paucity of South African evidence. This study considers the validity of the most pervasive NIMBY argument, the claim that social housing developments negatively affect nearby property values, by considering the property prices of 170 single-family homes in the Walmer neighbourhood, Nelson Mandela Bay, as a function of their proximity to an existing low-cost housing development. The results of this study indicate that in the case of one Nelson Mandela Bay low-cost housing development, a negative impact is exerted on the property values of nearby houses

Working Paper 242

Title: Ethnic Solidarity and the Individual Determinants of Ethnic Identification

Author(s): Thomas Bossuroy

Date of Publication: September 2011

Classification-JEL: A13, A14, D74, O17

Abstract: This paper examines the individual determinants of ethnic identification using large sample surveys (about 30,000 respondents) representative of seven

capitals of West-African countries. A small model that relates ethnic identification to an investment in ethnic capital suggests that individuals initially deprived of social or human capital resort to ethnicity to get socially inserted, and do even more so if their ethnic group itself is well inserted. Empirical results are consistent with this simple theory. First, education lowers ethnic salience. Second, ethnic identification is higher for uneducated unemployed or informal workers who seek a new or better job, and is further raised by the share of the individual's ethnic group integrated on the job market. Third, ethnic identification is higher among migrants, and raised by the share of the migrant's ethnic group that is employed. Group solidarity makes ethnic identity more salient for individuals deprived of other means for upward mobility.

Working Paper 233

Title: Demand for cooking fuels in a developing country. To what extent do taste and preferences matter?

Author(s): Wisdom Akpalu, Isaac Dasmani and Peter B. Aglobitse

Date of Publication: September 2011

Classification-JEL: Q41 Q48 Q23 D13

Abstract: Overreliance on biomass energy, such as firewood and charcoal, for cooking in developing countries has contributed to high rates of deforestation and resulted in substantial indoor pollution which has negatively impacted the health of many individuals. However, the effectiveness of public policies aimed at encouraging households to switch to cleaner fuels, such as liquefied petroleum gas (LPG) and kerosene, hinges on the extent to which they are mentally committed to specific fuels. Using data on four cooking fuels (charcoal, firewood, LPG, and kerosene) from the Ghana living standards survey, we found strong evidence that the most preferred fuel is LPG, followed by charcoal, with kerosene the least preferred. In addition, with the exception of kerosene that has price-elastic demand, the price elasticities of demand for the fuel types examined are inelastic. This finding suggests the so-called fuel-ladder is not robust.

Working Paper 244

Title: What Drives Corruption? Evidence from North African Firms

Author(s): Clara Delavallade

Date of Publication: September 2011

Classification-JEL: C2, D73, O17, H32

Abstract: This paper empirically analyzes the main microeconomic determinants of two forms of corruption supply, administrative corruption and state capture, by Maghrebi firms. This study is based on a new database of nearly 600 Algerian, Moroccan and Tunisian firms. I show that tax evasion is a major factor in the engagement of firms in administrative corruption. The latter increases with the share of sales hidden by the firm as long as it is below half of total sales, and slightly decreases thereafter. State capture is fostered by a failing enforcement of property and contract rights. Interestingly, less competitive firms appear to engage more in both forms of corruption than the most dynamic ones. After assessing the robustness of my empirical results, I draw a comparison of the factors of corruption in North Africa, Uganda and transition countries.

Working Paper 245

Title: Property Rights, Institutions and Source of Fuel Wood in Rural Ethiopia

Author(s): Abebe Damte and Steven F. Koch

Date of Publication: September 2011

Classification-JEL: Q23, Q56, R14

Abstract: This study examines the relationship between property rights, defined by land tenure security and the strength of local-level institutions, and household demand for fuel wood, as measured by the source from which fuel wood is collected. A multinomial regression model is applied to survey data collected in rural Ethiopia. Results from the discrete choice model indicate that active local-level institutions increase household dependency on open access forests, while land security reduces open access forest dependence. However, local-level institutions are found to reduce the role of private fuel wood sources, while tenure security has not, at least yet, had any impact on private fuel wood source collection activities. The results suggest that there is a need to bring more open access forests under the management of the community and increase the quality of community forestry management in order to realize improvements in forest conservation.

Working Paper 246

Title: No-Arbitrage One-Factor Models of the South African Term-Structure of Interest Rates

Author(s): Peter Aling and Shakill Hassan

Date of Publication: September 2011

Classification-JEL: G12; C13; E43

Abstract: Short-term interest rate processes determine the term-structure of interest rates in an arbitrage-free market, and are central to the valuation of interest-rate derivatives. We obtain parameter estimates and compare the empirical fit of alternative one-factor continuous-time processes for the South African short-term interest rate (and hence of arbitrage-free term-structure models), using Gaussian estimation methods. We find support only for diffusions where the interest rate volatility is moderately sensitive to the level of the interest rate. Other common models with restrictions that either preclude this effect, or restrict it to be too high, do not fit the data. Differences in the specification of the drift function have no evident effect on model performance.

Working Paper 247

Title: Do Monetary, Fiscal and Financial Institutions Really Matter for Inflation Targeting in Emerging Market Economies?

Author(s): Seedwell Hove, Albert Touna Mama and Fulbert Tchana Tchana

Date of Publication: September 2011

Classification-JEL: E52, G28

Abstract: Most emerging market economies (EMEs) which have implemented inflation targeting (IT) have continued to experience large, frequent and sometimes persistent inflation target misses. At the same time these countries had reformed their institutional structures when implementing IT. In this paper we empirically study the importance of central bank independence, fiscal discipline and financial sector development for the achievement of inflation targets in EMEs using the panel ordered logit model. We find that when we control for variables such as output gap, exchange rate gap and openness, the improvement in central bank independence, fiscal discipline and financial systems reduces the probability of inflation target misses. Importantly, some control variables lead to the missing of inflation target bands. These are, in order of importance; exchange rate gap, output gap, inflation target horizon and level of openness. The combined impact of institutional structures is quite large, indicating their significant contribution to the inflation performance and credibility of IT.

Working Paper 248

Title: Does One Size Fit All? Heterogeneity in the Valuation of Community Forestry Programs?

Author(s): Dambala Gelo and Steven F. Koch

Date of Publication: October 2011

Classification-JEL: Q23, Q28, Q51

Abstract: Through the implementation of a choice experiment valuation exercise, this study set out to identify the set of community plantation attributes that impact the welfare of potential community forestry program participants. We employed a combination of choice models to evaluate the preferences, welfare impacts and choice elasticities associated with alternative community forestry programs, allowing for different assumptions regarding heterogeneity. In line with economic theory, increased participation costs reduced the demand for community forestry, while increases in expected productivity raised the demand. With respect to preferences for the other alternatives considered — type of forest, area enclosure and type of land upon which the forest was to be situated — the results point to significant differences in preferences across the study population, suggesting that programs should be tailored to the communities in which the program is to be implemented.

Working Paper 249

Title: A reconsideration of what and who is middle class in South Africa

Author(s): Justin Visagie and Dorrit Posel

Date of Publication: October 2011

Classification-JEL: D31; D63; I31; Z13

Abstract: In this paper, we revisit 'what and who' is middle class in South Africa using data collected in the 2008 National Income Dynamics Study. First we consider how to identify the middle class based on two broad definitions adopted in the international literature: a middle class defined by the middle share of the national income distribution; and a middle class defined by an absolute level of affluence and lifestyle. We explore alternative ways of capturing the 'middle strata' of the national income distribution; and we suggest an approach for identifying threshold levels of income associated with middle-class affluence. Second, we show that both the size and the composition of the middle class in South Africa are very sensitive to how the middle class is defined. In particular, we demonstrate that there is very little overlap between the two broad definitions, a finding which reflects very high levels of poverty and inequality in the country. Lastly, both definitions of the middle class are shown to be robust to two common issues of measurement, namely the inclusion of implied rental income, and the use of expenditure as opposed to income as the basis for measuring class status.

Working Paper 250

Title: Trade Shocks from BRIC to South Africa: A Global VAR Analysis

Author(s): Mustafa Yavuz Çakir and Alain Kabundi

Date of Publication: October 2011

Classification-JEL: C32, C51, F14

Abstract: This paper studies the trade linkages between South Africa and the BRIC (Brazil, Russia, India, and China) countries. We apply a global vector autoregressive model (global VAR) to investigate the degree of trade linkages and shock transmission between South Africa and the BRIC countries over the period 1995Q1-2009Q4. The model contains 32 countries and has two different estimations: the first one consists of 24 countries and one region, with the 8 countries in the euro area

treated as a single economy; and the second estimation contains 20 countries and two regions, with the BRIC and the euro area countries respectively treated as a single economy. The results suggest that trade linkages exist between our focus economies; however the magnitude differs between countries. Shocks from each BRIC country are shown to have considerable impact on South African real imports and output.

Working Paper 251

Title: The Economics of Information Technology in Public Sector Health Facilities in Developing Countries: The Case of South Africa

Author(s): Gregory B. Cline and John M. Luiz

Date of Publication: October 2011

Classification-JEL: I11, I18, I10, M15

Abstract: The public healthcare sector in developing countries face many challenges, including weak healthcare systems and under resourced facilities that deliver poor outcomes relative to total healthcare expenditure. Healthcare delivery, access to healthcare and cost containment has the potential for improvement through more efficient healthcare resource management. Global references demonstrate that information technology (IT) has the ability to assist in this regard through the automation of processes, thus reducing the inefficiencies of manually driven processes and lowering transaction costs. This study examines the impact of new systems implementations on service delivery, user adoption and organizational culture within the hospital setting in South Africa, as perceived by doctors, nurses and hospital administrators. The research provides some insight into the reasons for investing in system automation, the associated outcomes, and organizational factors that impact the successful adoption of IT systems. In addition, it finds that sustainable success in these initiatives is as much a function of the technology as it is of the change management function that must accompany the system implementation.

Working Paper 252

Title: Volatility Spillovers between the Equity Market and Foreign Exchange Market in South Africa

Author(s): Lumengo Bonga-Bonga and Jamela Hoveni

Date of Publication: October 2011

Classification-JEL: F31, G10, C10

Abstract: This paper attempts to assess the extent of volatility spillovers between the equity market and the foreign exchange market in South Africa. The multi-step family of GARCH models are used for this end, whereby volatility shocks obtained from the mean equation estimation in each market are included in the conditional volatility of the other market, respectively. The appropriate volatility models for each market are selected, following criteria such as covariance stationarity, persistence in variance and leverage effects. The finding indicates that there is a unidirectional relationship in terms of volatility spillovers, from the equity market to the foreign exchange market. The paper supports the view that the extent of foreign participation in the South African equity market contributes to this pattern of volatility spillover.

Working Paper 253

Title: Global Financial Crises and Time-varying Volatility Comovement in World Equity Markets

Author(s): Andrew Stuart Duncan and Alain Kabundi

Date of Publication: October 2011
Classification-JEL: F36, G01, G11, G15

Abstract: This paper studies volatility comovement in world equity markets between 1994 and 2008. Global volatility factors are extracted from a panel of monthly volatility proxies relating to 25 developed and 20 emerging stock markets. A dynamic factor model (FM) is estimated using two-year rolling window regressions. The FM's time-varying variance shares of global factors map variations in volatility comovement over time and across countries. The results indicate that global volatility linkages are particularly strong during financial crises in Asia (1997-8), Russia (1998), and the United States (2007-8). Emerging markets are less synchronised with world volatility than are developed markets. In particular, we observe decoupling between emerging and world volatilities between 2001 and 2007. Recoupling occurs during 2008, thus identifying emerging market investments as a temporary hedge against volatility spillovers from the US subprime crisis

Working Paper 254

Title: Talking to the inattentive public: How the media translates the Reserve Bank's communications

Author(s): Monique Reid and Stan Du Plessis

Date of Publication: November 2011

Classification-JEL: E42, E52, E58

Abstract: Central bank communication is widely recognised as crucial to the implementation of monetary policy. This communication should enhance a central bank's management of the inflation expectations of the financial markets as well as the general public — the latter being a part of the central bank's audience that has received relatively little research attention. In this paper, the role of the media in transmitting the SARB's communication to the general public is explored, with the aim of improving our understanding of its impact on the expectations channel of the monetary policy transmission mechanism. A deliberate evaluation of this channel could aid the design of future strategies to communicate with the general public

Working Paper 255

Title: Rethinking equilibrium conditions in macromonetary theory: A conceptually rigorous approach

Author(s): Piet-Hein Van Eeghen

Date of Publication: November 2011

Classification-JEL: E02, E11, E12, E40

Abstract: Although still very much a minority view, there is a growing sense of unease about the high degree of abstraction involved in contemporary macro-monetary theory, in particular concerning its representative-agent microfoundation (see e.g. Colander et al., 2008; Goodhart, 2005, 2008; Buiters, 2009; Caballero, 2010; Hoover, 2010; Du Plessis, 2010; Meeusen, 2010). The paper shares this unease but questions another aspect of contemporary theory: its equilibrium conditions as consisting of its market coordination conditions and budget equation. The paper derives, from scratch, an alternative set of such conditions which it rigorously grounds in the nature of monetary exchange. This alternative set has implications for a wide variety of issues, including the aptness of MIU and CIA modelling, the nature of real and monetary disturbances, and the linkage between the financial and real sectors. The paper also assesses the conceptual soundness of commonly used constructs like Keynes's income-spending (saving-investment)

equation of IS analysis, Hicks's wealth constraint, Fisher's quantity equation, Walras's Law, and the budget constraint of contemporary DSGE modelling.

Working Paper 256

Title: Towards a Measure of Core Inflation using Singular Spectrum Analysis

Author(s): Franz Ruch and Dirk Bester

Date of Publication: November 2011

Classification-JEL: C41, C14, E31, E37, N17

Abstract: This paper constructs a number of possible core measures of annual inflation using Singular Spectrum Analysis (SSA). Annual inflation is decomposed into its trend, oscillating and noise components in order to develop an understanding of the trend and cyclical in South African headline inflation. Five cyclical components are identified with differing amplitude and frequency. The trend and cyclical components of inflation are found to be a good approximation of core inflation, the inertial part of inflation. These core measures are compared to other candidate core measures based on the properties of a good core inflation measure. Generally, the SSA measures outperform commonly use measures of core inflation.

Working Paper 257

Title: The valuation of biodiversity conservation by the South African Khomani San "bushmen" community

Author(s): Johane Dikgang and Edwin Muchapondwa

Date of Publication: November 2011

Classification-JEL: F36, G01, G11, G15

Abstract: The restitution of land to the Khomani San "bushmen" and Mier "agricultural" communities in May 2002 marked a significant shift in conservation in the Kgalagadi area in South Africa. The Khomani San and Mier communities were awarded land inside and outside the Kgalagadi Transfrontier Park. Given that the Khomani San interact more with nature, biodiversity conservation will only benefit from the land restitution in this case if the Khomani San are good environmental stewards. Therefore, this paper uses the contingent valuation method to investigate the values assigned to biodiversity conserved under the various forms of land tenure arrangements by the Khomani San in the Kgalagadi area and compares them to similar valuations by the adjacent Mier community. The proposed conservation programme sought to plant as many native trees, shrubs and grasslands as required to reduce biodiversity loss by 10% in terms of the quantities of each of the selected major species of the area. Despite the fact that the conservation programme has both winners and losers when implemented under any of the three land tenure arrangements considered, the findings suggest that the Khomani San, whose attitudes towards modern conservation have not been evaluated until now, and the adjacent Mier community generally attach a significant economic value to biodiversity in their area. The net economic value for conserving biodiversity under the various forms of land tenure arrangements by the Khomani San ranged from R928 to R4 672 relative to the Mier community's range of R25 600 to R64 000. However, for both communities, in order for all members of the local communities to support biodiversity conservation unconditionally, mechanisms for fair distribution of the associated costs and benefits should be put in place.

Working Paper 258

Title: Measuring the indirect costs associated with the establishment of a wind farm: An application of the Contingent Valuation Model

Author(s): M. Du Preez, G. Menzies, M.C. Sale and S.G. Hosking

Date of Publication: November 2011

Classification-JEL: Q42

Abstract: Although a green energy source, the location of electrical generating windmills may cause a disamenity effect (negative externality). The establishment of a wind farm is known as a locally undesirable land use (LULU) and leads to the not-in-my-backyard syndrome (NIMBY). In an application of the contingent valuation method, a willingness-to-accept framework was used to estimate the aggregate annual compensation required to allow the construction of a wind farm near Jeffrey's Bay, South Africa. This compensation amounted to R490 695. A binary choice logit analysis found that retirement status, concern about climate change, concern about view-shed impacts and the offer amount are important predictors of voting for or against the project

Working Paper 259

Title: Remittances and the Dutch disease in Sub-Saharan Africa. A Dynamic Panel Approach.

Author(s): Emmanuel Owusu-Sekyere, René van Eyden and Francis M. Kemegue

Date of Publication: November 2011

Classification-JEL: E02, E11, E12, E40

Abstract: Although still very much a minority view, there is a growing sense of unease about the high degree of abstraction involved in contemporary macro-monetary theory, in particular concerning its representative-agent microfoundation (see e.g. Colander et al., 2008; Goodhart, 2005, 2008; Buiters, 2009; Caballero, 2010; Hoover, 2010; Du Plessis, 2010; Meeusen, 2010). The paper shares this unease but questions another aspect of contemporary theory: its equilibrium conditions as consisting of its market coordination conditions and budget equation. The paper derives, from scratch, an alternative set of such conditions which it rigorously grounds in the nature of monetary exchange. This alternative set has implications for a wide variety of issues, including the aptness of MIU and CIA modelling, the nature of real and monetary disturbances, and the linkage between the financial and real sectors. The paper also assesses the conceptual soundness of commonly used constructs like Keynes's income-spending (saving-investment) equation of IS analysis, Hicks's wealth constraint, Fisher's quantity equation, Walras's Law, and the budget constraint of contemporary DSGE modelling.

Working Paper 260

Title: The Determinants of African Tourism

Author(s): Johan Fourie

Date of Publication: December 2011

Classification-JEL: L83, F14

Abstract: Using a standard panel gravity equation of 175 origin/destination countries between 1995 and 2008, 37 of which are African, we identify the factors that drive African-inbound (arrivals to Africa from other continents) and within-African tourism (arrivals from and to an African country). We find that the determinants of African-inbound and within-African tourism are not all that different from global tourism flows; repeat tourism, income, distance, land area and the standard dummy variables not only drives global or OECD tourism, but also tourism within Africa, disproving the belief that African tourists "differ substantially". Not only does the growth in tourism over the last decade provide encouraging signs for the continent, but these results show that policy makers can now play an active role in

promoting African tourism, both from outside but especially from within the continent's borders.

Working Paper 261

Title: Chinese Foreign Direct Investment in Africa

Author(s): Carike Claassen, Elsabé Loots and Henri Bezuidenhout

Date of Publication: December 2011

Classification-JEL: F21, O16

Abstract: The eyes of the world have, in recent years, been steadfastly focused on China's economic progress. As China has in recent years emerged as a major player on the world economic stage, its growing relations with other developing regions received much attention. Of particular note is the way in which Sino-African relations have increased since 2000. This paper aims to put Chinese FDI in Africa into perspective and provide some answers on the nature and possible impact of these flows to the continent. The research discloses that China's outward FDI to Africa is concentrated in diversified, medium growth economic performers, with Southern Africa being the most popular regions for Chinese outward FDI. A literature survey on Chinese investment deals concluded in Africa demonstrates a definite Chinese interest in mining, oil and infrastructure in Africa.

The empirical analysis of Chinese FDI in Africa reveals that agricultural land, market size and oil are important determinants of Chinese FDI. Though agricultural land and oil conform to the general notion of resource-driven Chinese FDI in Africa, the fact that market size is important indicates that Chinese investment is not solely resource-driven. As regards the possibility that Chinese FDI could positively contribute towards economic growth in Africa, causality tests conclude that the relationship between African GDP and Chinese FDI is bi-directional, while uni-directional relationships were established between Chinese FDI and African infrastructure and corruption, respectively

Working Paper 262

Title: What drives remittance inflows to Sub-Saharan Africa: A Dynamic Panel Approach

Author(s): Francis M. Kemegue, Emmanuel Owusu-Sekyere and Reneé van Eyden

Date of Publication: December 2011

Classification-JEL: F22, F24, O55

Abstract: This paper investigates the factors that drive and constrain remittance inflows into Sub-Saharan Africa (SSA) using annual data for 35 SSA countries from 1980 to 2008, generalised method of moments by Arellano and Bover (1995) and LSDV with Driscoll and Kraay (1998) corrected standard errors. We find that when cross-sectional dependence of the error term and individual effects are controlled for, host country economic conditions override home country income in driving remittances to SSA. The quality of financial service delivery and investment opportunities in the home country and exchange rate considerations are also significant to remittance inflows to SSA. This is more consistent with self interest motives for remittance inflows than altruism. However there are country level differences.

Working Paper 263

Title: Price Discovery and Price Risk Management Before and After Deregulation of the South African Maize Industry

Author(s): Alexander Behar

Date of Publication: December 2011
Classification-JEL: Q11, Q13, Q18, C33

Abstract: The withdrawal of the Maize Board in 1996 meant that farmers could no longer rely on its pre-planting price or “voorskot” for price discovery and price risk management. Some have claimed (UNCTAD, 2007) that the South African Futures Exchange (SAFEX) can provide these functions. We test this claim and analyse the implications of it. To do so, we build on an acreage response model developed earlier by Chavas and Holt (1990) by allowing for a futures market as well as accounting for farmer heterogeneity and the relative impact of price risk and yield risk. We first establish farmers’ responsiveness to risk by determining their risk aversion and, more specifically, whether they exhibit decreasing aggregate risk aversion (DARA). We find that farmers are risk averse and display positive wealth effects, which may be due to DARA. We can say little about how farmers have reacted to the price discovery function of expected prices both before and after the withdrawal of the Maize Board. However, we can conclude that farmers have responded less to price risk post-1996, even though prices were more volatile during this period. This supports UNCTAD’s (2007) claim. Combined with the finding of positive wealth effects the policy implication is that an improvement in the financial position of farmers as well as their access to futures markets can help reduce the impact and disutility of risk and, hence, improve their welfare without the need for regulation.

Working Paper 264

Title: Modeling and policy analysis for the U.S. Science Sector
Author(s): Jacques Kibambe Ngoie and Arnold Zellner
Date of Publication: January 2012
Classification-JEL: E27, O31

Abstract: This paper analyzes the production process of scientific outputs and its implications on the U.S. economy using variants of a disaggregated Marshallian Macroeconomic Model (MMM). Federal spending on scientific activities produces innovation which we measure using the number of patents awarded. Additionally, this study makes use of the Bass diffusion model to investigate how innovative patents generate new products that attract new firms in existing sectors of the U.S. economy. Firms are assumed to be Bayesian learners while forming expectations about product prices. Using a set of policy simulations, this research provides measured information on how selected science policies may affect sectoral growth of the U.S. economy. Moreover, issues such as bifurcation pertaining to dynamic models are thoroughly addressed in this paper. Among others, our findings suggest that federal spending on applied research has larger shortrun growth enhancement effects than spending on development or basic research. The return of current federal spending on applied research depends largely on past spending on basic research, something that is well captured through the lag structure imposed in our model. Recipients of federal grants for basic research often lay foundation for outstanding applied research.

Working Paper 265

Title: Determining the impact of low-cost housing development on nearby property prices using discrete choice analysis
Author(s): M. Du Preez, and M.C. Sale
Date of Publication: January 2012
Classification-JEL: F36, G01, G11, G15

Abstract: This paper presents an application of the conditional logit model to a small, Nelson Mandela Bay neighbourhood housing data set, with the objective of determining the impact of proximity to a low-cost housing development on nearby property prices. The results of this pilot study show that the average household in the neighbourhood of Walmer is willing to pay between R27 262 and R195 564 to be located 86m further away from an existing low—cost housing development. In addition to this, the probability of choosing a specific house increases if the house has a swimming pool, an electric fence, the lower its price and the closer it is to the nearest school.

Working Paper 266

Title: Retirement Date Effects on Pre-Retirement Wealth Accumulation: An Analysis of US Households

Author(s): Aylit Tina Romm

Date of Publication: February 2012

Classification-JEL: E21, J26

Abstract: This paper uses seven waves of data from the US Health and Retirement Study to investigate the impact of expectations regarding the timing of retirement on pre-retirement wealth accumulation. More specifically, we analyze the effect of the individual's subjective belief that he will work full time after age 62 on his current level of wealth. We use the individual's perception of the usual retirement age on the job as an instrument for his subjective belief that he will work full time after age 62. We look at single women, single men and married individuals separately. On a whole, the point estimates suggest that the responsiveness of individuals saving behaviour to retirement dates expectations is large. A ten percent-age point increase in the subjective probability of working past age 62 results in a decrease in household wealth well in excess of 20% for most demographic groups. In addition, we find that, in the case of married couples in particular, there is a threshold effect in this response.

Working Paper 267

Title: An alternative business cycle dating procedure for South Africa

Author(s): Adél Bosch and Franz Ruch

Date of Publication: February 2012

Classification-JEL: E32, C10

Abstract: This paper applies a Markov switching model to the South African economy to provide an alternative classification of the business cycle. Principal components analysis (PCA) is applied to 114 of the 186 variables used in the dating of the business cycle by the South African Reserve Bank. PCA establishes the co-movement in the dataset to calculate the reference turning points over the period 1982 to 2009. The large dataset broadens the information set available to date the turning points. The number of factors are chosen using a modified Bai and Ng (2002) method. The Markov switching model is also applied to Gross Domestic Product (GDP) as this is a commonly used variable to date the business cycle in the literature and provides a benchmark to the factor model. Our results indicate that the factor model accurately dates the South African business cycle and compares favourably to the SARB dating.

Working Paper 268

Title: The wealth of the Cape Colony: Measurements from probate inventories

Author(s): Johan Fourie

Date of Publication: February 2012
Classification-JEL: N37

Abstract: The stylized view of the Dutch Cape Colony (1652-1795) is of a poor, subsistence economy, with little progress in the first 143 years of Dutch rule. New evidence from probate inventory and auction roll records show that previous estimates about wealth at the Cape are inaccurate. In contrast to earlier historical accounts, the inventories reveal evidence of an affluent, market-integrated settler society, comparable to the most prosperous regions in eighteenth century England and Holland.

Working Paper 269

Title: The Impact of Later Retirement Ages on Aggregate Household Savings and Saving Rates: An Analysis of OECD Countries
Author(s): Aylit Tina Romm and Martha Wolny
Date of Publication: March 2012
Classification-JEL: E21, J26
Keywords: Retirement age, saving, life-cycle model

Abstract: As a result of population aging, governments of many OECD countries have begun to implement policies to increase average retirement ages in an attempt to alleviate some of the financial strain in supporting retirees. This paper explores the effect that later retirement ages have on aggregate household saving rates, both on a theoretical and empirical level. Using a two-wave panel of OECD countries, the results show that later retirement ages have the effect of decreasing aggregate household saving rates. We show that it is likely that this corresponds to a decrease in household saving. In addition, it appears that it is increases in female retirement ages that is driving this result.

Working Paper 270

Title: Slave numeracy in the Cape Colony and comparative development in the eighteenth century
Author(s): Jörg Baten and Johan Fourie
Date of Publication: March 2012
Classification-JEL: N37, O15, I25
Keywords: Education, Human Capital, South Africa, Whipple, Age-heaping, Africa, Asia

Abstract: The lack of accurate measures of human capital formation often constrain investigations into the long-run determinants of growth and comparative economic development, especially in regions such as Africa. Using the reported age of criminals in the Courts of Justice records in the Cape Archive, this paper documents, for the first time, the levels of and trends in numeracy for inhabitants of the Cape Colony born between the seventeenth and early nineteenth centuries. Cape inhabitants included the native Khoen and San, European settlers, and imported slaves from other African regions and Asia. This hodgepodge of individuals allows a unique comparison between contemporaneous levels of 18th century development across three continents. By isolating those slaves born at the Cape, we also provide a glimpse into the dynamics of human capital transfer in colonial settings.

Working Paper 271

Title: Fixed-to-Mobile Substitution in the European Union
Author(s): Lukasz Grzybowski
Date of Publication: March 2012

Classification-JEL: L13, L43, L96

Keywords: Fixed-To-Mobile Substitution; Fixed Broadband; Mobile Broadband

Abstract: This paper analyzes substitution between access to fixed-line and mobile telephony in the European Union. We estimate a structural model of household's demand for: (i) fixed-line only; (ii) mobile only; (iii) and both fixed-line and mobile access. We find that decreasing prices for mobile services increase the share of 'mobile only' households and decrease shares of 'fixed only' and 'fixed + mobile' households which suggests substitution between fixed-line and mobile connections. Moreover, growing Internet and DSL usage increase the share of 'fixed + mobile' households, which suggests that households keep their fixed line connection to access Internet. However, spread of 3G and cable modem broadband access decreases the share of 'fixed + mobile' households and increases the share of 'mobile only' households. Hence, in the future, fixed-line connection used for Internet access may be substituted by mobile broadband, as was in the case of voice telephony. On the other hand, bundling increases the share of 'fixed + mobile' households and decreases the shares of 'mobile only' and 'fixed only' households, which suggests that firms which provide both fixed-line and mobile services may slow down the substitution by bundling products.

Working Paper 272

Title: Contingent Valuation of Community Forestry Programs in Ethiopia: Observing Preference Anomalies in Double-Bounded CVM

Author(s): Dambala Gelo and Steven F Koch

Date of Publication: March 2012

Classification-JEL: Q26, Q23, Q28

Keywords: Double-bounded contingent valuation, shift bias, anchoring bias

Abstract: This study examines the potential for anomalous response behaviour effects within the context of double-bounded contingent valuation applied to community forestry programs in rural Ethiopia. Anomalous responses considered include shift effects, framing effects, anchoring effects, and others closely related to these. The results confirmed the presence of anomalous responses, especially shift and framing effects; anchoring effects are not uncovered. After controlling for these biases, the analysed community forestry program is shown to offer a welfare gain ranging from Ethiopian Birr (ETB) 20.14 to 22.80 annually, per household. In addition to uncovering limited welfare benefits, the results raise questions regarding the validity of previous double-bounded contingent valuation welfare estimates in developing countries, suggesting that future studies should control for incentive incompatibility and framing effects bias.

Working Paper 273

Title: Terms of Trade Shocks and Inflation Targeting in Emerging Market Economies

Author(s): Seedwell Hove, Albert Touna Mama and Fulbert Tchana Tchana

Date of Publication: March 2012

Classification-JEL: E52, G28

Keywords: Inflation targeting, commodity terms of trade shocks, emerging markets, panel VAR

Abstract: Emerging market economies (EMEs) have persistently experienced different waves of commodity terms of trade disturbances, generating macroeconomic instabilities. The adoption of inflation targeting (IT) by many emerging market economies has raised the questions about its relative suitability in

dealing with these shocks compared with other regimes. This paper tests the robustness of inflation targeting compared to monetary targeting and exchange rate targeting regimes in coping with commodity terms of trade shocks. It uses a panel VAR technique to analyse in a comparative framework, aggregate impulse response functions and variance decompositions of variables to commodity terms of trade shocks. The results show that in general, IT countries respond better to commodity terms of trade shocks especially with respect to inflation and output gap. However, exchange rates are more volatile in IT countries than in exchange rate targeting countries. The results suggest that EMEs countries can reduce the adverse effects of commodity terms of trade fluctuations when they adopt inflation targeting, but they also need to pay attention to exchange rate movements.

Working Paper 274

Title: Reducing illegal immigration to South Africa: A dynamic CGE analysis

Author(s): Heinrich R. Bohlmann

Date of Publication: March 2012

Classification-JEL: J61, C68

Keywords: Illegal immigration, dynamic CGE modelling

Abstract: South African authorities are attempting to limit inflows of illegal immigrants. Evidence for the United States presented in Dixon et al (2011) suggests that a policy-induced reduction in labour supply from illegal immigrants generates a welfare loss for legal residents. I use a similar labour market mechanism within a dynamic CGE model for South Africa, but take into consideration a number of well-known facts about the local economy. With high unemployment rates among low skilled workers and a legal minimum wage in place, I find a net gain in employment and welfare for legal residents in South Africa when reducing the inflow of illegal immigrants.

Working Paper 275

Title: Will the SARB always succeed in fighting inflation with contractionary policy?

Author(s): Guangling (Dave) Liu

Date of Publication: March 2012

Classification-JEL: E52, E31, E58, E12

Keywords: Monetary policy, price puzzle, inflation targeting, New Keynesian model, Bayesian analysis

Abstract: The conventional view is that a monetary policy shock has both supply-side and demand-side effects, at least in the short run. Barth and Ramey (2001) show that the supply-side effect of a monetary policy shock may be greater than the demand-side effect. We argue that it is crucial for monetary authorities to understand whether an increase in expected future inflation is due to supply shocks or demand shocks before applying contractionary policy to forestall inflation. We estimate a standard New Keynesian dynamic stochastic general equilibrium model with the cost channel of monetary policy for the South African economy to show that whether the South African Reserve Bank should apply contractionary policy to fight inflation depends critically on the nature of the disturbance. If an increase in expected future inflation is mainly due to supply shocks, the South African Reserve Bank should not apply contractionary policy to fight inflation, as this would lead to a persistent increase in inflation and a greater loss in output. Our estimation results also show that, with a moderate level of cost-channel effect and nominal rigidities, a New Keynesian dynamic stochastic general equilibrium model with the cost channel

of monetary policy is able to mimic the price puzzle produced by an estimated vector autoregressive model.

Working Paper 276

Title: The Strategic Location of Regional Headquarters for Multinationals in Africa

Author(s): John M. Luiz and Busi Radebe

Date of Publication: March 2012

Classification-JEL: F23, O55

Keywords: FDI and the MNE; Africa; Regional Headquarters; MNEHost Country Relations, Strategic decision making in MNEs

Abstract: The study investigates the criteria used by multinational companies to identify the locations of their African regional headquarters (RHQs) and the importance that multinational companies assign to the respective regional offices. We find that multinationals do assign value to their RHQs but are always aiming to strike a balance between local responsiveness and global integration. The power of standardization and the introduction of relevant controls have allowed multinational companies to operate as a coherent unit in the different markets where they operate. The dominant criteria used by MNEs to choose their locations for RHQs in Africa are linked to the advantages of agglomeration and the accompanying economies of scale, and a sound institutional framework which provides a predictable business climate. Distance has become less important.

Working Paper 277

Title: Welfare and Common Property Rights Forestry: Evidence from Ethiopian Villages

Author(s): Dambala Gelo and Steven F. Koch

Date of Publication: March 2012

Classification-JEL: Q23, Q28

Keywords: Community forestry, treatment effects, IV, matching and Ethiopia

Abstract: In this study, welfare impacts associated with a unique common-property forestry program in Ethiopia were examined. This program is different from other programs, because it is two-pronged: a community forest is developed and additional support is provided for improved market linkages for the community's forestry products. The treatment effects analysis is based on both matching, which assumes random treatment assignment conditional on the observable data, and instrumental variable (IV) methods, which relax the matching assumptions. Data for the analysis is taken from selected villages in Gimbo district, southwestern Ethiopia. The program was found to raise the welfare of the average program participant households. Correcting for selection into the program led to both increased welfare and less precise estimates, as is common in IV analyses. The analysis results underscore the benefits to be derived from expanding the current forestry management decentralization efforts, although these benefits, given the design of the program, cannot be separated from the benefits to be derived from increasing market access for forestry products. However, the results suggest that placing property rights in the hands of those closest to the forest, combined with improved forest product market linkages, offers one avenue for both rural development and environmental improvement.

Working Paper 278

Title: Inflation Expectations of the Inattentive General

Author(s): Monique Reid

Date of Publication: March 2012

Classification-JEL: D82, D83, E31, E52, E58

Keywords: South Africa, sticky information, inflation expectations, inattentive general public

Abstract: The majority of academic research on central bank communication has analysed a central bank's audience as a single group. Analyses, especially empirical research have focused almost exclusively on a central bank's interaction with the financial markets, facilitated by the availability of high-quality, high-frequency asset price data. In practice, a central bank's audience is heterogeneous, and recognising this is advantageous for both modelling purposes and effective central bank communication. Many central banks use a range of communication tools to reach their various audiences, but little formal analysis has been conducted to guide policy design and communication strategies. Gathering and processing information are costly for the general public, so they make rational decisions that limit the time and resources they allocate to these tasks. As a result, aggregate inflation expectations of the public as a whole can be described as 'sticky' in that the spread of information about inflation expectations through the economy is not instantaneous. A body of literature has emerged over the past decade, led by Mankiw and Reis (2001), who developed the Sticky Information Phillips Curve (SIPC), and Carroll (2002, 2003), who proposed microfoundations for the SIPC. This paper follows Carroll (2002, 2003) in adopting epidemiological models to provide insight into how the general public in South Africa forms its inflation expectations. This enables an estimation of the speed at which the South African general public updates its inflation expectations (information stickiness). Agent-based models, which explain the complex aggregate inflation expectations of the general public from the agent level upwards, are then used to verify these estimates of information stickiness and explore the microfoundations of aggregate inflation expectations.

Working Paper 279

Title: The High-Frequency Response of the Rand-Dollar Rate to Inflation Surprises

Author(s): Greg Farrell, Shakill Hassan and Nicola Viegi

Date of Publication: March 2012

Classification-JEL: E31, E52, F30, F31

Keywords: high-frequency exchange rates; inflation surprises; Taylor rules; inflation targeting; credibility

Abstract: We examine the high-frequency of the rand-dollar nominal rate within ten-minute intervals around (five minutes before, five minutes after) official inflation announcements, and show that the rand appreciates (respectively, depreciates) on impact when inflation is higher (respectively, lower) than expected. The effect only applies after the adoption of inflation targeting, and is stronger for "good" news. Our findings are rationalizable by the belief, among market participants, in a credible (though perhaps not particularly aggressive) inflation targeting policy in South Africa; and can be used to monitor changes in currency market perceptions about the monetary policy regime.