



Draft

Economic Research Southern Africa Activity

April 2009 – March 2010

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Director's Statement

Since its inception in 2005, ERSA has been in operation for 5 years. It was therefore useful that the Steering Committee of ERSA instituted an independent external review of the activities, output and operation of the ERSA mechanism. Professor David Hendry, Matthew Stern and Dr. Stephen Yeo constituted the review panel, whose report was presented to a joint sitting of the Steering Committee and Academic Board of ERSA in November 2009. The report was wide ranging and provided a detailed examination of the activities of ERSA to date. It was satisfying that the review provided a positive assessment of the contribution of the ERSA Working Paper Series, Workshops and other mechanisms to the discipline of economics in our region. However what proved particularly useful for the executive of ERSA were a range of suggestions on how the operation, efficiency and impact of ERSA could be improved. I am particularly grateful to both the members of the review team, as well as all those who contributed their time to provide feedback to the reviewers for helping ERSA to improve.

As planned, 2009-2010 saw the foundation of two new Research Groups within the ERSA workshop framework. A group in Economic History, and a second in Public Economics became active during the course of the year, and held their first meetings. Gratifying was the strong response and attendance by members of both the policy and the academic research community for both groups.

For the Working and Policy Paper series, submissions have continued the pattern of 2008-2009, taking the form of a steady flow. The editorial team has continued in its efforts to improve the turnaround time for submitted manuscripts. While the processing time has improved, there remains room for improvement in this regard.

During 2009-2010 the number of published papers has risen from 117 Working Papers, and 14 Policy Papers, to 177 Working Papers, and 16 Policy Papers. Papers continue to reflect a wide coverage of economics, with publications appearing in 17 of the 20 feasible specialization categories that the *Journal of Economic Literature* recognizes.

Publications in peer reviewed journals arising from the ERSA paper series also continue to increase. During 2009-2010 the number of published papers rose from 50 to 73, of which 39 appeared in international journals, and 34 in South African journals.

The evidence continues to be consistent with the 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. It was pleasing to observe the panel of independent international assessors commenting on the fact that the ERSA series has become the premier Working Paper series in economics in the region.

During the course of 2009-2010 ERSA hosted a total of 13 workshops. While the majority of these were hosted under the auspices of the Research Groups, 2 workshops reflecting independent research interests were also hosted. Attendance at the workshops continues to be diverse in both demographic terms, and in terms of the number of institutions represented at the workshops. During 2009-2010 individuals from a total of 79 institutions attended ERSA workshops.

Associated with the workshops, ERSA also hosted a range of international visitors, including:

1. Stan Hurn: Queensland University of Technology, Brisbane
2. Alex Ludwig: Mannheim Research Institute
3. Hans Logfgren: World Bank
4. James Thurlow: IFPRI Washington
5. Jonathon Gilham: UK Treasury
6. Martine Mariotti: Australian National University
7. Nathan Nunn: Harvard University
8. Jeremy Magruder: University of California, Berkeley
9. Stephen Redding: London School of Economics
10. Wilko Bolt: De Nederlandsche Bank

Under the ERSA scholarship scheme, a total of 21 scholarships have been awarded to date. Of these, 17 were for Masters study, 4 for reading toward a PhD. To date, 2 of the Masters scholarship holders, and 1 of the PhD scholarship holders have completed their programme of study.

The wide ranging activities of ERSA inevitably rely on the input of a wide range of individuals. Members of Academic Board have given a large number of days pro bono. The three Deputy Directors similarly have provided substantial input not only into the editorial processes of ERSA, but also sustained substantive direction to the development of the research groups that have come to emerge under the ERSA banner. Crucially, the coordinators of the various research groups that ERSA funds carry a large burden of work in order to ensure that the research groups function effectively and regularly.

Since all of the ERSA activities, including the planning and logistical realization of the working paper series, workshops, international visitors, research group activity, prizes, scholarships and the administration of the day-to-day functioning of ERSA rests with the administrative team led by Gloria Halland, they deserve recognition for their tireless contribution to ERSA, and their admirable attention to detail in the execution of their duties.

Without the contributions of all of these individuals ERSA could not function, and my sincere thanks goes to them all.

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 four 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
- A Scholarship Programme in Graduate Studies in Economics

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

The Steering Committee

Membership of the Steering Committee 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 Steering Committee: Elias Masilela
- The Chair of the Academic Board: John Luiz
- The Director of ERSA: Johannes Fedderke
- Academia:
 - Two nominated representatives:
 - Murray Leibbrandt
 - Alain Kabundi
 - The coordinators of the three research groups of ERSA:
 - James Fairburn
 - Dorrit Posel
 - Nicola Vlegi
- National Treasury: Two representatives:
 - Christopher Loewald
 - Ismail Momoniat
- Presidency: One representative:
 - Ashraf Kariem or
 - Alan Hirsch
- Private Sector: 1 representative:

- Michael McDonald - SEIFSA
- Statistics South Africa: One representative:
 - Rashid Cassim

The Academic Board

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

Membership for the 2009/10 period was as follows:

- Tania Ajam, AfRec
- Meshach Aziakpono, GSB, University of Stellenbosch
- Sophia du Plessis, University of Stellenbosch
- James Fairburn, University of KwaZulu-Natal
- Johannes Fedderke, Director: ERSA
- Jan van Heerden, University of Pretoria
- John Luiz, Chair
- Steve Koch, University of Pretoria
- John Luiz, University of the Witwatersrand
- Mthuli Ncube, University of the Witwatersrand
- Dori Posel, University of KwaZulu-Natal
- Asrat Tsegaye, University of Fort Hare
- Nicola Viegi, University of Cape Town

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

Current ERSA Office Bearers

The ERSA programme does not currently have full-time staff, other than an administrator. 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:
 - Jan van Heerden
 - Dori Posel
 - Nicola Viegi
- Administrator: Gloria Halland
- Senior Secretary: Tania Jacobs

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 2-3 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 Board 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 Scholarship Programme

The long-term health of the economics discipline depends crucially on the quantity, but above all on the quality of future generations of researchers.

Retention of graduate students of the highest quality in Southern African graduate programmes has become increasingly difficult, particularly students from designated groups. This is often the case due to the opportunity cost of continuing with graduate courses, as well as the direct cost of course registration.

For this reason, ERSA introduced a scholarship programme with the intention to build long-term excellence in research and policy analysis in the field of economics.

While academic excellence is a necessary criterion, crucial too is the credible demonstration of the ability to succeed in a credible postgraduate programme in economics.

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 recognise the best achievers in each year of study, and to motivate them to study further in economics.

The Diaspora Fund

The motivation of the programme is to draw the internationally based South Africans into a continued and extended association with South Africa, by drawing on any residual sense of obligation or affection toward their home country, in order to generate a return human capital flow to South African based researchers. Above all, the intention is to ensure that the net loss effect of the South African human capital living and working abroad is minimized. Having South African researchers visiting from leading international universities broadens the horizon for South African students and integrates them in international debates and exposing them to the cutting edge of the discipline. Last, but by no means least is the intention to ensure that graduate students in South Africa are exposed to inspirational role models.

Report from the Chair of the Academic Board 2009/2010

The 2009-2010 year saw ERSA expand its activities significantly with the resultant increase in outputs. This was done in an environment in which ERSA was under significant budgetary pressure and this is to be commended although this pressure on resources is not sustainable. Two new working groups commenced and have developed into very active groups and ERSA now covers almost all major fields within economics. The growth in the Working Paper series makes ERSA the leading provider of economics' working papers in South Africa. I am especially pleased to see that these papers are being converted in top publications in leading journals which was always the intention of its creation. There has been a significant improvement in the impact factors of the journals that South African economists are now publishing in and ERSA's contribution to this has been meaningful. The scholarship programme continues to develop the human capital in the economics field by providing leading youngsters the opportunity for further graduate study which will solidify the future of our profession. The management of this programme by ERSA structures has been good and the leadership provided by Professor Jan van Heerden as chair of this committee has been superb as the rules and structures have had to be developed from scratch.

During 2009 an external review panel examined the impact and the internal organization of ERSA and made recommendations in terms of the future development of ERSA. This will result in ERSA developing more independent offices which will put further strain on ERSA internal resources. This review furthermore applauded what ERSA has achieved in a relatively short period of time and I would like to take this opportunity to praise the contribution of the ERSA team led by the Director and Gloria Halland for their hard work.

The Academic Board continued its role in providing oversight of the management of ERSA activities. Again I would like to thank the members of the Board for their tireless input without any financial reward. They have thereby demonstrated the ethos of ERSA of providing a network of scholarship and collegiality.

2010 will be a year of change within ERSA as it develops new structures and the planning in 2009 will have made this possible.

John Luiz
Chair Academic Board
January 2010

Income and Expenditure Statement: March 2009 – March 2010

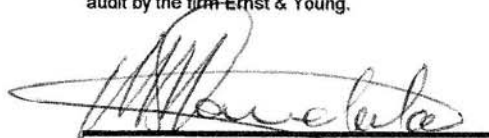
REPORT TO ECONOMIC POLICY RESEARCH SUPPORT PROJECT
INCOME AND EXPENDITURE STATEMENT
 PROJECT: ECONOMIC RESEARCH IN SOUTHERN AFRICA
 FUND 421040
 CUMULATIVE: 01 MARCH 2005 - 31 MARCH 2010
 CURRENT: 01 MARCH 2009 - 31 MARCH 2010



	01-Mar-09 to 31-Mar-10 Current Actual
INCOME	-6,765,627
Balance carried forward	-389,702
ERSA	-6,375,924
EXPENDITURE	6,469,286
Payroll	1,085,105
Director	426,000
Deputy Directors	174,055
Administrators	447,486
Copy Editor	37,563
Other Expenses	5,384,181
Research Grants and referee payments	1,296,140
Honorarium	351,463
Printing	174,777
Media and monitoring	-14,397
AB & SC Meetings	111,099
Workshops	1,597,278
Website	14,750
Banking Charges	3,756
Computer Hardware	14,645
Software	21,621
Catering & Entertainment	12,758
ERSA Prizes	98,440
ERSA Scholarships	840,000
Donation Economic History Society	28,000
Sundries	1,960
Post & Courier	14,341
Phone	16,109
Stationery	4,726
External Review ERSAs	209,092
Furniture	12,534
UCT Overhead Levy (10%) (cost recovery)	575,090
<i>Surplus(-)/Shortfall at 31 March 2010</i>	-296,341

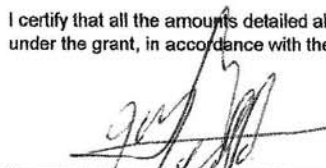
Note: Subsequent actual commitment expenditure incurred to 31 March 2010 amounts to **R163 730.25**.

I confirm that the above figures agree with the books and the records of the University of Cape Town. UCT's financial policies, procedures and books of account are the subject of an annual external audit by the firm Ernst & Young.



Mzi somdaka (Mr)p
 Commerce Faculty - Assistant Finance Manager

I certify that all the amounts detailed above have been actually and necessarily expended under the grant, in accordance with the terms and conditions outlined in the grant agreement.



Professor J Fedderke
 Project Director

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 2009-2010, ERSA has hosted a total of 13 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:

- Historic Data & Economic History Research in South Africa
- Financial Econometrics
- Dynamic Macroeconomic Models
- Computable General Equilibrium (CGE) Models
- Public Economics
- Firm Dynamics and Labour Markets
- Slavery & Economic History Research in South Africa
- Advanced Topics in International Trade
- Monetary & Financial Integration in Africa
- Firms and International Trade
- Spatial Regression Discontinuity

A full list of workshops, including their institutional affiliation, the location in which they were held, for the April 2009– March 2010 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 Rhodes University, the University of Cape Town, the University of KwaZulu-Natal, the University of Pretoria, the University of Stellenbosch, amongst other contributors and participants.

A noteworthy feature of the workshop programme of 2009/2010, was that a number of international experts participated in ERSA workshops.

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

1. Profs Stan Hurn from Queensland University of Technology, Brisbane was the presenter of the Financial Econometrics II workshop in April 2009.
2. Dr Alex Ludwig from the Mannheim Research Institute presented at the Dynamic Macroeconomic Models workshop in May 2009.
3. Dr Hans Logfgren, World Bank, James Thurlow, IFPRI Washington, and Jonathon Gillham, UK Treasury all participated in the CGE Workshop in May 2009.

4. Dr Martine Mariotti, Australian National University, and Dr Christiaan von Bochove, Utrecht University, presented in the Historic Data & Economic History Research in SA workshop in April 2009.
5. Prof Nathan Nunn, Harvard University presented at the Slavery and Economic History workshop in November 2009
6. Prof Jeremy Magruder, University of California, Berkeley was the presenter at the Spatial Regression Discontinuity in March 2010.
7. Prof Stephen Redding from the London School of Economics presented at the Empirical methods on Firms & International Trade workshop in February 2010.
8. Dr Wilko Bolt from De Nederlandsche Bank presented at the Monetary and Financial Integration in Africa workshop held in February 2010

Participation in the workshops of ERSA has been even more widely cast. A total of 410 people attended the thirteen ERSA workshops of 2009/10. 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: March 2008-March 2009

Name of Workshop	Date	Institution/ Place	WM	BM	WF	BF	Total
Historic Data & Economic History Research in South Africa	April 2009	Pretoria	18	6	4	2	30
Financial Econometrics II	April 2009	Stellenbosch	5	15	3	2	25
Dynamic Macroeconomic Models	May 2009	Johannesburg	6	12	6	7	31
CGE Workshop	May 2009	Johannesburg	21	20	13	6	60
Savings Workshop	Aug 2009	Pretoria	14	20	12	7	53
Introductory Workshop - ERSA Public Economics Research Group	Aug 2009	Cape Town	17	12	6	1	36
Firm Dynamics & Labour Markets in Africa	Oct 2009	Johannesburg	14	7	6	2	29
Round-Table Discussion: Africa at Crossroads	Nov 2009	East London	2	5	1	6	14
Slavery & Economic History Research in South Africa	Nov 2009	Cape Town	12	4	6	1	23
Advanced Topics in International Trade	Jan 2010	Stellenbosch	10	8	4	0	22
Monetary & Financial Integration in Africa	Feb 2010	East London	5	17	3	7	32
Empirical methods on Firms & International Trade	Feb 2010	Stellenbosch	13	17	4	2	36
ERSA Workshop on Spatial Regression Discontinuity	March 2010	Stellenbosch	6	3	7	3	19
Total			143	146	75	46	410

Table 2: Institutions represented at ERSA Workshops

ABSA
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
BANKSETA
Bureau for Economic Research (BER)
Bank of Namibia
Cadiz Securities
Competition Commission South Africa
Consultative Group on International Agricultural Research (CGIAR)
Council for Scientific & Industrial Research (CSIR)
De Nederlandsche Bank
Department of Trade and Industry
Development Bank of South Africa
Development Policy Research Unit (DPRU)
Discovery Financial Consultants
DNA Economics
East London Industrial Development Zone
Ferere Hospital East London
Financial & Fiscal Commission
Financial Planning Institute
Frost & Sullivan
Ghana Statistical Services
Harvard University
Hollard Insurance
Human Sciences Research Council (HSRC)
International Development Research Centre, Canada
INSTAT – Madagascar
Liberty Life
London School of Economics
Monash University SA
Mosswick Investments
National Energy Regulators of South Africa
National Youth Development Agency
Nelson Mandela Metropolitan University
North West University
Old Mutual
Oxford University
Oxford University Press
Pan-African Investment & Research Services
Quantec
Rhodes University
SA Savings Institute

Southern African Labour & Development Research Unit (SALDRU)
South African Government
South African National Treasury
South African Reserve Bank
Standard Bank
Stanlib
Stats SA
Thebe Employee Benefits
Trade and Industrial Policy Strategies
Transunion
University of California, Berkley
University of Cape Town
University of Dar es Salaam
University of Fort Hare
University of Guanajuato – Mexico
University of Johannesburg
University of KwaZulu Natal
University of Limpopo
University of Pretoria
University of South Africa
University of Stellenbosch
University of the Free State
University of the Western Cape
University of the Witwatersrand
University of Toulouse 1
University of Venda
University of Zambia
University of Zululand
United States Census Bureau
Utrecht University
Walter Sisulu University
WITS Graduate School of Business

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.

Since 2008, the number of published papers under this initiative has almost doubled, while the number of papers that have moved from working or policy paper status to fully published status in peer reviewed journals has also increased dramatically. Currently, almost 50% of the papers published in the ERSA series have been published in journals.

The structure of submissions to the ERSA Working and Policy Paper series has changed during the course of 2009/10.

As outlined in the preceding annual report, the change in the ERSA funding mechanism surrounding Working Papers initiated a marked increase in the number of submissions to ERSA, putting some pressure on the reviewing process. Since the close of 2009, the evidence suggests that the rate of submissions to ERSA has slowed fairly dramatically. One plausible explanation of this is that the academic community has exhausted the stock of research results that qualified for entry into the working paper series, and that the rate of new submissions reflects the flow of research output in the academy in South 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 three 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 R10,000 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.

Despite the slow-down in submissions, 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 117 Working Papers and 14 Policy Papers. Since March 2009, this has increased to 177 Working Papers, and 16 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, 73 out of the 188 Working and Policy Papers have been published,

with a number of additional papers forthcoming. Thus the publications rate currently stands at 39%. Also noteworthy is that of the published papers, 39 have appeared in international journals, and 34 in Southern African journals, giving a 53% 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	ISI Journal Ranking
01	J Fedderke, C Kularatne & M Mariotti	Mark-up Pricing in SA Industry	2007, Journal of African Economies	160/209
02	M Demertzis & N Viegi	Inflation Targets as Focal Points	2008, International Journal of Central Banking	Not rated
03	S Hassan	Optimal timing of defections from price-setting cartels in volatile markets	2006, Economic Modelling,	144/209
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,	17/93
06	L Edwards & A Behar	Trade liberalisation and labour demand within SA manufacturing firms	2006, Studies in Economics and Econometrics,	Unrated
12	J Fedderke & A Romm	Growth Impact and Determinants of Foreign Direct Investment into SA, 1956-2003	2006, Economic Modelling,	144/209
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,	Unrated
18	J Fedderke & P Flamand	Macroeconomic News 'Surprises' and the Rand/Dollar Exchange Rate	2005, Studies in Economics & Econometrics,	Unrated
21	K Pauw & L Edwards	Evaluating the general equilibrium effects of a wage subsidy scheme for SA	2006, South African Journal of Economics,	158/209
22	J Fedderke & J Luiz	Fractionalization and long-run economic	2007, Applied Economics,	29/209

		growth: Webs and direction of association between the economic and the social – SA as a time series study		
23	J Fedderke & G Szalontai	Industry concentration in SA manufacturing industry: trends and consequences, 1972-96	2008, Economic Modelling,	144/209
24	S Koch	The AID and MAID Systems: South African Household Data Pitfalls	2007. Studies in Economics and Econometrics,	Unrated
26	J Fedderke	An analysis of industry concentration in SA manufacturing, 1972-2001	2009, Applied Economics	29/209
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.	Unrated
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	158/209
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	53/209
32	A Zimper	A fixed point characterization of the dominance solvability of lattice games with strategic substitutes	2007, International Journal of Game Theory	85/209
33	Witness Simbanegavi	Informative Advertising: Competition or Cooperation?	2009, Journal of Industrial Economics	42/209
36	Z Bogetic & J Fedderke	Forecasting investment needs in SA's Electricity and Telecom Sectors	2006, South African Journal of Economics	158/209
38	P Burger & M Marinkov	The SA Phillips curve: How applicable is the Gordon model?	2008, South African Journal of Economics	158/209
39	J Fedderke & Z Bogetic	Infrastructure and growth in SA: Direct	2009, World Development	14/209

		and indirect productivity impacts of 19 infrastructure measures		
40	A Guerdjikova and A Zimper	Flexibility of choice versus reduction of ambiguity	2008, Social Choice and Welfare	96/209
42	N Samouilhan	The relationship between international equity market behaviour and the JSE	2006, South African Journal of Economics	158/209
47	U Schmidt & A Zimper	Security and potential level preferences with thresholds	2007, Journal of Mathematical Psychology	6/10
49	N Samouilhan	The Price of Risk on the JSE	2007, South African Journal of Economics	158/209
50	Alain Kabundi	Synchronization between SA and the US: A structural dynamic factor analysis	2009, South African Journal of Economics	158/209
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	158/209
54	P Aghion, M Braun & J Fedderke	Competition and productivity growth in South Africa	2008, Economics of Transition	138/209
55	J Geldenhuys & M Marinkov	Robust estimates of Okun's Coefficient for South Africa	2007, South African Journal of Economics	158/209
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	31/209
57	D Casale & D Posel	Bridewealth and the marital earnings premium for men	2010, Economic Dev & Cultural Change	73/209
58	A Zimper	Half empty, half full and the possibility of agreeing to disagree	2009, Journal of Economic Behaviour and Organization	26/209
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	Unrated

60	W Simbanegavi	Exchange Rates and Product Variety	2009, International Journal of Finance and Economics	154/175
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	158/209
63	Duncan Hodge	Economics, realism and reality: a comparison of Maki and Lawson	2008, Cambridge Journal of Economics	83/209
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	10/52
68	Rangan Gupta & J Uwillingiye	Measuring the welfare cost of inflation in South Africa	2008, South African Journal of Economics	158/209
72	Hammed Amusa	Fiscal Illusion at the local sphere: An empirical test of the flypaper effect using SA municipal data	2008, South African Journal of Economics	158/209
75	Sean Muller	Begging the question: Permanent Income and Social Mobility	2010, Economic Letters 108: 291-295	22/245
76	Cally Ardington, Murray Leibbrandt	Orphanhood and Schooling in SA: Trends in the vulnerability of orphans between 1993 & 2005	2009, Economic Development and Cultural Change	68/175
77	A Hofmeyr, J Burns and M Visser	Income Inequality, Reciprocity and public good provision: An experimental analysis	2007, South African Journal of Economics	158/209
79	Meshach Aziakpono	Exchange rate pass-through to import prices in SA	2008, South African Journal of Economics	158/209
81	Rangan Gupta & Emmanuel Ziramba	Costly tax enforcement and financial repression	2008, Review of Banking, Finance and Monetary Economics	Unrated
83	Andre Hofmeyr	Social networks and ethnic niches: An econometric analysis of the manufacturing sector in SA	2010, South African Journal of Economics	158/209

84	Lumengo Bonga-Bonga	Modelling the rand-dollar future spot rates: The Kalman Filter approach	2008, African Finance Journal	Unrated
86	Manoel Bittencourt	Macroeconomic performance and inequality: Brazil 1983-1994	2008, The Developing Economies	173/209
89	W Boshoff & J Fourie	Ship Traffic and the economy of the Cape Colony: 1652-1794.	2010, European Review of Economic History	198/245
90	Edwin Muchapondwa	Estimation of the aggregate agricultural supply response in Zimbabwe: the ARDL approach to cointegration	2009, Afjare	Unrated
91	W van der Merwe & Justine Burns	What's in a name? Racial identity and altruism in post-apartheid South Africa	2008, South African Journal of Economics	158/209
97	Alexander Zimper	Revisiting independence and stochastic dominance for compound lotteries	2008, B E Journal of Theoretical Economics	Unrated
98	Lumengo Bonga-Bonga	National savings and fiscal policy in SA: An empirical analysis	2009, Acta Academica	Unrated
101	Manoel Bittencourt	Macroeconomic performance & inequality: Brazil 1983-1994	2009, The Developing Economies	173/209
102	E Giovannetti	Asymmetry and discrimination in internet peering: evidence from the LINX	2009, International Journal of Industrial Organization	54/191
103	Sonali Das	Adaptive Bayesian Analysis for Binomial Proportions	2009, South African Statistical Journal	Unrated
104	Alexander Zimper	On attitude polarization under Bayesian learning with non-additive beliefs	2009, Journal of Risk and Uncertainty	51/209
111	J Fedderke, & W Simbanegavi	SA Manufacturing industry structure and its implications for competition policy	2008, Journal of Development Perspectives	Unrated
113	D Casale & D Posel	Unions and the gender wage gap in South Africa	2010, Journal of African Economies	160/209
115	Logan Rangasamy	How persistent is SA's inflation	2009, South African Journal of Economics	158/209
118	John Luiz	Factors influencing foreign direct investment of SA financial services firms in sub-saharan Africa	2009, International Business Review	103/209
119	Duncan Hodge	Growth, employment and unemployment	2009, South African Journal of	158/209

122	Lumengo Bonga Bonga	in SA Forward exchange rate puzzle: joining the missing pieces in the rand-US dollar exchange market	Economics 2009, Journal of Studies in Economics and Econometrics	Unrated
141	Jan van Heerden	Is Water Shedding Next?	2009, Water SA	Unrated
142	Steve Koch	Dynamic Health Care Decisions and Child Health in SA	2010, Journal of Income Distribution	
146	Meshach Aziakpono	Dynamic returns linkages and volatility transmission between SA and the world market equity markets	2009, Journal of Studies in Economics and Econometrics	Unrated
147	Henri Bezuidenhout	A regional perspective on Aid and FDI in Southern Africa	2009, Int Adv Econ Res	Unrated
149	Alain Kabundi	Could we have predicted the recent downturn in the South African housing market?	2009, Journal of Housing Economics	150/209
156	Shakill 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	158/209
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	Unrated
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	201/209
07	Z Bogetic & J Fedderke	International Benchmarking of South Africa's Infrastructure Performance	2006, Journal of Development Perspectives	Unrated
10	C van Walbeek	Official revisions to SA National accounts data: magnitudes and implications	2006, South African Journal of Economics	158/209
13	Evan Blecher	The impact of tobacco advertising bans on consumption in developing countries	2008, Journal of Health Economics	25/191

Statement by the Chair of the ERSA Editorial Committee

Prof JH van Heerden
School of Economic Sciences
University of Pretoria
20 October 2010

ERSA Working Paper Series

The Steering Committee
ERSA
Dear Sirs/Madams

ERSA Working Paper Series – April 2009 to March 2010

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

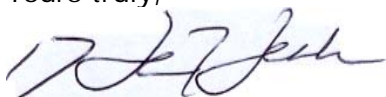
Since the start of the WPS about three years ago until the end of March 2010 we accepted and published 177 papers and 16 policy papers. The popularity of the WPS has been growing, and this is clear from the fact that in the last year there were 103 papers received and sent out for review. Only five of them were rejected outright, while most others were sent back with comments to be revised and resubmitted. During the said year 57 working papers and two policy papers were published.

The editorial committee consisting of Johann Fedderke and Nicola Viegi from UCT, Dori Posel from KZN and me, Jan van Heerden from U of Pretoria met on a weekly basis via telephone conference to discuss new and revised submissions, referee reports, and other related matters. We worked by consensus and decided to which referees all papers should be sent, and how to respond to all 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.

A list of international visitors to ERSA Workshops is provided in Table 4 below.

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.

Stan Hurn	Queensland University of Technology, Brisbane
Alex Ludwig	Mannheim Research Institute
Hans Logfgren	World Bank
James Thurlow	IFPRI Washington
Jonathon Gilham	UK Treasury
Martine Mariotti	Australian National University
Nathan Nunn	Harvard University
Jeremy Magruder	University of California, Berkeley
Stephen Redding	London School of Economics
Wilko Bolt	De Nederlandsche Bank

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 5.

Table 5: Economics Prize Winners

Institution	Placing	First Year	Second Year	Third Year	Honours	Masters	PhD
Nelson Mandela Metropolitan U	First Place	F.F. Mlambo	JP. Cloete	F. Kayoki	D. van der Linde	C.V.R. Wait	
	Second Place	D.S. Gate	E. Revesai	T.B. Date Line	S. Botha		
North West U	First Place	J. Jooste	C. Booysen	Z. Pohl	D.S. Nienaber	D. Fry	S.J. Jansen van Rensburg
	Second Place	R.L. Van Rooyen	M.S. Nunes	A. Fourie	J. Loots	F. Van Dyk	R.H. Mynhardt
U Cape Town	First Place	H. Moolla	R. Tully	C. Veller	K. Barron	J. Garlick	C. Ardington
	Second Place	N. Fensham	J. Kennedy	M.G. Corbeira	P. Searle	C. Allan	R. Mussa
U Fort Hare – Alice	First Place	K. Mahaso	P. Chipote	P. Hove	E. Ruziwa		
	Second Place	S. Chuma	C. Tafadzwa	P. Ndaruza	G. Murwirapachena		
U Fort Hare – E.L	First Place	M. Mrwetyana	B. Mgwekwa	R. Corneille	D. Rutendo		
	Second Place	N. Ntshobane	T. Beelien	V. Vaveki	M. Sinkqo		
U Free State	First Place	R. Lamb	A. van der Schyff		I. Molalapata	F. Botha	
	Second Place	O. Carshagen	C. Gough			D. Dlodlo	
U Johannesburg	First Place	S.B. Croock	M.F. Mphose	N.N.A. Mavee	M.E. Branmeier	N.N. Ngwenya	J.P. Schoeman
	Second Place	V. Knaack	J.J.A. Kouadio	L. Pane	I. Krige	B. Mupaya	
U KwaZulu Natal	First Place	T.T. Msibi	J. Archer	D. Pillay	L. Sessions	S. Singh	
	Second Place	T. Naicker	M. Moodley	K. Munsamy	T. Khumalo	D. Fatman	
U Limpopo	First Place	R. Gardzirah	M.P. Bele	D. Chauke	A. Mokgola		
	Second Place	M. T. Pasara	K.L. Phalane	R.N. Maphwanya	N.A. Senyatsi		
U Pretoria	First Place	L.S. van Wyk	G. van der Nest	A.P.G. Spyron	V. Peretti	M. Durieux	J.K. Ngoie
	Second Place	T.K. Buck	K.A. Macdonald	A. Grobler	S.P.K. Nkomo	M.P. Modise	C.K. Tipoy
U Stellenbosch	First Place	R. Meyer	M. Knoezen	I.W. Barnardt	S. Reid	M. van Rensburg	

	Second Place	R. Strydom	F. Kamper	J.M. Burger	L. Breytenbach	E.E. Walker	
U Western Cape	First Place	N. Mphela	M.M. Petersen	C. Mulenga	C.S. Christian	R. Dzivakwi	
	Second Place	M.S. Balie	S.J. Smedley	K.N. Malindi	S.N. Swart	M.M. Aphané	
Wits	First Place	S. Hurwitz	Z. Asmal	S. Seedat	T. Naughtin	A. Dittberner	
	Second Place	A. Ally	A. Jardine	N. Suchecki	M. Giannaros	M. Nicolau	

5. ERSA Economics Scholarships

The second group of students received ERSA scholarships for 2009/10, after the scholarship programme had been introduced the year before.

As mentioned before, the intention of the programme is to facilitate graduate study in economics. Specific recognition is thereby given to the fact that students in South Africa face considerable opportunity costs when undertaking graduate work, such that the supply of well-trained graduate economists in South Africa is not as great as it ideally should be.

A total 33 applications had been received of which 11 scholarships were awarded, each valued at R80 000, to be used at institutions of higher learning at the choice-discretion of the scholarship applicants.

The selection panel for the ERSA Scholarships were: Jan van Heerden (chair), Meshach Aziakpono, John Luiz, Sophia du Plessis, Johann Fedderke (observer) and Tania Jacobs.

The scholarships were awarded on a consensus basis and selection was based on merit, while diversity preferences applied where candidates were of similar standards. One more scholarship was awarded than the previous year, with approval from the Academic Board, in order to increase the number of non-white candidates in the group.

The list of scholarship winners is as presented in Table 6.

Table 6: ERSA Scholarship Awardees

Student Name	Institution	Course
Lauren Tavener-Smith	Georgia State University	PhD
Kai Barron	UCT	Master's degree
Katleho Bohloa	WITS	Master's degree
Marisa Coetzee	US	Master's degree
Arden Finn	UCT	Master's degree
Sarah Girdwood	UCT	Master's degree
Nondumiso Gumede	Rhodes	Master's degree
Clare Hofmeyr	UKZN	Master's degree
Rahma Mohamed	UCT	Master's degree
Mosili Moshabesha	Rhodes	Master's degree
Kristoff Potgieter	UCT	Master's degree

6. ERSA Diaspora Fund

During the course of 2008/9, ERSA introduced a diaspora fund, the intention of the programme being to encourage the growing number of South African economists, based at leading international institutions, into a continued and extended association with South Africa.

The motivation of the programme is to draw the internationally based South Africans into a continued and extended association with South Africa, by drawing on any residual sense of obligation or affection toward their home country, in order to generate a return human capital flow to South African based researchers. Above all, the intention is to ensure that the net loss effect of the South African human capital living and working abroad is minimized. Having South African researchers visiting from leading international universities broadens the horizon for South African students and integrates them in international debates and exposing them to the cutting edge of the discipline. Last, but by no means least is the intention to ensure that graduate students in South Africa are exposed to inspirational role models.

The University of Cape Town had applied for and received funding from ERSA in 2008 and reported on the partial use of the funding in the 2008/2009 ERSA Annual Report.

However the University of Cape Town has been unable to provide a statement for the 2009/2010 Annual Report on the use of the balance of the funding on the grounds that no activity had taken place during that period.

Appendix I: Workshop Reports: April 2009 – March 2010

1. Historic data and economic history research in South Africa 1 – 3 April 2009, Glenburn Lodge, Muldersdrift

The training workshop brought together 34 researchers working in the fields of economic and business history in South Africa. The list of participants suggests that the workshops of the ERSA Research Group in Economic History are achieving two very important objectives: providing a discussion forum for a core group of researchers and, at the same time, expanding interest in economic history by drawing new researchers into the field. In this way, the workshops should contribute to expanding the quality and volume of South African research in economic history.

Dr Martine Mariotti of the Australian National University, who had also participated in the September 2008 workshop in Durban, handled the training sessions at this workshop. These sessions revolved around discussion of the methodologies and other aspects of a number of economic history papers circulated before the workshop. Researchers participated actively in these sessions, and attempts to link aspects of these “best-practice” research papers to themes in South African economic history yielded several interesting research ideas.

The two sessions on archival work in the Netherlands presented by Dr Christiaan van Bochove (Utrecht University) provided fascinating insight into the process of accessing relevant historical data and the value of such data for economic history research. Mr Peter Perkins (StatsSA) presented a session on economic data available at and from StatsSA. In addition to outlining the wealth of information available from StatsSA, Mr Perkins highlighted several problems relating to the accessing of these data. This led to an important discussion among the participants about strategies to access StatsSA data. The research group will have to deliberate on this issue again.

Prof Charles Simkins presented a very useful session in which he outlined major themes and outstanding issues in economic history research in South Africa. His presentation yielded many ideas that could inform the research agendas of the group and individual researchers. Unfortunately, one of the presenters, Prof Robert Shell (University of the Western Cape), could not attend due to illness. The group used this gap in the programme to visit a nearby site of great historical significance: the Sterkfontein Caves in the Cradle of Humanity.

The final session was facilitated jointly by Prof John Luiz and Dr Martine Mariotti. The session focused on the way forward, and included a discussion of an envisaged publication on the economic history of South Africa (during the September 2008 workshop, the group committed itself to producing such a publication in time for the 2012 World Economic History Congress in Stellenbosch). The participants selected Prof Luiz, Ms Mariotti and Prof Christopher Saunders as editors to steer the process. It was also agreed that the next meeting of the research group (a research workshop on slavery at the end of October 2009) will include special sessions for the presentation of proposals for contributions to this publication. These sessions will provide initial feedback to prospective contributors, an indication of possible topics, and an opportunity for deciding on how to deal with omitted topics.

As was the case with the previous workshop, the responses from the participants were very positive and the interaction between the researchers again proved to be fruitful. The workshop achieved its goals of providing researchers with practical knowledge and skills on how to do economic history research that is on par with international work.

I thank you for your support.

Sophia du Plessis
on behalf of the organising committee

2. Financial Econometrics II: 7 – 9 APRIL 2009, University of Stellenbosch

The Financial Econometrics Part II workshop was conducted by Stan Hurn of the Queensland University of Technology. It formed the second in a sequence of two workshops covering advanced techniques in financial modeling. Part I took place in January 2009. Part II was held in April 2009.

The focus of the workshop was on the econometric tools relevant to the analysis of financial data, including high frequency data. The objective was to develop the ability of workshop participants to programme estimation requirements in MATLAB. In addition to theoretical prerequisites, emphasis was placed on concrete applications.

Course Contents:

1 THE MAXIMUM LIKELIHOOD PRINCIPLE

- 1.1 Introduction
- 1.2 Motivating
- 1.3 Joint Probability Distributions
- 1.4 Maximum Likelihood Framework
 - 1.4.1 The Likelihood and Log-likelihood Functions
 - 1.4.2 Gradient
 - 1.4.3 Hessian
- 1.5 Moments of the Gradient
 - 1.5.1 The Information Matrix
- 1.6 Asymptotic Properties
 - 1.6.1 Consistency
 - 1.6.2 Asymptotic Normality
 - 1.6.3 Asymptotic Efficiency
- 1.7 A Very Brief Introduction to Testing
 - 1.7.1 Likelihood Ratio Test
 - 1.7.2 Wald Test
 - 1.7.3 Lagrange Multiplier Test
- 1.8 Computer Applications
 - 1.8.1 Exponential Distribution
 - 1.8.2 The Classical Regression Model
 - 1.8.3 Exponential Regression Model

2 ESTIMATING NONLINEAR MODELS

- 2.1 Motivating Examples
- 2.2 Newton Methods
 - 2.2.1 Newton-Raphson
 - 2.2.2 Method of Scoring
 - 2.2.3 BHHH Algorithm
- 2.3 Quasi-Newton Methods
- 2.4 Line Searching

- 2.5 Simplex algorithm
- 2.6 Choice of Algorithm
- 2.7 Computing Standard Errors
- 2.8 Parameter Constraints
- 2.9 Maximum Likelihood Estimation of Nonlinear Regression Models
- 2.10 Computer Applications
 - 2.10.1 Exponential Distribution
 - 2.10.2 Robust Estimation of the CAPM
- 3 QUASI MAXIMUM LIKELIHOOD ESTIMATION
 - 3.1 Introduction
 - 3.2 Motivating Examples
 - 3.3 The Information Equality
 - 3.4 Variance of the Quasi-Maximum Likelihood Estimator
 - 3.5 Misspecification of Regression Models
 - 3.5.1 White Variance Estimator
 - 3.5.2 Newey-West Variance Estimator
 - 3.6 Testing
 - 3.7 Computer Applications
 - 3.7.1 A Model of US Investment
 - 3.7.2 Conditional Nonnormality and QMLE in Volatility Models

Johann Fedderke

3. Assessing Future Economic Developments and Policy Evaluation using Aggregate Dynamic Macroeconomic Models: Methods and Applications, 12 – 14 May 2009, University of Witwatersrand

The workshop—jointly hosted by the University of the Witwatersrand and the University of Johannesburg and presented by Professor Alexander Ludwig (University of Cologne)—managed to bring together current researchers in the field of quantitative dynamic macroeconomics, as well as researchers in related fields such as dynamic public finance and development economics. Professor Ludwig taught the participants how to develop and how to apply modern quantitative dynamic macroeconomic models for policy analysis with a key emphasis on teaching the required techniques. To this end, not only the theoretical features of models were discussed but also their implementation on the computer with advanced numerical techniques had been taught. Furthermore, Professor Ludwig demonstrated how the economic consequences of the demographic impact of the HIV epidemic could be formally captured in such models.

The overall attendance was—with an average of 30 participants—rather high for a course with such formal focus. The participants' feedback on the course's quality had also been very positive (please see the attached stats). Moreover, the official workshop dinner at the Mojo's restaurant gave rise to very lively discussions about the state of SA economic research compared with international developments.

Alexander Zimmer

4. Computable General Equilibrium (CGE) Modelling intermediate course (25-28 may) & Policy modeling using CGE Models: Policy (28-29 May)

The course brought together 18 professionals while the conference attracted some 10 researchers working in the field of CGE modelling and 50 delegates. The participants included numerous international speakers, such as Dr. Hans Logfgren

from the World Bank, Prof. Rob Davies from University of Zimbabwe, Dr. James Thurlow from IFPRI in Washington and Jonathon Gillham from the UK Treasury. The conference was attended by government officials, academics and students from the region.

Prof Davies, Dr Thurlow and Mr Dirk van Seventer lectured the intermediate CGE course which took place from 25 May to 27 May at the National Treasury. Various topics were covered such imperfect competition in the static model as well as policy simulations in the dynamic model.

The conference followed the course. Dr. Hans Logfgren from the World Bank opened the seminar with a presentation on "Aid, Service delivery and Millennium development goals in an Economy-wide framework". The session briefly covered what is needed to achieve the Millennium Development Goals (MDG) by 2015. He described a new tool, Maquette for MDG Simulations (MAMS) that fully integrates government services and their impact on the economy. MAMS offers three new advantages over previous methods. It considers both demand as well as supply efficiencies. It allows for the interaction between and across goals with the economy

In the second presentation, Prof. Davies and Dr. Thurlow presented on the linkages between the formal and informal economy, with emphasis to unemployment in South Africa. Wage subsidies on low-skilled formal workers increase national employment. In addition they found that unconditional cash transfers stimulates demand for informally-produced products, increases informal employment without undermining formal producers. Their presentation highlighted the need to distinguish between formal and informal sector implications of socioeconomic policies.

Dr. Hans Logfgren presented a second paper on tax policy to reduce carbon emissions in South Africa. The presentation compared the use of a carbon tax relative to alternative taxes in reducing carbon emissions. Dr. Hans Logfgren highlighted taxes that are more targeted to carbon emissions have better welfare results. Moreover, if the generated tax revenue is used to reduce pre-existing tax distortions, net welfare costs becomes negligible. He concluded that the discussion on carbon taxation in South Africa should focus on consideration other than economic welfare costs as they are likely to be low.

The second day started with a session by Dr James Thurlow on the impact of biofuels on poverty and growth. Using Mozambique as a case study, his presentation highlighted the benefits of large scale investments in biofuels on growth and poverty. These kinds of investments were found to enhance growth and poverty reduction especially when an outgrower scheme is used over a capital intensive plantation approach. An outgrower scheme is a partnership between growers or landholders and a company for the production of specific crops. Under these partnerships the inputs, costs, risks and benefits are shared by the growers and companies involved.

Dr James Thurlow concluded the seminar with a session on water market liberalisation in South Africa. He examined the impact of selected macro and water related policy reform on water use and allocation, rural livelihoods and the economy. He explained that liberalisation of local water allocation works in favour of higher value crops and expands agricultural production, exports and farm employment. These results make the trade-off between general economic gains and higher water prices difficult. As such it is hard to justify irrigation subsidies.

On the whole, the response of the participants was extremely positive and the interaction between the researchers was insightful. The workshop shed more light on the potency of CGE in addressing policy questions.

I thank ERSA and National Treasury for their financial support.

Konstantin Makrelov
(Convener)

5. Savings Workshop; 4 & 5 August 2009, South African Reserve Bank

The 4th and 5th of August 2009 at the South African Reserve Bank, ERSA has organized in collaboration with the South African Savings Institutes a national workshop "Savings". The workshop has seen the presentation of 10 papers from academics and industry practitioners and the participation of representative from the South African Reserve bank and the National Treasury. Overall the workshop was attended by around 40 people from the industry, academia and policy institutions.

Nicola Viegi
(Convenor)

6. First Public Economics Workshop 12 August 2009; Cullinan Hotel, Cape Town

The research workshop brought together more than 30 researchers and policy practitioners working in the field of public economics. The proceedings began with a short introduction by Andrew Donaldson (National Treasury) and the chair of ERSA, Johannes Fedderke. There were broadly three topics discussed at this workshop – the appropriate role and functioning of the ERSA public economics workgroup, a history of public economics research in South Africa, and examples of public economics research (with specific reference to the education system).

Philip Black (University of Stellenbosch) presented on 'Microeconomic aspects of public policy and development in South Africa' with specific reference to public economics research in the South African Journal of Economics, and then suggested areas of potential future research.

Servaas van der Berg (University of Stellenbosch) then presented on 'Human development and public finances'. He spoke to the difficulties of measuring long-term efficiency of public vs. private expenditures, and the difficulty of estimating the aggregate benefits of certain public goods.

Finally, Frederick Fourie (University of Free State) discussed the relationship between policy-making and academia. He spoke about the complexities of interaction between policy-makers and those external to the policy-making process. Professor Fourie completed his presentation with suggestions on the formal functioning of this ERSA workstream.

This presentation formed the basis for the final group discussion on the future functioning of the workgroup. It is envisaged that the ERSA public economics

workgroup will become an important platform for bringing together academics and policy-makers.

Ian Stuart
(Convener)

7. Firm Dynamics & Labour Markets in Africa: 5 – 6 October 2009, Wits Business School

This workshop was jointly funded by ERSA and the International Development Research Centre (IDRC) of Canada. The IDRC has funded a research project “Improving Labour Market Outcomes for the Poor in Sub-Saharan Africa” which has been coordinated by the African Microeconomic Research Umbrella (AMERU) at Wits University, and this workshop showcased the results of that project. The workshop was principally organized by Neil Rankin of AMERU and Wits, and followed on from a previous such workshop that took place in February 2008.

A large proportion of the papers presented looked at productivity, labour demand and trade performance among firms in various African countries: Ghana, Madagascar, Tanzania and South Africa. There were in addition a number of conceptual and overview papers, and several papers on other trade and industrial organization issues in South Africa.

The workshop successfully showcased the large body of research that has taken place with firm-level datasets in Africa, an area which the Trade and Industrial Organisation group at ERSA is keen to promote in South Africa. The workshop also enabled local researchers to interact usefully with economists sharing similar interests in the rest of the continent and Europe, and the quality of presentations and discussions was high.

James Fairburn
(Convenor)

8. Round table discussion: Africa at Crossroads: 13 & 14 November 2009, Cintsa, Eastern Cape

This report briefly covers the above round table discussion between a team of sixteen researchers from within and outside the University of Fort Hare that was conducted at the Cintsa East, Eastern Cape. The aim of this discussion was to tease out the different areas in which the respective researchers will contribute towards a book project on the economic challenges facing the African continent.

The introduction and objectives of the round table discussion was initially spelled out by the Team Leader. This was followed by the individual researchers presenting their chosen topics and issues which they will cover in their respective papers. Some broad areas of research topics were:

- Diversification and Growth
- IT Governance and Development
- Rural Micro-finance and Poverty Alleviation
- Cross Broad Trade and Poverty Alleviation
- Labour Market, Poverty and Challenges
- Global Financial Crisis and African Economic Growth

- Rapid Population Growth
- Corruption in Africa.

Following each presentation, feedback was received from participants on the essential elements the researcher has to focus on and the need to overcome areas of duplication and work together. The discussion ended with an agreement that the team members write their respective papers for a possible joint presentation at an ERSA Workshop on Economic Integration in Africa. This workshop which was subsequently held in Crawford's Cabins, Chintsa, Eastern Cape provided an ample opportunity for some of the team members to interact and make presentations of their respective papers to wider participants. Feedback obtained was both constructive and useful.

Asrat Tsegaye

9. Slavery and Economic History Research in South Africa 16-18 November 2009

The research workshop brought together 23 researchers working in the field of economic and business history. The participants consisted of an international speaker, Prof. Nathan Nunn of Harvard University, a speaker from the University of the Western Cape, Prof. Robert Shell, a participant from Mexico, and participants from seven South African universities and research institutions.

Prof. Nathan Nunn opened the workshop with a presentation on the importance of history for economic development. For the remainder of the first day, participants presented their research ideas. These presentations were all on intended research, the purpose being to obtain a first round of feedback and help. These sessions drew much discussion and were most useful to the presenters. It is envisaged that the research ideas will be presented as full papers in the November 2010 research workshop.

The second day started with a session by Prof. Nathan Nunn where he presented his research on African slavery, followed by a presentation by Prof. Robert Shell on slavery in the Cape Colony.

In the last session, full, unpublished papers were presented. Again, the feedback was useful and was of benefit to the presenters.

On the whole, the response of the participants was extremely positive and the interaction between the researchers was most fruitful. The workshop again brought researchers in the field of economic history together and built bridges across research fields. The different fields from which the participants came, namely economics, history, anthropology, etc., all contributed to the strength of the research group. There was mutual respect for the different perspectives and acknowledgment of the advantages each contribution would have for research in general.

I thank ERSA for their financial support. Economic history in South Africa would not have experienced this growth and enthusiasm if it were not for the ERSA funding.

Sophia du Plessis
(Convener)

10. International Trade Summer School; ERSA Computer Lab, University of Stellenbosch 25 – 29 January, 2010

The intention of the summer school was to provide an overview of international trade theory at the postgraduate level in order to enable participants (a) to be able to access the more specialized workshops that the Trade and Industrial Organization group has offered at other times, and (b) to consider issues and questions at the frontier of research in this field with a view to initiating and developing locally-based research. The school was based on the leading contemporary textbook in the area, Robert C. Feenstra's *Advanced International Trade: Theory and Evidence* (Princeton University Press, 2004), copies of which were supplied to participants. Lectures were delivered by Lawrence Edwards (UCT), Jim Fairburn (UKZN) and Neil Rankin (Wits).

Participants in the summer school were mainly from academia, though with a good representation from the policymaking community. The material was well received. One great advantage of the Feenstra book is that it contains a series of empirical exercises and one session per day was given over to covering this material. Participants welcomed this practical component in particular, but also engaged well with the theoretical sections on such issues as the pattern of trade, the impact of trade on wages and the effects of trade policy under imperfect competition. The summer school thus seems to have been successful in identifying and developing local research capacity in the field of international trade.

James Fairburn
(Convenor)

11. Monetary & Financial Integration in Africa – 3 & 4 February 2010

The 3rd and 4th of February 2010 in East London, the Macroeconomic working Group has organized, in collaboration with the University of Fort Hare, the second workshop on Economic Integration in Africa. The workshop saw a combination of the presentation of ten academic papers, a morning of training on "Payment Systems" run by Wilko Bolt of the Nedelansche Bank and a round table to review the work in preparation of the publication "Africa at the Crossroad" promoted by the University of Fort Hare. The Workshop saw the participation of around 30 researchers from a great number of South African universities and policy institutions.

Nicola Viegi
(Convenor)

12. Empirical Evidence on Firms and International Trade; SARB Conference Centre, Pretoria 29 – 30 March, 2010

This was the latest in a series of specialized workshops organized by the Trade and Industrial Organization group. The centerpiece of the workshop was a series of four lectures delivered by Stephen Redding of the London School of Economics. The lectures covered various aspects of a body of recent research that has examined the importance for international trade of firm heterogeneity, i.e. the fact that only a minority of firms engages in international trade and these firms are different in key ways from other firms. The lectures combined both high-level theory and empirical analysis, and we were very fortunate to have such clear and insightful analysis provided into this important area of contemporary research.

Research of this type is also beginning to take route in South Africa, and it is hoped that the kind of data required to fully investigate the interactions between firms and trade flows will become available in this country. The workshop also featured a number of presentations by locally-based researchers – Lawrence Edwards, Neil Rankin and Nicola Viegi – and these complemented Steve Reddings lectures very nicely. Thus the workshop seems to have been a great success in stimulating research, and interest in that research, in this important area of international trade.

James Fairburn
(Convenor)

13.Spatial Regression Discontinuity 4 & 5 March 2010

Recently, Stellenbosch University, through the generous support of Economic Research Southern Africa, hosted a Spatial Regression Discontinuity Workshop March 4-5, 2010. The workshop was developed and presented by Prof Jeremy Magruder, University of California-Berkeley. The workshop was delivered to a number of South African economists, and also offered Prof Magruder a platform from which he was able to visit a number of Departments of Economics within South Africa. In particular, he delivered seminars at the University of Stellenbosch, the University of Cape Town, the University of Pretoria and Witwatersrand University.

Prof Magruder spent approximately two weeks in South Africa reacquainting himself with various South African economists, as well as meeting many new ones. He delivered an outstanding workshop. The workshop included a quick course on the basics of regression discontinuity, which is currently only available at both UCT and UP. More importantly, he also spent considerable time helping students to reconstruct Esther Duflo's research on South African grandmothers and granddaughters, one of the few RD papers to use South African data. After the first day, students had data, as well as STATA code, which allowed them to develop their STAT skills and understand how to practically apply RD. The second day of the workshop was devoted to the spatial extension of RD, which is rather complex to apply. The two-dimensional nature of the discontinuity results in complex covariance matrixes that are needed to account for the spatial correlation.

Prof Magruder is a young economist, and is very interested in Development Economics. He has also written a number of papers related to South Africa. Given these interests, as well as his depth of knowledge, Prof Magruder was an excellent mentor for the attendees, inexperienced or not.

Although I have not received any specific written comments from the attendees, word of mouth has noted extreme satisfaction with the workshop. More importantly, Prof Magruder has expressed his willingness to return to South Africa at some point in the future, potentially offering a workshop in another area. Specifically, I have asked if he would be willing to spend some time at the University of Pretoria delivering a short course on, for example, Development Economics. I have also asked him to participate in a research project with me, in which we apply RD to University of Pretoria education information. He is quite excited about both projects, if I only could find the time, or the graduate student, to work on accessing the data.

In terms of what ERSA has promised to deliver to South Africa, I continue to believe that workshops of this nature form the foundation for ERSA's success at meeting its

deliverables. South African economists need opportunities of this nature to gain exposure to research ideas that will help them undertake the sort of research that will raise their international profile. Furthermore, Prof Magruder and visitors like him, offer these same economists a direct contact to the international economics community.

I can only request that ERSA continue to make funds available to continue to develop the research skills of South Africans through workshops of this nature.

Steve Koch

Appendix II: ERSA Working and Policy Papers

Working Paper 01

Title: Mark-up Pricing in South African Industry

Author(s): Johannes Fedderke, Chandana Kularatne & Martine Mariotti

Journal: 2007, *Journal of African Economies*, 16(1), 28-69.

Working Paper 02

Title: Inflation Targets as Focal Points

Author(s): Maria Demertzis and Nicola Viegi

Journal: 2008, *International Journal of Central Banking*, 4(1), 55-87.

Working Paper 03

Title: Optimal timing of defections from price-setting cartels in volatile markets

Author(s): Shakill Hassan

Journal: 2006, *Economic Modelling*, 23(5), 792-804.

Working Paper 04

Title: Has transition improved well-being? An analysis based on income, inequality-adjusted income, nonincome, and subjective well-being measures

Author(s): Carola Gruen and Stephan Klasen

Working Paper 05

Title: Using Fractionalization Indexes: deriving methodological principles for growth studies from time series evidence,

Author(s): J. W. Fedderke; J.M. Luiz and R.H. J. de Kadt

Journal: 2008, *Social Indicators Research*, 85, 257-78.

Working Paper 06

Title: Trade liberalisation and labour demand within South African manufacturing firms

Author(s): Lawrence Edwards and Alberto Behar

Journal: 2006, *Studies in Economics and Econometrics*, 30(2), 127-46.

Working Paper 07

Title: 'Who replies in brackets and what are the implications for earnings estimates? An analysis of earnings data from South Africa'

Author(s): Dorrit Posel and Daniela Casale

Working Paper 08

Title: Demand for health care in HIV/AIDS – affected households in two communities in the Free State province of South Africa

Author(s): Frikkie Booyens and M Visser

Working Paper 09

Title: Entering and exiting collaborative purchasing relationships

Author(s): Al Bhimani; Pascal Frantz & Mthuli Ncube

Working Paper 10

Title: Reconsidering the business cycle and stabilisation policies in South Africa

Author(s): Stan du Plessis

Working Paper 11

Title: Monetary Policy, Determinacy, and Learnability in the Open Economy

Author(s): James Bullard & Eric Schaling

Working Paper 12

Title: Growth Impact and Determinants of Foreign Direct Investment into South Africa, 1956-2003

Author(s): J. W. Fedderke and A.T. Romm

Journal: 2006, *Economic Modelling*, 23, 738 - 60

Working Paper 13

Title: Challenging Cassandra: Household and Per Capita Household Income Distribution in the October Household Surveys 1995-1999, Income and Expenditure Surveys 1995 & 2000, and the Labour Force Survey 2000

Author(s): J. W. Fedderke, Jeenesh Manga and Farah Pirouz

Working Paper 14

Title: Corporate Governance, Manager Behavior, and Analyst Behavior as Determinants of Mergers and Acquisitions

Author(s): Al Bhimani & Mthuli Ncube

Working Paper 15

Title: The Political Economy of Institutions, Stability and Investment: a simultaneous equation approach in an emerging economy – the case of South Africa

Author(s): Johannes Fedderke and John Luiz

Journal: 2008, *Journal of Development Studies*, 44(7), 1056-1079

Working Paper 16

Title: What is the Structure of South African Happiness Equations? Evidence from Quality of Life Surveys

Author(s): Timothy Hinks and Carola Gruen

Working Paper 17

Title: The Impact of Performance Intensive Policy Intervention: Aid Policy that is Performance Intensive

Author(s): Johannes Fedderke and Robert Klitgaard

Working Paper 18

Title: Macroeconomic News 'Surprises' and the Rand/Dollar Exchange Rate

Author(s): Johannes Fedderke and Philippe Flamand

Journal: 2005, *Studies in Economics and Econometrics*, 29(3), 1-16.

Working Paper 19

Title: Do Free Trade Agreements Create Trade for South Africa?

Author(s): Merle Holden & Landon McMillan

Working Paper 20

Title: Financial Systems and Monetary Policy in Africa

Author(s): Mthuli Ncube

Working Paper 21

Title: Evaluating the general equilibrium effects of a wage subsidy scheme for South Africa

Author(s): Kalie Pauw & Lawrence Edwards

Journal: 2006, *South African Journal of Economics*, 74(3), 442-62.

Working Paper 22

Title: Fractionalization and Long-Run Economic Growth: Webs and Direction of Association between the Economic and the Social – South Africa as a Time Series Case Study

Author(s): Johannes Fedderke and John Luiz

Journal: 2007, *Applied Economics*, 39, 1037-52.

Working Paper 23

Title: Industry Concentration in South African Manufacturing Industry: Trends and Consequences, 1972-96

Author(s): Johannes Fedderke & Gabor Szalontai

Journal: 2008, *Economic Modelling*, 26, 241-250

Working Paper 24

Title: The Aid and Maid System: South African Household Data Pitfalls

Author(s): Steve F Koch

Journal: 2007, *Studies in Economics and Econometrics*, 31(1), 1-28

Working Paper 25

Title: Governance, Incentives and Elections as Determinants of Economic Performance, Aid and Investment Flows

Author(s): Al Bhimani & Mthuli Ncube

Working Paper 26

Title: An Analysis of industry concentration in SA manufacturing, 1972-2001

Author(s): Johannes Fedderke

Journal: 2009, *Applied Economics*

Working Paper 27

Title: Technology, Human Capital and Growth

Author(s): J. W. Fedderke.

Journal: 2006, in *South African Reserve Bank, Banco de Mexico and The People's Bank of China (eds.) Economic Growth, Proceedings of a G20 seminar held in Pretoria, South Africa, on 4-5 August 2005.*

Working Paper 28

Title: DEA Applied to a Gauteng Sample of South African Public Hospitals

Author(s): Jacques N Kibambe & Steven K Koch

Journal: 2007. *South Journal of Economics*, 75(2): 351-368

Working Paper 29

Title: Does Human Generate Social and Institutional Capital? Exploring Evidence From Time Series Data in a Middle Income Country

Author(s): Johannes Fedderke and John Luiz

Journal: 2008, *Oxford Economic Papers*.

Working Paper 30

Title: Economic Growth, Entrepreneurship and the Business Environment in Africa

Author(s): Mthuli Ncube

Working Paper 31

Title: The Determinants of Educational Attainment

Author(s): Charles Simkins

Working Paper 32

Title: A fixed point characterization of the dominance solvability of lattice games with strategic substitutes:

Author(s): Alexander Zimmer

Journal: 2007, *International Journal of Game Theory*, 63, 107-117

Working Paper 33

Title: Informative Advertising: Competition or Cooperation?

Author(s): Witness Simbanegavi
Journal: 2009, *Journal of Industrial Economics*, (LVII), 147-166

Working Paper 34

Title: An Alternative Approach to the Existence of Sunspot Equilibria
Author(s): Haim Abraham

Working Paper 35

Title: Equilibrium Pricing When Only Some Goods Are Advertised
Author(s): Witness Simbanegavi

Working Paper 36

Title: Forecasting Investment Needs in South Africa's Electricity and Telecom Sectors
Author(s): Željko Bogetic and Johannes W. Fedderke
Journal: 2006, *South African Journal of Economics*, 74(3), 557-74.

Working Paper 37

Title: Antitrust Analysis for the Internet Upstream Market: a BGP Approach
Author(s): Alessio D'Ignazio & Emanuele Giovannetti
Date of Publication: April 2006

Working Paper 38

Title: The South African Phillips Curve: How Applicable is the Gordon Model?
Author(s): P Burger and M Markinkov
Journal: 2008, *South African Journal of Economics*, 74 (2), 172-189

Working Paper 39

Title: Infrastructure and Growth in South Africa: Direct and Indirect Productivity Impacts of 19 Infrastructure Measures
Author(s): J W. Fedderke & Z Bogetic
Journal: 2009, *World Development*

Working Paper 40

Title: Flexibility of choice versus reduction of ambiguity
Author(s): Ani Guerdjikova and Alexander Zimmer:
Journal: *Social Choice and Welfare*, 30, 507-526

Working Paper 41

Title: What Advertisers Want: A Hedonic Analysis of Advertising Rates in South African Consumer Magazines
Author(s): Nicolas Pietersma

Working Paper 42

Title: The Relationship Between International Equity Market Behaviour and the JSE
Author(s): Nick Samouilhan
Journal: 2006, *South African Journal of Economics*, 74(2), 248-60.

Working Paper 43

Title: Industry Structure and Labour Market Flexibility in the South African Manufacturing Sector: A Time Series and Panel Data Approach
Author(s): Johannes W. Fedderke and Andrew J Hill

Working Paper 44

Title: Currency Crises and Monetary Policy in an Economy with Credit Constraints: The Case for Low Interest Rates Restored

Author(s): Shakill Hassan

Working Paper 45

Title: An epistemic model of an agent who does not reflect on reasoning processes

Author(s): Alexander Zimmer

Working Paper 46

Title: Dissecting post-apartheid labour market developments: Decomposing a discrete choice model while dealing with unobservables

Author(s): Martin Wittenberg

Working Paper 47

Title: Security and Potential Level Preferences with Thresholds

Author(s): Ulrich Schmidt & Alexander Zimmer:

Journal: 2007, *Journal of Mathematical Psychology*, 51, 279-289

Working Paper 48

Title: The Direct Productivity Impact of Infrastructure Investment: Dynamic Panel Data Evidence From Sub Saharan Africa

Author(s): Ibrahim Bun Kamara

Working Paper 49

Title: The Price of Risk on the JSE

Author(s): Nick Samouilhan

Journal: 2007, *South African Journal of Economics*, 75(3), 442-58.

Working Paper 50

Title: Synchronization between South Africa and the U.S.: A Structural Dynamic Factor Analysis

Author(s): Alain Kabundi

Journal: 2009, *South African Journal of Economics*,

Working Paper 51

Title: Forecasting the South African Economy: A DSGE-VAR Approach

Author(s): Guangling 'Dave' Liu, Rangan Gupta and Eric Schaling

Working Paper 52

Title: Can local communities in Zimbabwe be trusted with wildlife management?: Evidence from contingent valuation of elephants

Author(s): Edwin Muchapondwa, Fredrik Carlsson and Gunmar Köhlin

Journal: 2008, *South African Journal of Economics*, 76(4), 685-704

Working Paper 53

Title: The Spatial Distribution of Manufacturing in South Africa 1970-1996, its Determinants and Policy Implications

Author(s): Johannes Fedderke and Alexandra Wollnik

Working Paper 54

Title: Competition and Productivity Growth in South Africa

Author(s): Philippe Aghion, Matias Braun, and Johannes Fedderke

Journal: 2008, *Economics of Transition*, 16(4), 741-768

Working Paper 55

Title: Robust Estimates of Okun's Coefficient for South Africa:

Author(s): J. Geldenhuys and M. Marinkov

Journal: 2007, *South African Journal of Economics*, 75(3), 373-90.

Working Paper 56

Title: Schooling as a Lottery: Racial Differences in School Advancement in Urban South Africa
Author(s): David Lam, Cally Ardington and Murray Leibbrandt
Journal: 2010, *Journal of Development Economics*,

Working Paper 57

Title: The male marital earnings premium in the context of bridewealth payments: Evidence from South Africa
Author(s): Daniela Casale and Dorrit Posel
Journal: 2010, *Economic Development and Cultural Change*

Working Paper 58

Title: Half empty, half full and why we can agree to disagree forever
Author(s): Alexander Zimper
Journal: 2009, *Journal of Economic Behaviour and Organization*

Working Paper 59

Title: Labor supply responses to large social transfers: Longitudinal evidence from South Africa
Author(s): Cally Ardington, Anne Case and Victoria Hosegood
Journal: 2009, *American Economic Journal – Applied Economics*, 1 (1), 22-48

Working Paper 60

Title: Exchange Rates and Product Variety
Author(s): Witness Simbanegavi
Journal: 2009, *International Journal of Finance and Economics*.

Working Paper 61

Title: Is there evidence of a wage penalty to female part-time employment in South Africa?
Author(s): Dorrit Posel and Colette Muller
Journal: 2008, *South African Journal of Economics*, 76(1), 26-44

Working Paper 62

Title: Learning About the Term Structure and Optimal Rules for Inflation Targeting
Author(s): Mewael F. Tesfaselassie, Eric Schaling, Sylvester Eijffinger

Working Paper 63

Title: Economics, realism and reality: a comparison of Mäki and Lawson
Author(s): Duncan Hodge
Journal: 2008, *Cambridge Journal of Economics*, 32, 163-202

Working Paper 64

Title: A Theoretically Defensible Measure of Risk: Using Financial Market Data from a Middle Income Context
Author(s): Johannes Fedderke and Neryvia Pillay

Working Paper 65

Title: Can the restrictive harvest period policy conserve mopane worms in Southern Africa? A bio-economic modelling approach
Author(s): Wisdom Akpalu, Edwin Muchapondwa & Precious Zikhali
Journal: 2009, *Environment and Development Economics*

Working Paper 66

Title: A Method for Theoretical Innovation in Economics
Author(s): Arnold Wentzel

Working Paper 67

Title: Inflation and Financial Development: Evidence from Brazil

Author(s): Manoel Bittencourt

Working Paper 68

Title: Measuring the welfare cost of inflation in South Africa

Author(s): Rangan Gupta and Josine Uwilingiye

Journal: 2008, *South African Journal of Economics*, 76(1), 16-25

Working Paper 69

Title: The Impact of Retirement Benefits on Consumption and Saving in South Africa

Author(s): V C Nhabinde and N J Schoeman

Working Paper 70

Title: Currency Substitution and Financial Repression

Author(s): Rangan Gupta

Working Paper 71

Title: Inflation Targeting: a Framework for Communication

Author(s): Maria Demertzis and Nicola Viegi

Working Paper 72

Title: Fiscal Illusion at the Local Sphere: An Empirical Test of the Flypaper Effect using South African Municipal Data

Author(s): Hammed Amusa, Robert Mabunda and Ramos Mabugu

Journal: 2008, *South African Journal of Economics*, 76(3), 443-465

Working Paper 73

Title: Does training benefit those who do not get any? Elasticities of complementarity and factor price in South Africa

Author(s): Alberto Behar

Working Paper 74

Title: A parsimonious model of subjective life expectancy

Author(s): Alexander Ludwig and Alexander Zimmer

Working Paper 75

Title: Begging the Question: Permanent Income and Social Mobility

Author(s): Sean Muller

Journal: 2010, *Economic Letters*, 108(291-295)

Working Paper 76

Title: Orphanhood and Schooling in South Africa: Trends in the vulnerability of orphans between 1993 and 2005

Author(s): Cally Ardington

Journal: 2009, *Economic Development and Cultural Change*

Working Paper 77

Title: Income Inequality, Reciprocity and Public Good Provision: An Experimental Analysis Begging the Question: Permanent Income and Social Mobility

Author(s): Andre Hofmeyr, Justine Burns and Martine Visser

Journal: 2007, *South African Journal of Economics*, 75(3), 508-520

Working Paper 78

Title: Price Elasticities and Pricing Power in Emerging Markets: The Case of Petrochemicals Derived

Plastics in South Africa

Author(s): Johannes Fedderke and Witness Simbanegavi

Working Paper 79

Title: Exchange rate pass-through to import prices in South Africa: Is there asymmetry?

Author(s): T D Karoro, M J Aziakpono & N Cattaneo

Journal: 2008, *South African Journal of Economics*

Working Paper 80

Title: The Private Sector and Cash Transfers in Africa

Author(s): Sheshangai Kaniki

Working Paper 81

Title: Tax evasion and financial repression: A reconsideration using endogenous growth models

Author(s): Rangan Gupta and Emmanuel Ziramba

Journal: 2008, *Economic Notes, Review of Banking, Finance and Monetary Economics*, 37(2), 141-154

Working Paper 82

Title: The income distribution with coarse data

Author(s): Reza Daniels

Working Paper 83

Title: Social Networks and Ethnic Niches: An Econometric Analysis of the Manufacturing Sector in South Africa

Author(s): Andre Hofmeyr

Journal: 2010, *South African Journal of Economics*,

Working Paper 84

Title: National Saving and Fiscal Policy in South Africa: an Empirical Analysis Sector in South Africa

Author(s): Lumengo Bonga-Bonga

Journal: 2008, *African Finance Journal*, 10(2), 51-67

Working Paper 85

Title: Is a DFM well suited for forecasting regional house price inflation?

Author(s): Sonali Das, Rangan Gupta and Alain Kabundi

Working Paper 86

Title: Financial Development and Inequality: Brazil 1985-1994

Working Paper 87

Title: Returns to Schooling: Skills Accumulation or Information Revelation?

Author(s): Steve Koch & S Ntege

Working Paper 88

Title: The impact of international trade on changing patterns of energy use in South African industry

Author(s): Marcel Kohler

Working Paper 89

Title: Ship traffic and the economy of the Cape Colony: 1652-1793

Author(s): Willem Boshoff and Johan Fourie

Journal: 2010, *European Review of Economic History*,, 1-35

Working Paper 90

Title: Estimation of the aggregate agricultural supply response in Zimbabwe: The ARDL approach to cointegration

Author(s): Edwin Muchapondwa

Journal: 2009, *Afjare*

Working Paper 91

Title: Whats in a name? Racial identity and altruism in post-apartheid South Africa

Author(s): W van der Merwe and Justine Burns

Journal: 2008, *South African Journal of Economics*, 76(2), 1-10

Working Paper 92

Title: Asset pricing in a Lucas 'fruit-tree' economy with non-additive beliefs

Author(s): Alexander Zimper

Working Paper 93

Title: Testing creative destruction in an opening economy: the case of the South African manufacturing industries

Author(s): P Aghion, J Fedderke, P Howitt, C Kularatne and N Viegi

Working Paper 94

Title: Nonparametric estimation when income is reported in bands and at points

Author(s): Martin Wittenberg

Working Paper 95

Title: Perceptions regarding entrepreneurship in an emerging and culturally diverse economy: A South African survey

Author(s): John Luiz and Martine Mariotti

Working Paper 96

Title: On the real exchange rate effects of higher electricity prices in South Africa

Author(s): Jan van Heerden, James Blignaut and Andre Jordaan

Working Paper 97

Title: Revisiting independence and stochastic dominance for compound lotteries

Author(s): Alexander Zimper

Journal: 2008, *B E Journal of Theoretical Economics*, 8 (1)

Working Paper 98

Title: Modeling the rand-dollar future spot rates: The Kalman Filter approach

Author(s): Lumengo Bonga-Bonga

Journal: 2009, *Acta Academica*

Working Paper 99

Title: Costly tax enforcement and financial repression

Author(s): Rangan Gupta and Emmanuel Ziramba

Working Paper 100

Title: Will availing credit incentives to Zimbabwean farmers trigger a maize output response?

Author(s): Sophia Musuna and Edwin Muchapondwa

Working Paper 101

Title: Macroeconomic performance and inequality: Brazil 1983-1994

Author(s): Manoel Bittencourt

Journal: 2009, *The Developing Economies*

Working Paper 102

Title: Asymmetry and discrimination in internet peering evidence from the LINX

Author(s): A D'Ignazio and E Giovannetti

Journal: 20092, *International Journal of Industrial Organization*

Working Paper 103

Title: Adaptive Bayesian Analysis for Binomial Proportions

Author(s): Sonali Das and Sourish Das

Journal: 2009, *South African Statistical Journal*

Working Paper 104

Title: On attitude polarization under Bayesian learning with non-additive beliefs

Author(s): Alexander Zimper and Alexander Ludwig

Journal: 2009, *Journal of Risk and Uncertainty*

Working Paper 105

Title: Loss leader or low margin leader? Advertising and the degree of product differentiation

Author(s): Witness Simbanegavi

Working Paper 106

Title: Characterizing Conflict Forms

Author(s): Johannes Fedderke and Chandana Kularatne

Working Paper 107

Title: Modelling international tourism demand for Zimbabwe

Author(s): Edwin Muchapondwa and Obert Pimhidzai

Working Paper 108

Title: Application of a multi-criteria integrated portfolio model for quantifying South Africa's crude oil import risk

Author(s): H Amusa, N Wabiri and K Chetty

Working Paper 109

Title: 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)

Author(s): Evan Gilbert and Dave Strugnell

Working Paper 110

Title: Who would eat more with a food voucher programme in South Africa?

Author(s): Jan van Heerden

Working Paper 111

Title: South African manufacturing industry structure and its implications for competition policy

Author(s): Johannes Fedderke and Witness Simbanegavi

Journal: 2008, *Journal of Development Perspectives*, 4(1), 134-189

Working Paper 112

Title: Measuring institutions: The Zimbabwe Case

Author(s): Farayi Gwenhamo, Johannes Fedderke and Raphael de Kadt

Working Paper 113

Title: Unions and the gender wage gap in South Africa

Author(s): Daniela Casale and Dorrit Posel

Journal: 2010, *Journal of African Economies*

Working Paper 114

Title: Wage subsidy and labour market flexibility in South Africa

Author(s): Delfin Go, Marna Kearney, Vijdan Korman, Sherman Robinson and Karen Thierfelder

Working Paper 115

Title: How persistent is South Africa's inflation

Author(s): Logan Rangasamy

Journal: 2009, *South African Journal of Economics*

Working Paper 116

Title: Local Municipalities and progress with the delivery of basic services in South Africa

Author(s): Waldo Krugell, Hannelie Otto and Jacky van der Merwe

Working Paper 117

Title: The economic rationale for agricultural regeneration and rural infrastructure investment in South Africa

Author(s): N G Meyer, M C Breitenbac, T I Fenyes and A Jooste

Working Paper 118

Title: Factors Influencing Foreign Direct Investment of South African Financial Services Firms in Sub-Saharan Africa

Author(s): John Luiz and Harry Charalambous

Journal: 2009, *International Business Review*

Date of Publication: March 2009

Abstract

This research investigates the key elements that South African financial services firms consider before making foreign direct investments in Sub-Saharan African (SSA) markets. The results show that South African financial services firms are most strongly influenced by the political and economic stability of the country in question as well as the profitability and long-term sustainability of its specific markets. The degree of available infrastructure in terms of Information and Communication Technology as well as the existence of credible financial systems was also viewed as highly important considerations affecting investment decisions in SSA. Given the uncertainty and ambiguity of most SSA markets, many South African financial services firms prefer to enter existing markets via a majority stakeholder joint venture with a local partner or via a new investment if the market does not currently exist. The nature of the financial services firm also seems to influence the entry method and once in a new country, most firms seem to prefer a full service presence. Additionally, the key motives cited for expansion northward were to broaden revenue bases and improve profit margins as well as to stay close to local customers.

Journal: 2009, *International Business Review*

Working Paper 119

Title: Growth, Employment and Unemployment in South Africa

Author(s): Duncan Hodge

Journal: 2009, *South African Journal of Economics*

Date of Publication: March 2009

Abstract

The high rate of unemployment in South Africa stands out in an otherwise vastly improved set of macroeconomic fundamentals compared to the situation in the early 1990s. One might be tempted to argue that by this single indicator alone, government policies such as GEAR have been a failure. This paper explains why jumping to such a conclusion would be a mistake and focuses on the relationship between economic growth and employment and shows how estimates of the employment coefficient have changed over time. This paper finds that the main

reason for the persistently high and rising rates of unemployment in South Africa over this period was the very large increase in the labour force and not a deficient growth or employment performance of the economy.

Journal: 2009, *South African Journal of Economics*

Working Paper 120

Title: Using Economic Incentives to encourage Conservation in Bioregions in South Africa

Author(s): Edwin Muchapondwa, Harry Biggs, Amanda Driver, Frank Matose, Kevin Moore, Eric Mungatana and Kelly Scheepers

Date of Publication: April 2009

Abstract

This paper starts from the now widely-held premise that biodiversity conservation ought to take place both inside and outside protected areas if biodiversity targets are to be met. Given the potential inter-linkages of areas inside and outside protected areas in ecosystems, the ultimate structure of biodiversity conservation should be bioregional landscape management. A framework for studying the factors affecting biodiversity conservation in bioregions is suggested. While many factors might affect biodiversity conservation, the use of economic incentives is argued to be potentially one of the most effective mechanisms for mainstreaming biodiversity conservation in bioregions. Institutions are singled out as one important class of socio-economic arrangements directly associated with economic incentives. Institutions are thus likely to be a major determinant of the vulnerability or success of biodiversity conservation. The paper uses South African examples, and concludes by outlining the research issues important in understanding the role of economic incentives in that context.

Working Paper 121

Title: The Welfare Cost of Banking Regulation

Author(s): Fulbert Tchana Tchana

Date of Publication: April 2009

Abstract

The Basel Accords promote the adoption of capital adequacy requirements to increase the banking sector's stability. Unfortunately, this type of regulation can hamper economic growth by shifting banks' portfolios from more productive, risky investment projects toward less productive but safer projects. This paper introduces banking regulation in an overlapping-generations model and studies how it affects economic growth, banking sector stability, and welfare. In this model, a banking crisis is initiated by an aggregated shock (in the risky sector) in a banking system with implicit bailout, and banking regulation is modeled as a constraint on the maximal share of banks' portfolios that can be allocated to risky assets. This model allows us to evaluate quantitatively the key trade-off, inherent in this type of regulation, between ensuring banking stability and fostering economic growth. The model implies an optimal level of regulation that prevents crises but at the same time is detrimental to growth. We find that the overall effect of optimal regulation on social welfare is positive when productivity shocks are sufficiently high (for example, in the subprime banking crisis episode) and economic agents are sufficiently risk-averse. Finally, we find that there is a trade-off between regulating the economy upfront (i.e. before the shock) and facing the challenge of making a huge bailout after the crisis.

Working Paper 122

Title: Forward Exchange Rate Puzzle: Joining the Missing Pieces in the Rand-US Dollar Exchange Market

Author(s): Lumengo Bonga-Bonga

Journal: 2009, *Journal of Studies in Economics and Econometrics*

Date of Publication: April 2009

Abstract

The Unbiased Forward Rate Hypothesis (UFRH) stipulates that the forward rates should be a perfect predictor for the future spot rates. A number of studies have tested the UFRH and foreign market efficiency and concluded that the hypothesis does not hold. This phenomenon is known as the UFRH puzzle. A number of studies that reject the UFRH have made use of ordinary least square (OLS) methods and support a linear adjustment between spot and forward exchange rates. This paper establishes that the use of a linear model in testing the UFRH can lead to a misspecification problem if indeed there is a nonlinear adjustment between the forward and spot exchange rates. In order to overcome the problem of model misspecification, this paper applies the nonlinear method of the class of the Smooth Transition Regression (STR) model in assessing the relationship between the Rand-US Dollar future spot and forward exchange rates. With the aid of a series of diagnostic tests, the paper shows that there is indeed a nonlinear adjustment process between the Rand-US Dollar spot and forward exchange rates and that there exists a regime in the STR model where the UFRH eventually holds. Furthermore, the out-of-sample forecast results show that the STR forecasting method outperforms the OLS and random walk methods in forecasting the future spot exchange rate.

Journal: 2009, *Journal of Studies in Economics and Econometrics*

Working Paper 123

Title: A Dynamic Model of Mesh Size Regulatory Compliance in Fisheries

Author(s): Wisdom Akpalu

Date of Publication: April 2009

Abstract

The violation of fishing regulations is a criminal activity that leads to depleting fish stock levels across the world. This paper focuses on fishing violations in developing countries. In particular, the paper analyses the use of a fishing net with illegal mesh size in a two regimes, namely a management regime where each community claims a territorial use right over the fishery and a regulated open access regime. This paper employs a dynamic model for fishery crimes that involve time and punishment to analyse the use of a net with illegal mesh size in the different regimes. We found that if the community has territorial use right, the illegal activity in addition to decreasing the intrinsic growth rate and the cost of fishing would increase the community's effective discount rate and consequently result in a much lower equilibrium stock and harvest relative to the situation where the community only use nets with the legal mesh size. Furthermore, under a regulated open access management the equilibrium stock will be lower if a community violates the regulation and the proportionate change in the risk of punishment is higher than the proportionate change in the harvest potential. Moreover, the optimum penalty for violation must be set higher in the open access fishery relative to the complete territorial use right management regime.

Working Paper 124

Title: Trends in the gender wage gap and gender discrimination among part-time and full-time workers in post-apartheid South Africa

Author(s): Colette Muller

Date of Publication: April 2009

Abstract

Using nationally representative household survey data from 1995 to 2006, this paper explores the gender wage gap among part-time and full-time salaried workers in post-apartheid South Africa, considering specifically how the magnitude of the gender-wage gap and the factors contributing to this gap have changed over time. The results, which are robust to the imputation

of values for missing earnings information, provide evidence of a gender gap in wages among both part-time and full-time workers that persists once measurable differences between men and women are accounted for. In addition, the magnitude of the total gender wage differential for both groups has fallen over the years, with the greatest reduction visible for those working part-time. This finding is potentially explained by a decline in discrimination that is greater among part-time workers than among those working full-time, and which is evident even when domestic workers, who are likely to have benefited from the extension of the Basic Conditions of Employment Act to the domestic services sector in 2002, are excluded from the analysis. The inability to control for sample selection bias does, however, complicate the interpretation of the results.

Working Paper 125

Title: Monetary Policy and Long-Term Interest Rates in South Africa

Author(s): Lumengo Bonga-Bonga

Date of Publication: April 2009

Abstract

This paper examines how the short-term and long-term interest rates react to supply, demand and monetary policy shocks in South Africa. Use is made of the impulse response functions obtained from the structural vector autoregressive model with long-term restrictions. We find a positive correlation between the two interest rates after a monetary and demand shock and a negative correlation after a supply shock. The finding of this paper signifies that the operation of the monetary transmission mechanism should be effective in South Africa. Furthermore, the finding of this paper provide an approach to identify supply shocks in the South African business cycle.

Working Paper 126

Title: Agricultural Risk Management through Community-Based Wildlife Conservation in Rural Zimbabwe

Author(s): Edwin Muchapondwa and Thomas Sterner

Date of Publication: April 2009

Abstract

This paper investigates whether the risk faced by rural farmers in Zimbabwe could potentially be managed by using community-based wildlife conservation. Community-based wildlife conservation could be an additional asset in the rural farmers. investment portfolio thereby potentially diversifying and consequently reducing the risk they face. Such investment could also help efforts to conserve wildlife. By making use of national historical data and statistical analysis, this paper finds that community-based wildlife conservation is a feasible hedge asset for agricultural production in rural Zimbabwe. The benefits of diversification into community-based wildlife conservation are likely to be high only in those rural areas that can sustain wildlife populations sufficient to generate adequate returns from wildlife activities such as tourism, trophy hunting, live animal sales and meat cropping.

Working Paper 127

Title: Isolating a Measure of Inflation Expectations for the South African Financial Market Using Forward Interest Rates

Author(s): Monique Reid

Date of Publication: May 2009

Abstract

The inflation expectations channel of the transmission mechanism has generally become

recognised as crucial for the implementation of modern monetary policy. This paper briefly reviews the practices commonly employed for measuring inflation expectations in South Africa and others a market-based alternative with advantages over existing measures. It is widely recognised that the yield curve contains some information about the future inflation expected by the markets. The availability of inflation-indexed bonds in South Africa for the past few years has provided an opportunity to use more recently developed techniques for isolating a measure of inflation expectations using the difference between nominal and real forward interest rates (inflation compensation). In this paper, the methodologies of Nelson and Siegel (1987) and Svensson (1994) are applied in order to determine a series of implied nominal and real forward interest rates. The difference between the nominal and real forward rates on a particular day are then determined, and this is used as a measure of the inflation expectations of the markets. This measure of inflation expectations should not be viewed as a substitute for other measures of inflation expectations, but should rather supplement these in order to offer an additional insight.

Working Paper 128

Title: The Empirics of Banking Regulation

Author(s): Fulbert Tchana Tchana

Date of Publication: May 2009

Abstract

This paper empirically assesses whether banking regulation is effective at preventing banking crises. We use a monthly index of banking system fragility, which captures almost every source of risk in the banking system, to estimate the effect of regulatory measures (entry restriction, reserve requirement, deposit insurance, and capital adequacy requirement) on banking stability in the context of a Markov-switching model. Our methodology is less prone to selection and simultaneity bias which are common in this type of study. We apply this method to the Indonesian banking system, which has been subject to several regulatory changes over the last couple of decades, and at the same time, has experienced a severe systemic crisis. We draw the following findings from this research : (i) entry restriction reduces crisis duration as well as the probability of such an occurrence; (ii) larger reserve requirements reduce crisis duration, but increase banking instability; (iii) deposit insurance increases banking system stability and reduces crisis duration; (vi) capital adequacy requirement improves stability and reduces the expected duration of banking crises. Finally, we find that previous studies present a negative simultaneity bias for deposit insurance and a negative selection bias for capital adequacy requirement.

Working Paper 129

Title: Modelling the Impact of Automatic Fiscal Stabilisers on Output Stabilisation in South Africa

Author(s): Kibambe Jacques Ngoie and Niek Schoeman

Date of Publication: May 2009

Abstract

This paper investigates ways in which an efficiency model like 'DEA Window analysis' can be utilised, under strictly defined conditions, to assess the level of efficiency of automatic fiscal stabilisers (AFS). The size of AFS is obtained through gaps in both revenue and expenditures variables such as tax revenue (current tax on income and wealth), social grants/benefits, and compensation of employees. The results obtained support evidence of AFS action between 1991 and 2005 and explain distinct cointegrating vectors that exist between the obtained efficiency scores and some selected variables, such as a corruption perception index (CPI), a conversion factor (exports), and the level of openness in the economy.

Working Paper 130

Title: Ostracism and Common Pool Resource Management in a Developing Country: Young Fishers in the Laboratory

Author(s): Wisdom Akpalu and Peter Martin

Date of Publication: June 2009

Abstract

This paper investigates how the possibility to ostracise, which is a familiar punishment mechanism to subjects in an experiment, affects harvest in a common pool resource experiment. The experiment was framed as a fishing problem and the subjects were young fishers in Ghana. We find that the introduction of the possibility to ostracise other members of a group at a cost to the remaining members of a group decreased over-fishing significantly in comparison with the situation where ostracism was not possible. The ostracism was based on at least 50 percent voting rule. Moreover, the subjects demonstrated a strong desire to ostracise those who overfished.

Working Paper 131

Title: The Sensitivity of South African Inflation Expectations to Surprises

Author(s): Monique Reid

Date of Publication: June 2009

Abstract

The maintenance of price stability is widely recognised as the primary goal of modern monetary policy, and the management of private sector inflation expectations has become an essential channel through which this goal is achieved. This evaluation aims to improve the understanding of how the sensitivity of private sector inflation expectations to macroeconomic surprises in South Africa compares internationally, as this provides an indication of the contribution of monetary policy in South Africa to anchoring inflation expectations. If a central bank is credible, the financial markets should react less sensitively to macroeconomics surprises, because they trust the central bank to manage these incidents and achieve the objectives they communicated over the medium to long term. In this paper, the methodology of Gurkaynack, Sack and Swanson (2005a) is adopted in order to measure the sensitivity of South African inflation expectations to surprises. A comparison of South Africa's results with those of countries in the original studies supports the contention that the SARB (South African Reserve Bank) has encouraged private sector inflation expectations to be relatively insensitive to macroeconomic surprises, and it offers further support to the argument that the inflation targeting framework facilitates the anchoring of inflation expectations.

Working Paper 132

Title: A comparative analysis of the synchronisation of business cycles for developed and developing economies with the world business cycle

Author(s): Ilse Botha

Date of Publication: July 2009

Abstract

Globalisation brought about worldwide changes, including economic and financial integration between countries. This integration implied, in business cycle theory, the emergence of a common business cycle. Most developed economies seem to follow the world business cycle most of the time. However, there is little evidence of the co-movement between emerging markets, such as South Africa, and the common cycle. Factor models, using principal component analysis, were constructed for developed and developing countries with output, consumption and investment data. These factors were compared to the world business cycle.

Co-movement was found between some countries and the world factor. The results suggest that there are country-specific and worldwide sources of economic shocks, which play different roles at different times in different countries. This has implications for forecasting the business cycle, especially in times of economic turmoil.

Working Paper 133

Title: Household responses to adverse income shocks: Pensioner out-migration and mortality in South Africa

Author(s): Vimal Ranchhod

Date of Publication: July 2009

Abstract

How do poor households respond to the cessation of cash transfers in developing countries? South Africa's generous social pension system results in most of the poor elderly being the primary 'breadwinner' in the household. I estimate the magnitude of the changes in household composition and labour force activity amongst the resident members of the household, that correlate with a pensioner leaving the household. I use nationally representative matched panel data from several waves of the South African Labour Force Surveys. Compositional changes include the out-migration of school-aged children, and in-migration of middle aged females and older adults of either gender. More than 1 in 4 losing households get an additional older adult. For people who maintain their residency status across waves, I find large and statistically significant increases in employment rates for middle aged females and males (9.3 and 8.1 percentage points in each case), as well as for older adult females and males (10.3 percentage points in each case). For middle aged adults, this is not accompanied by a corresponding increase in labour supply.

Working Paper 134

Title: The dynamics of inequality in a newly settled, preindustrial society: The case of the Cape Colony

Author(s): Johan Fourie and Dieter von Fintel

Date of Publication: July 2009

Introduction

Inequality is a major concern in many of the world's developing regions. South Africa is no exception, as the voluminous literature on the subject attests to (see Borat and Kanbur 2006, for example). Indeed, modern South Africa is one of the most unequal societies in the world, primarily as a result of institutionalised inequality under colonial segregation and Apartheid, but potentially also stemming from the set of institutions created much earlier under Dutch and British colonial rule (Terreblanche 2002). This paper will investigate inequality in the early colonial period. It is apparent in the literature that inequality is severely persistent; countries that exhibit high inequality from early stages of development generally continue to do so later on, while few policy prescriptions are successful in reversing the trend, even in times of high and sustained economic growth.

Working Paper 135

Title: Enhancing consumers' voluntary use of small-scale wind turbines to generate own electricity in South Africa

Author(s): Brendan Whelan and Edwin Muchapondwa

Date of Publication: July 2009

Abstract

This paper investigates whether South African households and small businesses can take

advantage of the country's substantial wind resources to produce their own power from small-scale wind turbines in a viable way. The viability of small-scale wind turbines is assessed by means of a financial analysis based on the internal rate of return method. The recently announced wind feed-in tariff will not affect the viability of consumer-based small-scale wind turbines considered in this paper since such turbines are used to displace electricity consumption from the grid rather than supplying electricity to the grid. Thus the benefits of such wind turbines' output is valued at the grid power tariff which is saved rather than at the wind feed-in tariff rate as electricity arbitrage opportunities are non-existent because of the smallness of the turbines. The analysis found the turbines to be viable in only a few of the windiest locations in South Africa. As the competitiveness of the turbines is seriously challenged by the relatively low coal-based electricity tariffs in South Africa the financial analysis also considers alternative scenarios where the turbines are supported by financial mechanisms, namely: a tariff subsidy; a capital subsidy and revenue from carbon credits. The analysis reveals that a tariff subsidy of about R1.45/kWh or capital subsidy of about R30,000/kW will be more effective in boosting the viability of consumer-based small-scale wind turbines in areas with winds of at least 5m/s. Thus, if the government's goal is renewable energy expansion in the country, there is a need for subsidizing all producers of renewable energy including those who produce it for their own consumption as they equally contribute to that goal. A tariff subsidy is however likely to be met with both political and public resistance if it means that consumers have to cross-subsidize the tariff. Also, the significant funds required for capital subsidies might not be freely available. An alternative solution would be granting soft loans to potential wind turbine buyers. Ultimately, the removal of distortionary support to coal-based electricity generation will go a long way in enhancing the viability of small-scale wind turbines.

Working Paper 136

Title: Regulation and Banking Stability: A Survey of Empirical Studies

Author(s): Fulbert Tchana Tchana

Date of Publication: May 2009

Abstract

This paper brings together and adds structure to the empirical literature on the link between banking regulation and banking system stability. In addition to clarifying the theoretical underpinnings for studying banking regulation, it points to several directions for future empirical research, necessary to fill the gaps in our understanding of the link between banking regulation and stability. The paper starts with a review of the literature on the design of banking regulation and its link with stability, followed by an assessment of the most common methodologies used in this literature. The paper then reviews the empirical literature of various banking regulations. This is followed by a proposal on the new directions for research of the link between banking regulation and banking system stability.

Working Paper 137

Title: A Large Factor Model for Forecasting Macroeconomic Variables in South Africa

Author(s): Rangan Gupta and Alain Kabundi

Date of Publication: April 2009

Abstract

This paper uses large Factor Models (FMs) which accommodates a large cross-section of macroeconomic time series for forecasting per capita growth rate, inflation, and the nominal short-term interest rate for the South African economy. The FMs used in this study contains 267 quarterly series observed over the period of 1980Q1-2006Q4. The results, based on the RMSEs of one- to four-quarters-ahead out of sample forecasts over 2001Q1 to 2006Q4, indicate that the FMs tend to outperform alternative models such as an unrestricted VAR, Bayesian

VARs (BVARs) and a typical New Keynesian Dynamic Stochastic General Equilibrium (NKDSGE) model in forecasting the three variables under consideration, hence, indicating the blessings of dimensionality.

Working Paper 138

Title: Economic Growth in South Africa since the late nineteenth century

Author(s): Johannes Fedderke and Charles Simkins

Date of Publication: July 2009

Introduction

Rereading D Hobart Houghton's *The South African Economy* (1967) and *Economic Development 1865-1965* (1971) brings to mind the stark theoretical and empirical differences between his account of thirty years ago and current views of economic growth. Hobart Houghton wrote within the optimistic and conceptually quite simple framework of W W Rostow's five stages of economic growth - only get to "take off" and your economic future is assured - whereas analysis of economic growth now draws on a more extended and technical literature which comes to no such simple conclusion. Hobart Houghton was writing after three decades of sustained growth in real per capita income; since then an extended period of falling real per capita income has inscribed itself on the South African record (see Figure 1), during a period of political instability and change. Hobart Houghton wrote in the Bretton Woods world which had gathered to itself a sense of stability: we are more uncomfortably aware that international trade and finance regimes have changed several times since the middle of the nineteenth century, usually with sharp and widespread transition costs. And thirty years ago, comparative information on economic growth was limited to a small (and biased) sample of countries. As more and more countries are brought within the scope of the World Bank's *World Development Report*, for instance, it has become apparent that middle income countries (of which South Africa is one) can regress economically just as easily as they can progress. Governments and peoples now understand themselves as engaged in the elusive quest for economic growth

Working Paper 139

Title: The impact of an electricity generation tax on the South African economy

Author(s): R. Seymore, P. D. Adams, M. Mabugu, J. H. van Heerden and J. Blynaut

Date of Publication: July 2009

Abstract

In the 2008 budget of the Minister of Finance, the South African Government proposed to impose a 2 cents/kilowatt-hour (c/kWh) tax on the sale of electricity generated from non-renewable sources; this tax is to be collected at source by the producers/generators of electricity. The intention of this measure is to serve a dual purpose of protecting the environment and helping to manage the current electricity supply shortages by reducing demand. The objective here is to evaluate the impact of such an electricity generation tax on the South African, SACU and SADC economies. The paper firstly considers the theoretical foundations of an electricity generation tax supported by international experiences in this regard. This section also contrasts the suitability of a permit with a tax system to achieve CO2 emission reduction. We subsequently apply the Global Trade Analysis Project (GTAP) model to evaluate the impact of an electricity generation tax on the South African, SACU and SADC economies. We simulate the proposed tax as a 10 percent increase in the output price of electricity. We assume a closure rule that allows unskilled labour to migrate and a limited skilled workforce. As expected, the electricity generation tax will reduce demand. Due to the decrease in domestic demand, export volume increases and import volume decreases, this is despite a weaker terms of trade. We also found that unemployment for unskilled labour increases and wages of skilled workers are expected to decrease. A unilateral electricity generation tax will benefit other SACU and SADC countries through an improvement in relative

competitiveness, as shown by the improvement of the terms of trade for these regions. If, however, the benefits of pollution abatement are internalised, then electricity generation tax is expected to yield a positive effect on the South African economy.

Working Paper 140

Title: Modelling South African Currency Crises as Structural Changes in the Volatility of the Rand

Author(s): Andrew S Duncan and Guangling D Liu

Date of Publication: July 2009

Abstract

This study tests the theory that currency crises are associated with sudden large changes in the structure of foreign exchange market volatility. Due to increases in market uncertainty, crisis periods exhibit abnormally high levels of volatility. By studying short-term changes in volatility dynamics, it is possible to identify the start- and end-dates of crisis periods with a high degree of precision. We use the iterative cumulative sum of squares algorithm to detect multiple shifts in the volatility of rand returns between January 1994 and March 2009. Dummy variables controlling for the detected shifts in variance are incorporated in a GARCH modelling framework. The analysis indicates that previously identified crisis periods in the rand coincide with significant structural changes in market volatility.

Working Paper 141

Title: Is Water Shedding Next?

Author(s): James Blignaut and Jan van Heerden

Journal: 2009, *Water SA*

Date of Publication: July 2009

Abstract

South Africa is in the grip of an electricity crisis marked by a euphemism known as "load shedding". The demand for electricity has grown to the point that the supply reserve margin is often under threat, necessitating the electricity supplier to cut supply to some areas for various periods of time, or to shed load. This is a condition previously unknown to South Africa since the country has enjoyed electricity security from the mid-1950s. Are we, however, heading in the same direction when considering water? Is water shedding inevitable? We ask these questions since South Africa is a country classified as having chronic water shortages, a condition exacerbated by climate change and the rapidly increasing demand for water. Can we avert a water shedding crisis by being proactive? In this paper we address this issue by applying a Computable General Equilibrium (CGE) model using an integrated database comprising South Africa's Social Accounting Matrix (SAM) and sectoral water use balances. We refer to AsgiSA, the governments' Accelerated and Shared Growth Initiative in South Africa, and conclude that continuing business as usual will indeed lead to a situation where water shedding will be inevitable. Unlike electricity, however, water security is much more serious from livelihood, health and socio-economic development perspectives since there are no substitutes for it, although its influence is not directly and immediately visible. This delayed effect can create a degree of comfort and ill-founded complacency leading to non-action, whereas there is an urgent need for proactive measures.

Journal: 2009, *Water SA*

Working Paper 142

Title: Dynamic Health Care Decisions and Child Health in South Africa

Author(s): Steve Koch

Journal: 2010, *Journal of Income Distribution*

Date of Publication: July 2009

Abstract

A large number of child deaths in developing countries could be averted if ill children received care sooner rather than later. This paper analyses the healthcare treatment pathway that is followed for children under the age of six. The majority of these children receive treatment within 24 hours. However, we find that income affects the probability of any treatment, despite freely available public healthcare, while delayed treatment for severely ill children is more likely to occur in more expensive private facilities. Our results suggest that free public healthcare is not enough to mitigate health inequality amongst young children, and that delayed healthcare could lead to adverse household expenditure shocks.

Journal: 2010, *Journal of Income Distribution*

Working Paper 143

Title: A Large Factor Model for Forecasting Macroeconomic Variables in South Africa

Author(s): Rangan Gupta and Alain Kabundi

Date of Publication: July 2009

Abstract

This paper uses two-types of large-scale models, namely the Dynamic Factor Model (DFM) and Bayesian Vector Autoregressive (BVAR) Models based on alternative hyperparameters specifying the prior, which accommodates 267 macroeconomic time series, to forecast key macro-economic variables of a small open economy. Using South Africa as a case study and per capita growth rate, inflation rate, and the short-term nominal interest rate as our variables of interest, we estimate the two-types of models over the period 1980Q1 to 2006Q4, and forecast one- to four-quarters-ahead over the 24-quarters out-of-sample horizon of 2001Q1 to 2006Q4. The forecast performances of the two large-scale models are compared with each other, and also with an unrestricted three-variable Vector Autoregressive (VAR) and BVAR models, with identical hyperparameter values as the large-scale BVARs. The results, based on the average Root Mean Squared Errors (RMSEs), indicate that the large-scale models are better-suited for forecasting the three macroeconomic variables of our choice, and amongst the two types of large-scale models, the DFM holds the edge.

Working Paper 144

Title: Foreign Direct Investment in Zimbabwe: The Role of Institutional Factors

Author(s): Farayi Gwenhamo

Date of Publication: August 2009

Abstract

The purpose of the paper is to examine the impact of property rights on foreign direct investment (FDI) in Zimbabwe for the period 1964-2005. While the macroeconomic determinants of FDI have been analysed to a considerable extent in past empirical work, the role of institutional factors such as the protection of property rights and the efficiency of the legal system has been underexplored. Using a multivariate cointegration framework, the paper employs a newly constructed de jure property rights index for Zimbabwe to determine the impact of property rights on FDI. The empirical evidence shows that property rights are consistently an important explanatory variable of FDI in Zimbabwe, even after controlling for periods when there are no significant new foreign capital inflows. Other significant explanatory variables of FDI in Zimbabwe are the real gross domestic product (GDP), capital intensity, the external debt to GDP ratio, political instability as well as the educational levels.

Working Paper 145

Title: Managing Disinflation under Uncertainty

Author(s): Mewael F. Tesfaselassie and Eric Schaling

Date of Publication: October 2008

Abstract

In this paper we analyze disinflation policy when a central bank has imperfect information about private sector inflation expectations but learns about them from economic outcomes, which are in part the result of the disinflation policy itself. The form of uncertainty is manifested as uncertainty about the effect of π_t on the current output gap. This differs from other studies on learning and control in a monetary policy context (e.g. Ellison (2006) and Svensson and Williams (2007)) that assume uncertainty about the effects of current policy actions on the economy. We derive the central bank's optimal disinflation strategy under active learning (DOP) and compare it with two limiting cases - certainty equivalence policy (CEP), or passive learning, and a Brainard-style cautionary monetary policy (CP). It turns out that under the DOP inflation stays between the levels implied by the CEP and the CP. A novel result - e.g. unlike Beck and Wieland (2002) - is that this holds irrespective of the initial level of inflation. At high levels of inherited inflation the DOP moves closer to the CEP, at low levels of inherited inflation the DOP resembles the CP.

Working Paper 146

Title: Dynamic Returns Linkages and Volatility Transmission between South African and World Major Stock Markets

Author(s): Z. Chinzara and M.J. Aziakpono

Journal: 2009, *J. Stud. Econ. Econometrics*

Date of Publication: September 2009

Abstract

This paper analyses returns and volatility linkages between the South African (SA) equity market and the world major equity markets using daily data for the period 199-2007. Also analysed is the nature of volatility, the long term trend of volatility and the risk-premium hypothesis. The univariate GARCH and multivariate Vector Autoregressive models are used. Results show that both returns and volatility linkages exist between the SA and the major world stock markets, with Australia, China and the US showing most influence on SA returns and volatility. Volatility was found to be inherently asymmetric but reasonably stable over time in all the stock markets studied, and no significant evidence was found in support of the risk-premium hypothesis.

Journal: 2009, J. Stud. Econ. Econometrics

Working Paper 147

Title: A regional perspective on Aid and FDI in Southern Africa

Author(s): Henri Bezuidenhout

Journal: 2009, *Int Adv Econ Res*

Date of Publication: September 2009

Abstract

During the last decade international aid flows diminished while Africa's relative share of global foreign direct investment (FDI) declined. This went together with lacklustre growth and low human development levels. In 2005, the G8 countries announced that they would increase aid to Africa by some \$25 billion per annum. The pledge for increasing aid seems to have triggered an extensive debate about the role of aid and other international capital flows in the development of poorer countries. This study contributes to this debate. Specifically it addresses the role of foreign direct investment and aid to growth and human development. Panel estimations are used to

determine the relationships between aid, FDI and growth in the Southern Africa region from 1990 to 2005. Negative relationships are found between FDI and growth while aid and growth turned out to be unrelated.

Journal: 2009, *Int Adv Econ Res*

Working Paper 148

Title: Endogenous market transparency and product differentiation

Author(s): Witness Simbanegavi

Date of Publication: September 2009

Abstract

This paper endogenizes both market transparency and product differentiation in a model of informative advertising à la Grossman and Shapiro (1984). We find, contrary to Schultz (2004), that an increase in market transparency raises firm profits but has no effect on product differentiation. We also find that a move from exogenous to endogenous market transparency is detrimental to welfare. Compared to the Grossman and Shapiro model, with endogenous product differentiation, firms advertise more, differentiate their products more, charge higher prices and earn higher profits when the advertising cost is "not too low". This is because endogenizing product differentiation relaxes price competition when the advertising cost is not too low.

Working Paper 149

Author(s): Sonali Das, Rangan Gupta and Alain Kabundi

Title: Could we have predicted the recent downturn in the South African Housing Market?

Journal: 2009, *Journal of Housing Economics*

Date of Publication: October 2009

Abstract

This paper develops large-scale Bayesian Vector Autoregressive (BVAR) models, based on 268 quarterly series, for forecasting annualized real house price growth rates for large-, medium and small-middle-segment housing for the South African economy. Given the in-sample period of 1980:01 to 2000:04, the large-scale BVARs, estimated under alternative hyperparameter values specifying the priors, are used to forecast real house price growth rates over a 24-quarter out-of-sample horizon of 2001:01 to 2006:04. The forecast performance of the large-scale BVARs are then compared with classical and Bayesian versions of univariate and multivariate Vector Autoregressive (VAR) models, merely comprising of the real growth rates of the large-, medium and small-middle-segment houses, and a large-scale Dynamic Factor Model (DFM), which comprises of the same 268 variables included in the large-scale BVARs. Based on the one- to four-quarters ahead Root Mean Square Errors (RMSEs) over the out-of-sample horizon, we find the large-scale BVARs to not only outperform all the other alternative models, but to also predict the recent downturn in the real house price growth rates for the three categories of the middle-segment-housing over the period of 2003:01 to 2008:02.

Journal: 2009, *Journal of Housing Economics*

Working Paper 150

Title: Evaluating the Performance of South African Economics Departments

Author(s): John Luiz

Date of Publication: October 2009

Abstract

Over the past decade economics departments in South Africa have seen major changes and a certain level of disruption. Much of this can be attributed to the integration of our discipline into the global arena after a period of academic isolation. This paper presents a survey of economics departments and covers everything from staff profiles and qualifications, to curricula, and research output. This paper indicates that there has been some improvement in the state of

economics at South African universities since 2003 when the previous survey was conducted. Research output is largely up as is the proportion in international journals and more researchers are producing in leading international economics publications. However, the gap between South African economics departments and their international counterparts remains large

Working Paper 151

Title: Social Ingredients and Conditional Convergence in the Study of Sectoral Growth

Author(s): Jacques Kibambe Ngoie, Renee van Eyden and Charlotte du Toit

Date of Publication: October 2009

Abstract

In this research article, we investigate the improved modelling ability and the outstanding policy advocacy of infusing health and education in sectoral growth equations of the South African economy. Our findings not only include improved and dependable modelling results but also provide distinct estimates of the returns on investment in health and education per sector using Iterative Seemingly Unrelated Regressions techniques. Additionally, this paper provides a theoretical description of the productivity effects of HIV/AIDS using sectoral equations. Also, this research investigates the diffusion process in the technological progress at the South African sectoral level and its impact on the study of social ingredients. Using a fixed effects model, some features of the diffusion process are explained.

Working Paper 152

Title: What actions could boost international tourism demand for Tanzania?

Author(s): Asimwe Bashagi and Edwin Muchapondwa

Date of Publication: July 2009

Abstract

Tanzania recognises the potential of international tourism in accelerating socio-economic development, particularly as a supplier of foreign exchange, investment and employment. This paper investigates the factors affecting international tourism demand for Tanzania. The autoregressive distributed lag approach to cointegration is applied. Local tourism prices, tourist preference, tourist income and the 2001 terror attack in the USA had a significant impact on international tourism demand for Tanzania between 1996 and 2006. The government needs to maintain macroeconomic stability, especially low inflation, if the country is to reap full economic benefits from tourism. To reduce sensitivity to local tourism prices, the tourism providers ought to put more effort into diversifying tourism products away from the universally available ones. For example, packaging a game drive in the same basket as Masaai traditional dance would constitute a unique tourism product. There is also a need to improve customer satisfaction to enhance tourist preference for the Tanzanian experience. In this regard, there is a need to train staff in the tourism industry, improve tourism infrastructure such as roads and hotels, and market Tanzanian tourism products aggressively to the world.

Working Paper 153

Title: Sex ratios and racial differences in marriage rates in South Africa

Author(s): Dorrit Posel and Daniela Casale

Date of Publication: November 2009

Abstract

In South Africa, marriage rates among white women aged 20 to 34 are at least twice as high as marriage rates among African women in the same age cohort. This paper compares the relationship between alternative definitions of sex ratios and marriage outcomes among African and white women using matched data from the 2001 Population Census and the South African Labour Force Surveys. We show that among both white and African women, simple sex ratios,

which capture the quantity of unmarried men relative to women in local marriage markets, are significant predictors of marriage. However, among African women, economic-based measures of "marriageability", which take into account the quality of available men, perform even better in predicting marriage. Our findings are consistent with the argument that the payment of bridewealth (or ilobolo) by a husband to the prospective wife's family acts as a financial constraint to marriage among African couples, raising the "marriageability" criteria of men.

Working Paper 154

Title: Value, Size and Momentum Portfolios in Real Time: The Cross-Section of South African Stocks

Author(s): Ryans Bartens and Shakill Hassan

Date of Publication: October 2009

Abstract

We implement a recursive out-of-sample method to examine anomalies-based ex-ante predictability in the cross-section of stock returns. We obtain a series of simulated out-of-sample returns, consistent with investors using only prior information when choosing predictor variables. We find that, by commonly used performance criteria, real-time trading strategies based on size, value and momentum effects would not consistently outperform a passive index of South African stocks - despite consistent in-sample excess returns. Our results suggest that the empirical relationship between the anomalous factors and cross-sectional average returns is unstable.

Working Paper 155

Title: Loud and Clear? Can we hear when the SARB speaks?

Author (s): Monique Reid and Stan du Plessis

Date of Publication: November 2009

Abstract

Inflation targeting is a forward-looking framework for monetary policy that has brought unprecedented transparency to the process of monetary policy. This paper aims to assess the degree to which the South African Reserve Bank's (SARB) Monetary Policy Committee (MPC) has, since the introduction of inflation targeting, successfully communicated to the public its policy analysis, and, in particular, the expected future policy changes. This paper follows international literature (Rosa and Verga (2007), Ehrmann and Fratzscher (2005)) in constructing a numerical index that is used to reflect the information content of the SARB's communications, specifically the monetary policy statements that accompanied each of the MPC meetings since 2000. The information in these reports is translated into a five-point scale that reflects the policy inclination communicated by the MPC. This ranges from a clearly signalled inclination to ease policy at one end of the scale, to a clearly signalled inclination to tighten policy at the other end. Relating this index to subsequent policy decisions reveals the informativeness of the index and, by implication, the informativeness of the underlying monetary policy statements. This method allows us to judge, systematically, the degree to which the MPC has communicated successfully, and the evolution of that success over the past nine years.

Working Paper 156

Title: The Equity Premium and Risk-Free Rate Puzzles in a Turbulent Economy: Evidence from 105 Years of Data from South Africa

Author(s): Shakill Hassan and Andrew van Biljon

Journal: 2010, *South African Journal of Economics*

Date of Publication: November 2009

Abstract

This paper presents a detailed empirical examination of the South African equity premium; and a quantitative theoretic exercise to test the canonical inter-temporal consumption-based asset-pricing model under power utility. Over the long run, the South African stock market produced

average returns six to eight percentage points above bonds and cash; and at the 20-year horizon, an investor would not have experienced a single negative realised equity premium over the entire 105-year period we examine. Yet, the maximum equity premium rationalised by the consumption-based model is 0.4%. The canonical macro-financial model closely matches the average risk-free rate, using realistic parameters for the coefficient of risk aversion and a positive rate of time preference.

Journal: 2010, *South African Journal of Economics*

Working Paper 157

Title: Indecisiveness aversion and preference for commitment

Author(s): Eric Danan, Ani Guerdjikova and Alexander Zimmer

Date of Publication: November 2009

Abstract

We present an axiomatic model of preferences over menus that is motivated by three assumptions. First, the decision maker is uncertain *ex ante* (i.e. at the time of choosing a menu) about her *ex post* (i.e. at the time of choosing an option within her chosen menu) preferences over options, and she anticipates that this subjective uncertainty will not resolve before the *ex post* stage. Second, she is averse to *ex post* indecisiveness (i.e. to having to choose between options that she cannot rank with certainty). Third, when evaluating a menu she discards options that are dominated (i.e. inferior to another option whatever her *ex post* preferences may be) and restricts attention to the undominated ones. Under these assumptions, the decision maker has a preference for commitment in the sense of preferring menus with fewer undominated alternatives. We derive a representation in which the decision maker's uncertainty about her *ex post* preferences is captured by means of a subjective state space, which in turn determines which options are undominated in a given menu, and in which the decision maker fears, whenever indecisive, to choose an option that will turn out to be the worst (undominated) one according to the realization of her *ex post* preferences.

Working Paper 158

Title: Determining the Causes of the Rising South African Unemployment Rate: An Age, Period and Generational Analysis

Author(s): Rulof Burger and Dieter von Fintel

Date of Publication: December 2009

Abstract

This paper takes advantage of the wealth of cross-sectional household surveys conducted after South Africa's political transition, in order to gain insights into the causes of the acceleration in the already high unemployment rate. A synthetic panel dataset is constructed to decompose unemployment and other labour market outcomes into cyclical, generational and life-cycle effects. This dynamic view isolates which groups are at risk across the period and allows a more nuanced understanding of the longrun and shorrun impacts. Our results indicate that the higher unemployment rates faced by the young are predominantly due to the disadvantage of entering the labour market more recently, rather than being attributable to their age. We furthermore isolate what has driven this longrun increase in labour market participation. In particular, higher educational attainment and household formation decisions across generations fuel labour supply among the more recent entrants. We find some correspondence between the cyclical variation in unemployment and the business cycle. This suggests that jobless growth is not a relevant feature of the South African labour market. This paper confirms many of the causes of unemployment that are postulated in the literature. The dynamic nature of this study has furthermore allowed the separation of short-run and long-run aspects of unemployment. The decomposition approach adopted here has uncovered the linkages between the schooling system and the labour market

across all generations, but, in particular, has isolated why the youngest generations have exhibited such distinct risks. The surge in labour supply amongst most recent generations (those aged 20 in 1995) can be explained by rapid exit rates from the education system resulting from overage enrolment policies enacted in the post-apartheid period. This has pushed individuals into the labour market prematurely and without the adequate skills to be absorbed into the workplace. The importance of the generational aspects of unemployment relative to life cycle and business cycle impacts suggests that policies should address the structural issues affecting each of these birth cohorts, rather than focussing on age groups per se.

Working Paper 159

Title: Patterns of co-movement between a developed and emerging market economy: The case of South Africa and Germany

Author(s): Alain Kabundi and Elsabé Loots

Date of Publication: December 2009

Abstract

This article examines the co-movement between a leading first-world economy (Germany) and an emerging market economy (South Africa) by applying a dynamic factor model. These countries have been chosen as proxies to analyse the channels of transmission of positive supply and demand shocks in developed economies and the effects of these on emerging market economies. The study concludes that supply and demand shocks in developed economies do not necessarily have similar effects in emerging market economies. A German supply shock has more of a demand-shock effect on the South African economy, while a German demand shock has more of a monetary policy effect on the South African economy. This implies that the policy response in emerging market economies should not necessarily be the same as in developed economies. In the case of the transmission of a positive supply shock from a developed country to an emerging economy, the demand effect will lead to increase in prices, which will require a more restrictive monetary policy stance. Similarly, a positive demand shock from a developed economy is transmitted as a monetary policy shock in an emerging market economy, requiring the latter group of countries to stimulate demand through expansionary fiscal and/or monetary policy.

Working Paper 160

Title: Three Cycles: Housing, Credit and Real Activity

Author(s): Deniz Igan, Alain Kabundi, Francisco Nadal De Simone, Marcelo Pinheiro, and Natalia Tamirisa

Date of Publication: January 2010

Abstract

We examine the characteristics and co movement of cycles in house prices, credit, real activity and interest rates in advanced economies during the past 25 years, using a dynamic generalized factor model. House price cycles generally lead credit and business cycles over the long term, while in the short to medium run the relationship varies across countries. Interest rates tend to lag other cycles at all time horizons. While global factors are important, the U.S. business cycle, house price cycle and interest rate cycle tend to lead the respective cycles in other countries over all time horizons. However, the U.S. credit cycle leads mostly over the long term.

Working Paper 161

Title: The harmonic sequence paradox reconsidered

Author(s): Alexander Zimmer

Date of Publication: December 2009

Abstract

According to the harmonic sequence paradox (Blavatsky 2006), an expected utility decision maker's willingness to pay for a gamble whose expected payoffs evolve according to the harmonic series is finite if and only if his marginal utility of additional income becomes eventually zero. Since the assumption of zero marginal utility is implausible, expected utility theory (as well as cumulative prospect theory) does apparently do a bad job in describing this decision behaviour. The present note demonstrates that the harmonic sequence paradox only applies to time-patient but not to time-impatient (risk-neutral) expected utility decision makers.

Working Paper 162

Title: An Economic Analysis of Sports Performance in Africa

Author(s): John Luiz and Riyas Fadal

Date of Publication: January 2010

Abstract

The purpose of this study is to develop insight into the socio-economic determinants of African sports performance. Previous studies have argued that a country's success in sports is directly related to the economic resources that are available for those sports. However, factors that are used to determine the levels of success for developed countries are not necessarily the same, or bear the same weight, as for developing countries. The premise of this study is to identify specific factors that increase success in sports in developing countries by means of several econometric specifications, using cross-sectional data for African countries. This study finds evidence that suggests that Africa's performance in sports is dependent on a range of socioeconomic factors, which in some respects confirms worldwide studies, but also adds significant nuance.

Working Paper 163

Title: The Composition of Foreign Capital Stocks in South Africa: The Role of Institutions, Domestic Risk and Neighbourhood Effects

Author(s): Farayi Gwenhamo and Johannes Fedderke

Date of Publication: March 2010

This paper investigates the determinants of the absolute volumes and composition of foreign capital stocks in South Africa, focusing on the role played by institutional quality (property rights), domestic risk and neighbourhood effects as potential determinants. The empirical findings show that secure property rights and low risk in the host country positively affect the absolute volumes of both long-term and short-term foreign capital, but tilt the composition of foreign capital in favour of long-term foreign capital. The empirical results also demonstrate the existence of neighbourhood effects where the institutional environment in Zimbabwe has a significant impact on South Africa's foreign capital in-flows. It is shown that weak property rights in Zimbabwe lead to an increase in South Africa's foreign direct investment (FDI), but a reduction in South Africa's portfolio investment. This suggests that Zimbabwe and South Africa compete for foreign direct investment in similar sectors, and present two alternative investment destinations to foreign investors. As such, when property rights in Zimbabwe worsen, FDI appears to switch to South Africa as an alternative. By contrast, poor property rights in Zimbabwe appear to raise the perceived risk for portfolio investment in South Africa.

Working Paper 164

Title: Why Speed Doesn't Kill: Learning to Believe in Disinflation

Author(s): Eric Schaling and Marco Hoeberichts

Date of Publication: February 2010

Abstract

Central bankers generally prefer to reduce inflation gradually. We show that a central bank may try to convince the private sector of its commitment to price stability by choosing to reduce inflation quickly. We call this 'teaching by doing'. We find that allowing for teaching by doing effects always speeds up the disinflation and leads to lower inflation persistence. So, we clarify why 'speed' in the disinflation process does not necessarily 'kill' in the sense of creating large output losses. This result also holds in an environment where private agents learn about the central banks's inflation target using a constant gain algorithm.

Working Paper 165

Title: Measuring Institutions: Indicators of Political Rights, Property Rights and Political Instability in Malawi

Author(s): Johannes Fedderke and Julia Garlick

Date of Publication: January 2010

Abstract

This paper aims to construct a new set of institutional indicators for Malawi. Our political freedom index correlates strongly with the Freedom House political rights and civil liberties indices, but consists of a far longer time series, which can be used to examine long-run issues with greater efficacy. The high correlations between the political freedoms index and the various property rights indices suggests that, in the Malawian case, lack of political freedom is associated with lack of economic freedom and security. However, our property rights indices correlate poorly with an index based on de facto property rights. This suggests that despite the government's legal power to abrogate property rights, these rights were generally respected. Cross-country comparisons suggest that political freedoms follow broadly similar patterns, particularly in Zimbabwe and Malawi. There is less of a match between countries on property rights issues, however.

Working Paper 166

Title: The Macroeconomic Impact of Skilled Emigration from South Africa: A CGE Analysis

Author(s): Heinrich R Bohlman

Date of Publication: February 2010

Abstract

South Africa faces the dual problem of large inflows of illegal immigrants and outflows of skilled emigrants. This situation potentially has serious implications for the domestic labour market and economy as a whole. In this paper we measure the impact of skilled emigration and the subsequent loss in primary factor productivity on the South African economy using a dynamic computable general equilibrium (CGE) model. Results indicate that skilled emigration in the absence of any programmes to counter this flow of workers has a generally negative effect on the economy. Industries with the greatest exposure to the investment and export sectors as well as those with the highest concentration of skilled workers are shown to be most affected. We also use simple and intuitive back-of-the-envelope equations to enhance our understanding of the mechanisms driving the model's macroeconomic results. These results justify the government's current efforts to retain and attract skilled labour as part of the ASGISA framework

Working Paper 167

Title: Border Tax Adjustments to Negate the Economic Impact of an Electricity Generation Tax

Author(s): R. Seymore, M. Mabugu and J. H. van Heerden

Date of Publication: February 2010

Abstract

In the 2008 Budget Review, the South African government announced its intention to levy a 2c/kWh tax on the sale of electricity generated from non-renewable sources. This measure is intended to serve a dual purpose of helping to manage the current electricity supply shortages and to protect the environment (National Treasury 2008). An electricity generation tax is set to have an impact on the South African economy. However, several instruments have been proposed in the literature to protect the competitiveness and economy of a country when it imposes a green tax, one of these remedies being border tax adjustments. This paper evaluates the effectiveness for the South African case, of border tax adjustments (BTAs) in counteracting the negative impact of an electricity generation tax on competitiveness. The remedial effects of the BTAs are assessed in the light of their ability to maintain the environmental benefits of the electricity generation tax. Additionally, the the Global Trade Analysis Project (GTAP) model is used to evaluate the impact of an electricity generation tax on the South African, SACU and SADC economies and to explore the possibility of reducing the economic impact of the electricity generation tax through BTAs. The results show that an electricity generation tax will lead to a contraction in South African gross domestic product (GDP). Traditional BTAs are unable to address these negative impacts. We propose a reversed BTA approach where gains from trade are utilised to counteract the negative effects of an electricity generation tax, while retaining the environmental benefits associated with the electricity generation tax. This is achieved through a lowering of import tariffs, as this will reduce production costs and thereby restore the competitiveness of the South African economy. The reduction in import tariffs not only negates the negative GDP impact of the electricity generation tax, but the bulk of CO₂ abatement from the electricity generation tax is retained.

Working Paper 168

Title: Role of Governance in Explaining Domestic Investment in Nigeria

Author(s): Olusegun Ayodele Akanbi

Date of Publication: March 2010

Abstract

This study empirically examines the pattern of domestic investment that is consistent with a neoclassical supply-side model of the Nigerian economy. The estimations are carried out with time-series data from 1970 to 2006 using the Johansen estimation techniques. The results conform to the findings of existing literature that real output, user cost of capital, and the level of financial development are significant determinants of domestic investment in Nigeria. The distinctive feature of the study is the significant role played by governance in explaining the long-term pattern of domestic investment in Nigeria. The results from the long-run estimation and the impulse responses revealed that a well-structured and stable socio-economic environment will boost domestic investment over the long run. Therefore, in modelling domestic investment for Nigeria, it is imperative to incorporate the significant role played by governance

Working Paper 169

Title: Democracy, Populism and Hyperinflation(s): Some Evidence from Latin America

Author(s): Manoel Bittencourt

Date of Publication: March 2010

Abstract

We test for the populist view of inflation in Latin America between 1970 and 2007. The empirical results - based on the relatively novel panel time-series data and analysis - confirm the theoretical prediction that recently elected governments coming into power after periods of political dictatorship, and which are faced with high economic inequality, end up generating high inflation and macroeconomic instability. All in all, we suggest that the implementation of democracy as such requires not only the right political context' - or an appropriately constrained

executive - to work well, but it also must come with certain economic institutions (e.g. central bank independence and a credible and responsible fiscal authority), institutions which would raise the costs of pursuing populist policies in the first place.

Working Paper 170

Title: Modelling Fugitive Natural Resources in the Context of Transfrontier Parks: Under what conditions will conservation be successful in Africa?

Author(s): Edwin Muchapondwa and Tafara Ngwaru

Date of Publication: March 2010

Abstract

The conservation of fugitive natural resources across national boundaries poses significant challenges in Africa. This realisation has resulted in the creation of transfrontier parks. While transfrontier parks help de-fragment wildlife habitats, in the presence of governance heterogeneity the same arrangements create uncertainty as they allow a diverse range of park managers to make decisions about wildlife. This paper formulates a bioeconomic model to examine the determinants of successful conservation of migratory wildlife across a transfrontier park with patch heterogeneity. The examination shows three key results. Firstly, it is both ecologically and economically worthwhile to establish a unified transfrontier park rather than have disjointed national ones only if stronger governance institutions exist in higher-resource potential areas. Secondly, the local communities will cooperate with transfrontier conservation effort only if they derive greater benefit flows from transfrontier park-based wildlife conservation than from anti-conservation activities such as wildlife poaching. Thirdly, successful conservation requires transfrontier arrangements that equalise the long-run costs and benefits for all constituent partners. Given the presence of patch and governance heterogeneity, successful elephant conservation in Southern Africa requires that South Africa shares benefits with Mozambique and Zimbabwe despite their weaker institutions to prevent resource leakages from threatening the transfrontier park.

Working Paper 171

Title: The impact of mega-events on tourist arrivals

Author(s): Johan Fourie and Maria Santana-Gallego

Date of Publication: April 2010

Abstract

While a mega-event is scheduled at least once every year somewhere in the world, these events are rare occurrences for the host cities and countries. The benefits of such events seem lucrative; the very fact that many countries bid to host these events suggests that the benefits - be they tangible or intangible - more often than not outweigh the costs. Using a standard gravity model of bilateral tourism flows between 200 countries from 1995 to 2006, this paper measures a very direct benefit of such mega-events: the increase in tourist arrivals to the host country. Although ex ante expectations are that tourism numbers would increase significantly during such an event, a growing literature points to the careful appraisal of possible tourist displacement, i.e. 'regular' tourists that change their behaviour when a mega-event is held, either shifting their trip to a different time or different location. This may result in reduced tourism gain, or even loss. In general, results suggest that mega-events promote tourism but the gain is dependent on the type of mega-event, the participating countries, the host country's level of development, and whether the event is held during the peak- or off-season.

Working Paper 172

Title: A Theory of Colonial Governance

Author(s): J.A.Agbor, J.W.Fedderke and N.Viegi

Date of Publication: March 2010

Abstract

This paper considers conditions of optimality in a co-optive strategy of colonial rule. It proposes a simple model of elite formation emanating from a coloniser's quest to maximise extracted rents from its colonies. The results suggest multiple optimal solutions, depending on the specification of the production function, the governance technology chosen by the coloniser and the technological parameters of the model. For instance, in agrarian colonial societies, the results suggest that under a technology of governance by numbers, a large elite population is a direct reflection of a high productivity-enhancing technology by the coloniser. In contrast, under a governance technology by quality, the better the productivity-enhancing technology, the lower the quality of human capital that is transferred to the elite. Additionally, under a composite governance technology, and given non-linearity conditions defined by the productivity distance threshold, the better the productivity-enhancing technology, the smaller the optimal elite size that is chosen by the coloniser. An alternative set of results is obtained assuming an industrial economic set-up (or interdependent production). These results suggest that the long debate about the apparent superiority of one European colonisation experience over the other is much more intricate than is often perceived in the literature. The insight from the model is also useful in understanding why the stock of human capital available in countries emerging from colonisation varied considerably across colonial experiences and from one country to another.

Working Paper 173

Title: A Comparison of Inflation Expectations and Inflation Credibility in South Africa: Results from Survey Data

Author(s): Jannie Rossouw, Vishnu Padayachee and Adél Bosch

Date of Publication: April 2010

Abstract:

This paper reports a comparison of South African household inflation expectations and inflation credibility surveys undertaken in 2006 and 2008. The objective is to test for possible feed-through between inflating credibility and inflation expectations. It supplements similar earlier research that focused only on the 2006 survey results. The single most important difference between the survey results of 2006 and 2008 is that female and male respondents reported inflation expectations at the same level in 2006, while female respondents expected higher inflation than male respondents in the 2008 inflation expectations survey. More periodic survey data will be required for developing final conclusions on the possibility of feed-through effects. A very large percentage of respondents in the inflation credibility surveys indicate that they 'don't know' whether the historic rate of inflation is an accurate indication of price increases. It will be necessary to reconsider the structure of credibility surveys to increase the number of respondents providing views on the accuracy of historic inflation data.

Working Paper 174

Title: Should Central Banks of Small Open Economies Respond to Exchange Rate Fluctuations: The Case of South Africa

Author(s): Sami Alpanda, Kevin Kotze and Geoffrey Woglom

Date of Publication: March 2010

Abstract

We estimate a New Keynesian small open economy DSGE model for South Africa, using Bayesian techniques. The model features imperfect competition, incomplete asset markets, partial exchange rate pass-through, and other commonly used nominal and real rigidities, such as sticky prices, price indexation and habit formation. We study the effects of various shocks on macroeconomic variables, and calculate the optimal Taylor rule coefficients using a loss function for the central bank. We find that the optimal Taylor rule places a heavier weight on inflation and output than the estimated Taylor rule, but almost no weight on the depreciation of currency.

Working Paper 175**Title:** Endogenous Money or Sticky Wages: A Bayesian Approach**Author(s):** Guangling 'Dave' Liu**Date of Publication:** March 2010**Abstract**

This paper attempts to answer question similar to that asked by Ireland (2003): What explains the correlations between nominal and real variables in postwar US data? More precisely, this paper aims to investigate whether endogenous money, sticky wages, or some combination of the two, are necessary features in a dynamic New Keynesian model in explaining the correlations between nominal and real variables in postwar US data. To do so, we estimate a medium-scale dynamic stochastic general equilibrium model of endogenous money. The model is estimated using Bayesian maximum likelihood and compared with a restricted version of the structural model, in which wages are flexible. We conclude that both endogenous money and sticky wages are necessary features in a dynamic New Keynesian model in explaining the variation in key macroeconomic variables, both nominal and real.

Working Paper 176**Title:** How Does Colonial Origin Matter for Economic Performance in sub-Saharan Africa?**Author(s):** J.A. Agbor, J.W. Fedderke, & N. Viegi**Date of Publication:** March 2010**Abstract**

This paper investigates the channels through which colonial origin affects economic outcomes in sub-Saharan Africa (SSA). It focuses on four key channels of transmission namely, human capital, trade openness, market distortion and selection bias. In contrast with previous studies where only initial conditions at independence were held to influence the subsequent growth path, the methodology that we apply in this paper combines (1) the pre-colonisation initial conditions, (2) the initial conditions at independence and (3) the subsequent post-colonial changes in explaining income differences amongst former SSA colonies. Our sample comprises of 38 SSA countries studied over the period 1960-2000, and we use pooled OLS and Hausman-Taylor estimation techniques in a panel framework. The results suggest that former British colonies have had marginally higher income levels than former French colonies, and this is attributable to the legacy of British colonisation in trade openness and human capital. We do not find robust evidence in support of the market distortion and selection bias channels. Besides highlighting the importance of the trade openness channel, the study is also the first, to the best of our knowledge, to simultaneously examine a range of feasible transmission channels between colonial origin and economic growth performance.

Working Paper 177**Title:** The Economic Origins of Twentieth Century Decolonisation in West Africa**Author(s):** J.A. Agbor**Date of Publication:** March 2010**Abstract**

This paper argues that the pattern of decolonisation in West Africa was a function of the nature of human capital transfers from the colonisers to the indigenous elites of the former colonies. Underpinning the nature of these human capital transfers is the colonial educational ideology. Where this ideology emphasized the notion of "assimilation", the system generally tended to produce elites that depended highly on the coloniser for their livelihood, hence necessitating a continuation of the imperial relationship even after independence was granted. On the contrary, where the ideology emphasized the "strengthening of the solid elements" of the country-side, the system tended to produce a bunch of elites that were quite independent of the coloniser and consequently had little to lose from a disruption of the imperial relationship at independence. The model raises several predictions based on a single assumption on the nature of the

nationalist elite. The paper's contribution, is in providing a framework for understanding the different paths of decolonisation in Africa in general, but more specifically in the British and French West African empires, an approach which unites both the Eurocentric and Afrocentric perspectives

Policy Paper 01

Title: From Chimera to Prospect: South African Sources of and Constraints on Long-Term Growth, 1970-2000

Author(s): J. W. Fedderke

Journal: 2006, in Borat, H. and Kanbur, R., eds., *Poverty and Policy in Post-Apartheid South Africa*, HSRC Press.

Policy Paper 02

Title: Technical Barriers to Trade faced by South African SMME's

Author(s): Michael A Peet and Steven Koch

Journal: 2007, *South African Journal of Economic and Management Sciences* 10(4): 530-543

Policy Paper 03

Title: Fiscal Incentives for Research and Development

Author(s): J.W. Fedderke and B.G. Teubes

Policy Paper 04

Title: Love and Addiction: The Importance of Commitment

Author(s): Steven Koch

Policy Paper 05

Title: Higher Education

Author(s): Charles Simkins

Policy Paper 06

Title: School Quality

Author(s): Charles Simkins

Policy Paper 07

Title: International Benchmarking of South Africa's Infrastructure Performance

Author(s): Željko Bogetic and Johannes W. Fedderke

Journal: 2006, *Journal of Development Perspectives*, 2(1), 7-31.

Policy Paper 08

Title: International Financial Architecture, Macroeconomic Volatility and Institutions: South Africa Experience

Author(s): Melvin Ayogu and Hashem Dezhbakhsh

Policy Paper 09

Title: The Importance of Courts for Trade Credit in East African Manufacturing Firms
Author(s): Sheshangai Kaniki

Policy Paper 10

Title: Official Revisions to SA National Accounts Data: Magnitudes and Implications
Author(s): Corne van Walbeek
Journal: 2006, *South African Journal of Economics*, 74(4), 745-765

Policy Paper 11

Title: Day labourers, unemployment and socio-economic development in South Africa
Author(s): A C Harmse, P F Blaauw and C J Schenck

Policy Paper 12

Title: Infrastructure Development and Economic Growth in South Africa: a review of the accumulated evidence
Author (s): Johannes Fedderke and Rob Garlick
Date of Publication: May 2008

Policy Paper 13

Title: The impact of tobacco advertising bans on consumption in developing countries

Author(s): Evan Blecher

Journal: 2008, *Journal of Health Economics* 27, 930-942

Abstract

Tobacco advertising bans have become commonplace in developed nations but are less prevalent in in developing countries. The importance of advertising bans as part of comprehensive tobacco control strategies has been emphasised by the Framework Convention on Tobacco Control which calls for comprehensive bans on tobacco advertising. The empirical literature suggests that comprehensive advertising bans have played a role in reducing consumption in developed countries but that limited policies have not. This paper extends this analysis to include 30 developing countries and finds that bans do play an important role in reducing tobacco consumption in these countries. It finds that both comprehensive as well as limited policies are effective in reducing consumption although comprehensive bans have a far greater impact than limited ones. Furthermore, it finds that advertising bans may be even more effective in the developing world than they are in the developed world

Policy Paper 14

Title: Policy Change and Economic Growth: A Case Study of South Africa

Author(s): David Faulkner and Christopher Loewald

Date of Publication: October 2008

Abstract

South Africa's growth experience provides an example of how contrasting growth trends - long-term decline followed by improved growth - pivot around political change, in this case a transition to democracy. In the decade prior to 1994, South Africa experienced the worst period of economic growth since the end of the Second World War, with growth variable and declining. The proximate causes of slowing growth were trade and financial sanctions in opposition to the Apartheid government, political instability and macroeconomic policy decisions that resulted in higher inflation, increased uncertainty and declining investment. Democracy has proved

critical to, among other factors, creating the possibility of a peaceful and more stable future and reversing investor sentiment at a basic level. Political and economic leadership have been essential to improving the country's growth performance, because of the effect on policy formulation, institutional development, regulatory design, and economic vision. Prudent fiscal policy and sound macroeconomic management have been critical factors in creating an environment conducive to growth by stabilising economic conditions, lowering the user cost of capital and putting downward pressure on the real exchange rate. This case study provides some insight into a more general perspective on political and economic transition and some of the key macro- and microeconomic policy shifts that need to occur to realise a more rapid and sustained growth path

Policy Paper 15

Title: Health Insurance or Food for the Family? An Examination into Unintended Consequences

Author(s): Olufunke Alaba and Steven Koch

Date of Publication : May 2009

Abstract

In developing countries, where health insurance is not a commonly purchased financial instrument, recent debates have revolved around extending health insurance coverage to a wider range of the population, primarily via compulsory insurance schemes. However, these debates rarely consider the competing demands placed on the family budget, which will influence the acceptability of the program by the populace, and can be used to design the optimal policy. In this paper, we examine treatment effects associated with household insurance status providing a detailed examination of expenditure substitution patterns within a highly unequal developing country. In agreement with economic theory, the expansion of health insurance coverage via compulsory schemes creates additional burdens for households, which households accommodate via expenditure substitution. The observed variation in the household's ability to accommodate increased expenditure can and should be used in future to assess policy options and design an optimal social health insurance program.

Policy Paper 16

Title: High Unemployment Yet Few Small Firms: The Role of Centralized Bargaining in South Africa

Author (s): Jeremy R. Magruder

Date of Publication: March 2010

Abstract

South Africa has very high unemployment, yet few adults work informally in small firms. One potential contributor to this problem is that large firms and unions can extend arbitration agreements to non-unionized smaller firms, raising wages. While local labor market characteristics influence the location of these agreements, they are enforced in a spatially discontinuous way, allowing identification by spatial regression discontinuity. Centralized bargaining agreements are found to decrease employment in an industry by 8-13%, with losses concentrated among small firms. These effects are not explained by resettlement to uncovered areas, and are robust to a wide variety of forms for average spatial heterogeneity