Testing the Expectations Hypothesis on Corporate Bond Yields

Samih Antoine Azar[1]

Abstract

This paper has the purpose of testing the expectations hypothesis of the term structure for two corporate bond yields. A new test is developed based on an ARIMA data generation process of the short rate, and on the derivation of a relation between the change in the long rate and revisions of expectations of future short rates. The paper makes the point that adjustment of the change in the long rate to short rate news does not occur instantaneously but is dynamic over time. For this reason a polynomial distributed lag of the rate news, which provides support to the expectations hypothesis, is estimated. This is quite remarkable because the liquidity, term, and default risk premiums are left out of the analysis.

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The Willingness to Spend on Healthcare: Evidence from Singapore

Lydia L. Gan[1] and James R. Frederick[2]

Abstract

For the past few decades, the household healthcare expenditures have experienced a phenomenal growth in Singapore. This paper seeks to identify the underlying socio-economic factors that contribute towards this phenomenon by employing time series data to examine the household willingness to spend on healthcare from 1970 to 2006. The results from our log-linear regression show that the willingness to spend on healthcare is positively related to the proportion of Singapore's population who are elderly, the literacy rate, the ratio of price of other goods and services to the price of healthcare, and the establishment of Singapore's mandatory health savings plan, Medisave. In terms of their effects on the growth of Singapore's willingness to spend on healthcare, the most important factors are the ageing of the population and the increase in the literacy rate.

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Monetary Policy, Interest Payments, Income Distribution and the Macroeconomy

George Argitis[1] and Stella Michopoulou[2]

Abstract

During the last two decades, Post Keynesian/Kaleckian distribution and growth models have gradually focused their attention on the effects that monetary policy and financial variables are likely to have on the macroeconomy. These models usually rely on the influence of debt, debt services and interest rate variations on the short-run and the long-run equilibrium. Nonetheless, very little attention has been paid to the empirical investigation of the major hypotheses made by this specific body of literature. The aim of this paper is to partly bridge this empirical gap. We have developed a simple Post Keynesian/Kaleckian macroeconomic model to set out the hypotheses that variations in interest payments are likely to negatively affect consumption, capital accumulation and income. Our econometric analysis uses panel data for a sample of ten OECD countries and assesses the relevance of these hypotheses.

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Illiquidity and Stock Returns

Robert M. Mooradian[1]

Abstract

A quarterly time series of the aggregate commission rate of NYSE trading for the period 1980-2003 is developed. The aggregate commission rate is of significant size, captures trading cost, and reflects market illiquidity. Consistent with financial theory, I find a positive relation between market returns and the aggregate commission rate. The impact of the aggregate commission rate on market returns survives a number of robustness checks and is significant after controlling for interest-rate factors, trading volume, and the variability of trading volume. Overall, the findings suggest that market-wide liquidity is a state variable important for asset pricing.

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Economic Valuation of Ecosystem Services in New Zealand Winegrowing Regions: Testing for Benefit Transfer

Ramesh Baskaran[1], Ross Cullen[2], Sergio Colombo[3]

Abstract

Benefit transfer (BT) is a pragmatic way of estimating values by transferring values from existing valuation studies to a target area of interest. BT using choice modeling (CM) is a potentially cost-effective method for valuing differences in improvements in environmental quality. After taking into account a range of policy options, ecosystem service attributes, socioeconomic characteristics and attitudinal variables for two winegrowing regions and populations, this study uses CM to value the marginal benefits of improvement in selected ecosystem services associated with winegrowing. This study tests the transferability of willingness-to-pay or welfare measures of equivalence across two sites to check the suitability of the estimates to be transferred between the sites. Policy implications conclude the paper.

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Using a Forward-Looking Phillips Curve to Estimate the Output Gap in Peru

Gabriel Rodríguez[1]

Abstract

This paper identifies the output gap using the theoretical definition of the gap within a Phillips curve in the spirit of the New Keynesian framework. Using Peruvian data for the period 1980:1-2005:4, the results indicate a very flat slope of the Phillips curve but the output gap is large and persistent. Furthermore, the output gap is not correlated with the stochastic trend which is similar to the assumption used in the unobserved components model. The forward-looking component is estimated at 39% indicating a key role of this component in the inflation for a emerging country like Peru which is an economy partially dollarized using an inflation targeting scheme. The model is extended to include information coming from the unemployment rate but the results are very similar indicating poor additional information in the unemployment rate to identify the output gap. In order to compare, other estimations of the output gap are performed. The results show strong differences and the closer measure is the one obtained using the unobserved component model and the simple quadratic trend.

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Mode of Delivery and the Effectiveness of Foreign Aid: The Example of Missionary Work

Esa Mangeloja[1] and Tomi Ovaska2

Abstract

Conventional development aid, typically a service from government to government, has been a relatively poor determinant of economic growth or human development in developing countries. In this paper we test whether a distinctly grass-roots delivery mode, as is the case with missionary work, leads to a more effective dispersion of foreign aid. In addition to its mode of delivery, missionary work is also of interest as there is a known positive correlation between the growth rate of Christianity and economic development. We estimate the economic growth impacts of development aid versus missionary work variables by using empirical data from 119 countries and discuss several explanations for our empirical results.

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A Resale Explanation for the Declining Price Anomaly in Sequential Auctions

Zhiyong Tu[1]

Abstract

This paper studies price trends in a sequential first-price common-value auction with resale. It differs from the previous research in that it considers sequential auctions with *multi-unit* demand. In the two-stage case, we propose a condition that guarantees the existence of a symmetric monotonic equilibrium which exhibits a declining trend. This is because bidders have the incentive to overbid in the first round to lower their rivals' intertemporal inference on the object value so that they can obtain a second-stage advantage. We also characterize the necessary properties of symmetric monotonic equilibria in the finite N-stage and the infinite-stage cases. In the former case, the price trend remains constant and drops only at the last stage; in the latter case, we have a constant price trend throughout.

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