



Scottish Institute for Research in Economics

Annual report to the Scottish Funding Council

For the period 1 Oct 2009 to 30 Sept 2010

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Part 1

SIRE Director's introduction

SIRE has got off to a very good start – some excellent appointments have been made and a number of very valuable initiatives launched. This year's report has good stories to tell across the piece.

However there are still some challenges that all Economics Departments face in raising further the quality of research in Scotland, but equally there are things that I think SIRE can do to support them in this effort. The challenges are:

- everyone needs to feel part of SIRE and the task of raising research quality falls on them and not just SIRE appointees;
- we need to work more collectively to leverage opportunities for raising research quality.

Some of the things that SIRE can do:

- Stuart Sayer and I have begun a programme of visiting Economics Departments across Scotland to discuss our vision of the role of SIRE and collect ideas for further initiatives;
- Harness visits by distinguished international researchers to get them to stay around for a number of days and instead of having just a single seminar organise a number of visits including half-day meetings which researchers from all over Scotland can attend;
- Support the costs of researchers presenting papers at top quality conferences thus allowing Departmental Travel budgets to stretch further;
- Further support doctoral training

Following the round of visits to Departments SIRE will announce a raft of new initiatives in which we can all engage.



Part 2

SIRE Executive and International Advisory Board

- 2.1 During the reporting period the SIRE Executive Committee comprised:
- David Ulph (SIRE Director – from April 2010)
 - Stuart Sayer (SIRE Executive Director)
 - Ed Hopkins (Director of BIC)
 - Gabriel Talmain (Director of MFLR; replaced by Charles Nolan from September 2010)
 - Martin Chalkley (Director of W&W)
 - Mark Schaffer (SGPE PhD Director)
- 2.2 Following John Moore, the original SIRE Director, demitting office at the end of 2008, the post of Director had remained vacant. David Ulph was appointed as Director from April 2010, following the end of his term as Head of the School of Economics and Finance at St Andrews.
- 2.3 David Ulph brings a great deal of valuable experience to the position. He has been Head of the Economics Department at both Bristol and UCL. While at UCL he became Executive Director of the ESRC Centre for Economic Learning and Social Evolution (ELSE), which, amongst other things, designed the UK auction for 3G licences that raised around £22bn in revenue. He has served on various ESRC committees, and on the Council and Executive Committee of the Royal Economic Society. He has raised over £2m in research income from various UK and international research councils, and has participated in and directed a number of European research projects funded by the European Commission. In 2003 he was elected a Fellow of the European Economic Association in recognition of his contribution to Economics in Europe. In 2001 he took up a 5-year appointment as Director of Analysis in the Inland Revenue, which, following a merger with HM Customs and Excise, has now become HM Revenue and Customs (HMRC). He was responsible for leading a team of around 320 analysts advising the Chancellor, Ministers, HM Treasury and HMRC on all aspects of tax policy and tax administration. He rejoined academia in October 2006 on his appointment to the University of St Andrews.
- 2.4 Due to other work commitments Gabriel Talmain has, unfortunately, had to demit office as Director of the MFLR programme after a relatively brief stint of one year. He has been replaced by Charles Nolan. Charles also brings valuable experience to the Executive, having worked for 8 years as an economist at the Bank of England and, until his recent move to Glasgow (see part 4), was the Director of the Centre for Macrodynamical Analysis at St Andrews.
- 2.5 The members of the Executive Committee communicate frequently, through a mix of face-to-face meetings, teleconferences and emails. Meetings or teleconferences are roughly monthly, though frequency varies somewhat, depending on the volume of business and the season. The core executive team draws on the experience and expertise of other senior SIRE researchers as and where relevant.

- 2.6 SIRE is a regular standing item at the (roughly quarterly) meetings of the SGPE Heads of Departments of Economics, where SIRE is represented by the Director and Executive Director. These meetings provide a valuable opportunity to discuss and obtain feedback on SIRE developments and help to promote effective integration and coordination of developments. The May 2009 HoDs meeting, following the appointment of the new Director, focussed on SIRE. The intention is for this to become an annual event, leading up to the preparation of the SIRE annual report.
- 2.7 In order to further facilitate communication and coordination with participating departments, each department now has a SIRE “stringer”, whose role is to promote SIRE and facilitate two-way communication between SIRE and its constituent departments.
- 2.8 As set out in the SIRE proposal, the International Advisory Board (IAB) of SIRE comprises:
- Manuel Arrellano (CEMFI, Madrid)
 - Richard Blundell (UCL)
 - Naryana Kocherlakota¹ (Minnesota)
 - Tom McGuire (Harvard)
 - George Mailath (Pennsylvania)
 - Andrew Rose (Berkeley)
 - Larry Samuelson (Yale)
 - David Canning (Harvard)
 - Harald Uhlig (Chicago)
- 2.9 Relevant members of the IAB have provided advice and guidance on short-listed candidates for SIRE Chair appointments. This additional and insightful input from outstanding international researchers, alongside the normal role of external assessors, has been and continues to be an extremely valuable contribution to the appointment process. SIRE owes a considerably debt of gratitude to IAB members for their guidance and advice along with their more general support and enthusiasm for SIRE.
- 2.10 In line with the procedures set out in SIRE’s letters of award from the SFC, in September 2009 two members of the IAB, Larry Samuelson and Richard Blundell, produced an assessment of SIRE’s appointments and performance. The assessment report was strongly positive, stating in summary: “SIRE laid out an ambitious program, one so ambitious as to court disaster. SIRE has made an impressive beginning on this program. We encourage SIRE to capitalize on this beginning by redoubling their commitment to institutional interaction and to patience and high-quality hiring.”
- 2.11 For the most part communication with IAB members, who have exceptionally busy schedules, is by email or phone. We were, however, very pleased to welcome Larry Samuelson to Edinburgh for a brief visit in March 2010. We hope to arrange a video/tele-conference with the IAB in 2011.

¹ Naryana Kocherlakota has taken up the post of President of the Federal Reserve Bank of Minneapolis, and we are currently seeking a replacement to him as a member of the IAB.

Part 3: Executive & Programme Directors' overviews and future plans

3.1 SIRE Centre

- 3.1.1 The SIRE Centre maintains the SIRE website at www.sire.ac.uk including a frequently updated digest of news and events, and an extensive diary of SIRE and other activities throughout Scotland. This is supplemented by an (approximately) monthly newsletter to the SIRE mailing list, along with targeted mailings for more focused activities. Despite the best efforts of the SIRE Administrator, Gina Reddie, building and strengthening effective two-way communication channels remains a challenge. In order to further facilitate communication and coordination with participating departments, each department now has a SIRE “stringer”, whose role is to promote SIRE and facilitate two-way communication between SIRE and its constituent departments. This recent innovation is beginning to make a difference.
- 3.1.2 As the web-based diary indicates, there is a wealth of high quality events and activities taking place throughout Scotland. These include regular seminar series at all the participating universities. Seminar presenters include an impressive array of leading international researchers, as well as SIRE-based researchers. While it is, in many respects, a positive feature, the wealth of events and activities also presents a challenge. There continues to be a need to improve the coordination and targeting of events and activities, linked to the communication issue noted above, so as to maximise their effectiveness and reap the gains of research pooling. Coordination through the SIRE Centre helps to avoid timing clashes between major events aimed at similar clusters of researchers.
- 3.1.3 As noted in the various programme reports, mini-conferences, organised within or jointly between SIRE research programmes provide one effective means of targeting and overcoming the fixed costs of travel between universities. A number of such events have been held over the reporting period and, as is indicated in the relevant programme sections below, have been highly successful. A further valuable development is that a number of key visitors have extended their stay in Scotland, visiting with and presenting at two or more departments. This not only helps to spread the fixed costs of travel to Scotland, but also extends the opportunity for SIRE researchers to engage with key visitors.
- 3.1.4 The SIRE Centre has continued to provide support and encouragement to the *SIRE Econometrics Workshop Series* and the *SIRE Forum for Young Researchers*. These focused workshop series have continued to be highly successful (see section 5.1). In conjunction with the impressive growth in quality and scale of the PhD programme, the Centre has also facilitated the development of advanced training mini-courses and workshops for PhD students and academic staff (see sections 3.5 and 5.5).

3.1.5 Alongside fostering high quality research, the SIRE Centre also aims to enhance research dissemination and knowledge exchange. Building on the participation of Scottish Government economists and other practitioners at a number of SIRE events, we established the *SIRE-Scottish Government Joint Policy Forum*. The initial meeting of the Forum was held in May 2008. A further three meetings were held in the reporting period:

- October 2009: Health
- January 2010: Environment
- May 2010: Behavioural Economics

Each Forum meeting has a jointly agreed theme, with invited attendees comprising approximately 10 academic researchers and 10 government economists with interests relevant to the meeting's theme. There are short presentations by a mix of academic and government economists to set the scene, with plenty of opportunity for formal and informal discussion and subsequent follow up. At the time of writing, the first Forum for 2010-11 has already taken place on the theme of "Internationalisation of SMEs", with a second Forum planned for January 2011 on "Education". The success of the Policy Forum has led to the introduction of a similar format roundtable event with representatives from Edinburgh and Glasgow City Councils and Chambers of Commerce. See section 5.1 for further details.

3.1.6 In a similar spirit, SIRE has continued to strengthen its liaison with the *David Hume Institute* (DHI). There are regular discussions between the SIRE Director and Executive Director and the Director of the DHI to coordinate themes and ideas, and potential SIRE participants at DHI events, which provide a valuable opportunity to network and disseminate SIRE and its research activities. The DHI generously allows a limited number of SIRE members free access to DHI events. SIRE has sponsored a major DHI Public Lecture in November 2009, by Professor Tim Besley, and has agreed to sponsor a further such lecture in October 2010 by David (Danny) Blanchflower.

3.1.7 As a further aid to dissemination and knowledge exchange, the SIRE Centre has also developed a series of two page briefs on SIRE research activities and outputs (*SIRE Focus Papers*). The format enables the briefs to be collated in a regular newsletter, or as stand alone research briefs. The currently available *Focus Papers* can be seen at: <http://www.sire.ac.uk/papers.html>

3.1.8 To echo Larry Samuelson and Richard Blundell in their assessment report on SIRE, it "has made an impressive beginning". It needs to "capitalize on this beginning by redoubling commitment to institutional interaction" "The members of SIRE must remember that participating in these activities is a valuable public good, and that taking a train and a couple of days to attend a SIRE seminar or conference is valuable to SIRE as a whole, even if the immediate benefits are not apparent."

3.2 Behaviour, Incentives and Contracts

- 3.2.1 This past year has seen a continued programme of research activities, involving both external participants and researchers based within Scotland. Interest and attendance has been very strong across all events.
- 3.2.2 One of the remaining SIRE appointments was filled. Michael Elsbey, an extremely promising and dynamic researcher in labour economics currently at the University of Michigan in the US, has been appointed to a chair at the University of Edinburgh. He will take up this post in late 2010.
- 3.2.3 The other side of this appointment process is that we have also been subject to turnover. Some of the initial set of SIRE appointments in the BIC programme have left Scotland over the past year. The destination of the moves (Steiner from Edinburgh to Northwestern, Faravelli from St Andrews to Queensland, for example) indicates the quality of researchers we are losing. This is unfortunate, but it is an inevitable part of academic life. Steps are under way to recruit new academic staff. We aim to appoint equally talented replacements.
- 3.2.4 Even so SIRE has led to a considerable strengthening of research in economic theory and in behavioural and experimental economics in Scotland. This was highlighted by the first BIC meeting which was held in Edinburgh in November 2009. This brought together researchers with interests in game theory and behavioural and experimental economics, many of whom are SIRE appointments. Presentations were made by Nick Feltovich (Aberdeen), Santi Sánchez Pagés (Edinburgh) and Marco Mariotti (St Andrews). There were further attendees from the Universities of Dundee, Heriot-Watt, Strathclyde and Glasgow. This was a highly successful event, with a second one planned for the Autumn of 2010 and further events in 2011. Now, that we have a strong and vibrant community of researchers in this area, our aim is to continue to promote dialogue and communication within it.
- 3.2.5 The quality of academic visitors from outside Scotland continues to run at a very high level. Al Roth (Harvard), Enrico Moretti (UC Berkeley), Hervé Moulin (Rice) Jim Andreoni (UC San Diego) and Tim Besley (LSE) are just some of the high profile speakers over the past year. We also hosted Larry Samuelson (Yale), a member of our international advisory board. It is also pleasing to note that many of these international visitors were able to give talks at more than one SIRE associated university, witness to the level of coordination and cooperation that we maintain.
- 3.2.6 We have also continued to improve our links with non-academic economists. The policy forum programme has been extremely valuable for this. BIC is primarily focussed on economic theory and thus it might be thought that it would have little to contribute to policy. In fact, one of the most successful meetings between government and academic economists was on a topic, behavioural economics, that is central to the BIC programme. This took place in May 2010, was very well attended by both sides and provoked a lively discussion. We hope to have a further meeting to follow up on this topic.

- 3.2.7 Knowledge exchange activities extend well beyond Scotland. For example:
- John Moore's (Edinburgh) work, with Nobuhiro Kiyotaki (Princeton), on illiquidity and systematic risk attracts considerable interest and attention from central bankers around the world.
 - Paul Hare (Heriot-Watt) recently completed a research project for DFID and has been a partner in the DFID-funded IPPG programme since its inception in 2005, with his work involving participation in workshops and meetings with policy-makers in many far flung places.
 - Stuart Sayer (Edinburgh) co-manages the UK Foreign Office funded Chevening Fellows programme on "Finance and Investment in a Low Carbon Economy".
 - David Ulph (St Andrews) is much sought after as an adviser on tax and competition policy in the UK, Europe and further afield.
 - Martin Fransman's (Edinburgh) work on technological change and diffusion, particularly in the ICT sector, has had wide-ranging influence and impact on policy-makers and policy in East Asia.
- (See section 5.2.4)

3.2.8 In line with SIRE milestones, the BIC programme has continued its record of publishing in top-rated journals. Of particular note is the forthcoming paper by Olga Gorbachev (Edinburgh, SIRE Lecturer) in the *American Economic Review*. Martin Fransman (Edinburgh) also merits a mention for his latest book "The New ICT Ecosystem – Implications for Policy and Regulation", published by Cambridge University Press in 2010, which has been awarded the prestigious Joseph Schumpeter Prize 2008-10. Other major journals with one or more publication by BIC authors include: *Review of Industrial Organization*, *Energy Policy*, *Journal of Economic Behavior and Organization*, *European Economic Review*, *Economic Theory*, *Theory and Decision*, *Economic Journal*, *The B.E. Journal of Economic Analysis and Policy*, *Scandinavian Journal of Economics*, *American Economic Journal: Macroeconomics*, *Journal of Economic Theory*, *Journal of the European Economic Association*, *American Economic Journal: Microeconomics*, *Games and Economic Behavior*. (See section 5.2.5)

3.2.9 Research grant income has also continued in line with SIRE milestones. Among the new grants awarded Marco Mariotti and Paola Manzini, recent SIRE Chair appointments at St Andrews, have been awarded an ESRC grant, and Nuffield Foundation grant. John Moore's (Edinburgh) European Research Council Advanced Grant of 1.6 million Euros, announced in the 2009 SIRE Report, continues, as does the ESRC grant of Jonathan Thomas, Andy Snell and Ric Holt (all Edinburgh). David Ulph (St Andrews) has a new ESRC grant of £137,054 to run alongside an earlier and ongoing ESRC grant and research funding from HM Customs and Excise. (See section 5.2.4).

3.2.10 A further SIRE milestone was an increase in the number of PhD students in economics at SIRE universities. As of September 2010 the number of PhD students at Edinburgh alone (in the first three years of the degree) had increased to 20, thus exceeding the overall SIRE milestone target at a single participating HEI. There are similar numbers of PhD students at St Andrews and Glasgow.

3.2.11 In step with this increase in the number of research students, the number of SIRE training events aimed at PhD students and junior researchers has increased. The range of topics has also been wide. Notable from the perspective of the BIC programme were the master-classes held by Scott Shane (Northwestern) on the Economics of Entrepreneurship and Fiona Scott Morton (Yale) on Applied Industrial Organisation (see section 5.5 for further details).

3.3 Work and Well-being

- 3.3.1 As has been highlighted in previous reports, a key challenge for the Programme is in engaging with researchers across a broad range of institutions. As also previously noted, the Work and Wellbeing themes potentially span a broad range of research interests. Our approach has been one of seeking to encourage a bottom-up and organic development of research activity. This has led to a number of collaborative activities which do not obviously sit within a single programme but which we have been keen to support. Examples of these in the last year are the Economic History workshop series, our engagement in the Policy Forums and our support of the Econometrics Workshops.
- 3.3.2 It is now timely to take stock of the capacity building aspects of the Programme. In our previous report we considered the notion of research clusters as a means for classifying and focusing research within Work and Wellbeing activities. We proposed:
- Health and Healthcare;
 - Work, Remuneration and Job Satisfaction;
 - Unemployment; Skills and Training;
 - Entrepreneurship;
 - Household and Intergenerational Welfare;
- as the framework for offering support under the Programme. Our support is not prescriptive and a flexible approach to encouraging new activity has also been adopted, so that the workshop series in Environment and Energy which received support from the Work and Wellbeing programme last year, has continued with our support.
- 3.3.3 We propose in the coming year to proactively encourage at least one initiative from each of the clusters; this being one means of ensuring focus but also a mechanism for achieving greater emphasis on future financial sustainability. In particular we will undertake to encourage at least one funding initiative (grant application, proposal for a research centre etc.) from each cluster and will, where possible within the Programme budget, support such initiatives. Thus, for example, the visitors' budget will be used where appropriate to fund any international visits that can be demonstrated to have a positive impact on either the development or the likely success of a funding initiative.
- 3.3.4 Cross-cutting the clusters is an on-going need to support capacity in the areas of organising, understanding and analysing large-scale, longitudinal data sets (both routinely collected data and survey data). We have prioritised this in the last year through funding of specialist workshops, young researcher events etc. In the coming year we intend to explore the possibility of organising a larger-scale event (or events) on these topics.
- 3.3.5 A key concern throughout the operation of SIRE has been appointments. Within the Work and Wellbeing programme the year has been one of turnover and replacement. As indicated in our previous report Professor Ulf Gerdtham resigned from Aberdeen and has been replaced at the Readership level (in recognition that Aberdeen had already over-fulfilled its commitments to Chair appointments under SIRE) by Dr Ramses Abul Naga, whilst Dr Tom Love's replacement in Dundee is Dr Andrzej Kwiatkowski. It is with some regret that we also said goodbye this year to Professor Sascha Becker (Stirling) but look

forward to his replacement in due course. The hitherto unfilled senior position in Dundee has now been filled by Dr Arnab Bhattacharjee, this being at the Readership level and to be complemented by the appointment of a Research Officer; a vacancy currently being advertised. Thus with the exception of the replacement of Professor Becker, the Work and Wellbeing programme is fully staffed in terms of its SIRE appointments. The dynamic nature of the job market for economists will undoubtedly continue to be a challenge going forward, but it is encouraging that in this competitive field SIRE continues to attract high quality researchers to work in Scotland.

3.3.6 Full details of events which have been organised by or have received funding support from the Programme are set out in section 5.3.1 Some highlights were:

- a highly successful Health Economics Policy Forum which established a useful and ongoing dialogue between researchers and policy-makers in the context of health service delivery;
- a follow up to the event above run as a SIRE workshop but with contributions from Scottish Government economists;
- two lively and very well-supported ‘Young Researchers’ Forums;
- the establishment of a workshop series in Economic History.

3.3.7 A characteristic of research in Work and Wellbeing is that it facilitates close contact with users and this is witnessed by the broad range of interactions that have been made over the last year. Researchers in our programme have:

- assessed major funding proposals in health care;
- advised and served on Pay Review Bodies;
- advised up to and including ministerial level;
- given presentations to key policy-making bodies such as NHS Boards, HM Treasury;
- served on and written reports for Commissions and Public Bodies;
- appeared in the media and commented on key economic developments such as increasing unemployment.

The details of these various contributions are set out in section 5.3.3.

3.3.8 A key concern of all our institutions going forward is the impact of public expenditure cuts. This gives a renewed importance to the issue of research funding sustainability and we recognise that this is an issue which both SIRE in general and individual programmes must engage. One key piece of context over the last 12 months has been the consultation regarding the forthcoming REF process. The emphasis that this has hitherto placed on Impact is clearly one dimension with which SIRE can have an important role to play. Within Work and Wellbeing we have had a number of discussions concerning how Impact can best be evidenced and enhanced. One obstacle is however that funding under REF is competitive and individual Institutions, even where they are a part of a pooling initiative, regard strategy towards REF as something of a commercial secret. One priority we have set for the year ahead is to continue a productive dialogue regarding how to maximise impact.

3.3.9 As in previous years the participants in the Work and Well-being programme have had some notable successes in winning non-SFC funding streams for their research. Individual grants are detailed in section 5.3.2. It is always problematic to identify grant funding that would not have occurred in the absence of SIRE. However, it is worth noting that the continuing, and highly successful, research collaborations between health economics in Dundee and Aberdeen (which have given rise to a number of funding streams) both

intrinsically involve SIRE appointed researchers and have been aided by support from the Work and Well-being programme. We hope that the concept of research clusters discussed above will facilitate both promoting and reporting on the impact of SIRE funding for other externally funded research projects.

- 3.3.10 Details of selected publications are summarised in section 5.3.4 Researchers in the Work and Wellbeing Programme have published in leading economics journals such as the *Economic Journal* and *Economica*, leading field journals in health economics such as the *Journal of Health Economics* and *Health Economics* and in journals that have considerable impact beyond economics such as the *British Medical Journal*.

3.4 *Macroeconomics, Financial Linkages and the Regions*

- 3.4.1 There has been a change in personnel in the administration of the Macroeconomics, Financial Linkages and the Regions (*MFLR*) programme. Charles Nolan (Glasgow) has taken over from Gabriel Talmain as Director of the programme with effect from September 2010.
- 3.4.2 The past year has witnessed a continuing high level of research activity, despite some turnover across institutions of researchers affiliated to *MFLR*. Researchers involved in the *MFLR* programme continue to interact amongst themselves, but also to facilitate high-profile, international academic events and to interact with policymakers. Looking forward, an exciting programme of events is planned for the coming years to address the key research and policy questions for Scotland, the UK and beyond, in part emerging from the recent global financial turmoil.
- 3.4.3 Researchers involved in *MFLR* continue to publish regularly in top academic journals, as detailed in section 5.4.4, and have facilitated major academic events through the past year. For example, Glasgow hosted the 2010 Congress of the European Economic Association (last hosted in the UK in 1991 by Cambridge), with *MFLR* researchers forming the local organizing committee; Ian Wooton (Strathclyde) co-organized a major conference in Switzerland of the European Trade Study Group; Rod McRorie at St Andrews organized an econometrics conference in honour of Sir David Hendry, which attracted a variety of top econometric scholars including a Nobel prize winner; David Cobham at Heriot-Watt edited a major volume, published by Cambridge University Press, of specially commissioned papers on 20 years of inflation targeting; Andy Snell (Edinburgh) and Gary Koop (Strathclyde) ran well-attended and successful econometrics workshops. It is pleasing to see *MFLR*-related activities occurring across many participating HEIs, with the econometrics workshops in particular generating participation across a wide variety of institutions. A variety of other research-oriented events related to the *MFLR* programme are detailed below, and in section 5.4 there are details of visiting speakers, master-classes and advanced training workshops that ran over the reporting period.
- 3.4.4 Grant income continues to be healthy and broadly consistent with the SIRE milestones. During the reporting period there have been at least four grants obtained by *MFLR* researchers covering the many aspects of the programme's diverse themes. Gary Koop (Strathclyde) has been awarded an ESRC grant of £325,000 for a research project on *Macroeconomic forecasting in turbulent times*. The research grant covers the period from October 2010 to September 2013. Kaushik Mitra (St Andrews) obtained £211,605 from the ESRC for a project entitled *Macroeconomic policy changes and adaptive learning*, while Gary Shea (St Andrews) obtained £2,731 from the British Academy for a project entitled *Early British Financial Markets*. Jim Malley (Glasgow) and Konstantinos Angelopoulos (Glasgow) obtained ESRC funding of £118,464.18 for a project entitled *Optimal taxation in heterogeneous agent dynamic general equilibrium models*. During the reporting period a number of substantial existing research council funded projects were completed or were nearing completion. These include a project by Peter McGregor, Kim Swales and Robert Wright (Strathclyde) entitled *The Overall Impact of Higher Education Institutions on Regional Economies in the UK* funded by the ESRC (£496,000); a project by Gary Koop (Strathclyde) entitled *Regime-switching*

and Structural Breaks in Cointegrated Macroeconomic Models funded by Leverhulme Trust (£125,785) and a project by Karen Turner (Strathclyde) entitled *An empirical equilibrium analysis of the factors that govern the extent of energy rebound effects in the UK economy* funded by the ESRC (£231,369.80).

- 3.4.5 MFLR seeks to maintain a high level of engagement with policymakers. Researchers in the programme already have a strong record of such interactions, in particular with the Scottish Government. Recent examples include: the numerous contributions from researchers at Strathclyde, often via the Fraser of Allander Institute, on many aspects of economic policy in Scotland; Richard Harris made, amongst others, the following SIRE-related presentations: Productivity Challenge: Drivers, Impacts and Potential for Scotland's Core Cities: SIRE/Scottish Cities Forum; and The Importance of Scotland's Cities to the National Economy: Edinburgh City Council/Edinburgh Chamber of Commerce. Perhaps reflecting the lack of devolved macroeconomic powers in Scotland, interaction between macroeconomists in this programme and Scottish policymakers has been less in evidence, although not entirely lacking. For example, Jim Malley (Glasgow) delivered a 4-day lecture series on macroeconomic theory and policy in August 2010 to the Scottish Government. And Andrew Hughes-Hallett (St Andrews) sits on the Scottish Government's Council of Economic Advisors. Nevertheless, we intend to explore the possibility of a Policy Forum involving macroeconomists and financial economists. More generally, macroeconomists associated with the MFLR continue to be participants in national and international policy analysis and research. For example, Charles Nolan (Glasgow) and Campbell Leith (Glasgow) are regular attendees at the Bank of England's twice-yearly Policy Forum Roundtable event. Alexandros Kontonikas (Glasgow) was appointed Visiting Research Fellow at the Directorate of Economic and Financial Affairs (ECFIN) of the European Commission.
- 3.4.6 MFLR has maintained support for an active visiting speakers' programme attracting a variety of high-profile senior scholars, including Julia Thomas (Ohio State), Christophe Chamley (Boston), Robert Engle (Stern) and David Hendry (Oxford). Travelling to attend seminars at universities other than one's own is still not a frequent occurrence for many affiliated researchers. And so, while maintaining regular seminar and workshop series open to all researchers regardless of affiliation remains an important ingredient in the MFLR programme, they do not appear always to be the best vehicle for attracting large scale participation from across participating HEIs. The experience from the econometrics workshops noted above, and from other SIRE programmes is instructive. To that end, we ensure whenever possible that visitors make presentations at more than one participating HEI.
- 3.4.7 Within MFLR there has been a dramatic increase in the scale and quality of its PhD programme, well in excess of SIRE milestones. Glasgow alone has close to 40 active PhD students, with a further 23 in St Andrews and 15 at Strathclyde, with smaller numbers of PhD students doing research related to MFLR at other SIRE universities. In line with the increased scale of the programme, the number of SIRE training events aimed at PhD students has increased. Notable, from the perspective of the MFLR programme, were the

two workshop series organised, respectively, by Gabriel Talmain (Glasgow) and Laurence Lasselle (St Andrews). See section 5.5 for further details.

- 3.4.8 Looking forward, our intention is to facilitate a broad programme of events that will help identify and address the key research questions following, in part, from the recent global financial crisis. To that end, planning is underway for workshops and conferences in the areas of growth economics, monetary policy and quantitative easing, fiscal policy, open economy macroeconomics, financial markets, and regional policy. Each of these areas has been impacted materially by the recent financial crisis and its implications for fiscal policy and public expenditure. Where possible, we aim to bolster these events by inviting high-profile seminar speakers also working in these areas. Each of these events will seek to explore extant and emerging theoretical and policy-related themes and will seek the involvement of leading academics and policymakers. As is the case in the other SIRE programmes, more substantial events, such as workshops and mini-conferences, have been found to be a more effective means of bringing researchers from across Scotland together. It is also hoped that a workshop/master class on constructing and analysing DSGE models of interest to Ph.D. students and academic staff can be arranged, lowering the barriers to entry in this crucial area of policy-relevant quantitative research.
- 3.4.9 Some staff turnover notwithstanding, we remain very well-placed to make a material contribution to these research questions given the strengths in macroeconomics, monetary economics and regional economics spread across a number of participating institutions.

3.5 *Scottish Graduate Programme in Economics (SGPE) PhD programme*

- 3.5.1 The Scottish Graduate Programme (SGPE) is an ESRC-recognised collaboration between the eight pre-1992 Scottish universities. The first year of the SGPE is a taught MSc in Economics (or Economics (Finance)), which is currently based in Edinburgh. Teaching on the programme is delivered by academic staff from all eight participating universities, with staff travelling to Edinburgh to deliver their lectures. For the PhD stage of the SGPE, students move to the university where their primary supervisor is based. Direct entry to the PhD stage of the SGPE is also possible for students who have previous training in economics equivalent to the SGPE MSc. For a fuller description of the SGPE, see last year's SIRE Annual Report, paras. 3.5.1-3.5.4.
- 3.5.2 A major step forward in 2009-10 was the piloting of podcasts of advanced training courses. Specifically, the SGPE advanced options (Advanced Macroeconomics, Advanced Microeconomics and Advanced Quantitative Methods) were rewritten to double as first-year advanced training courses for PhDs, and were video-captured and made available by a secure internet link for later viewing by SGPE PhD students across Scotland. This initiative was received very positively by the students. Some typical comments were:
- "The podcasts were a very successful introduction in my opinion. Given the intense schedule students have ... they can always improve their understanding of the material by taking lengthy notes and they are also able to reflect more while following a video lecture."
 - "The podcasts were really useful."
 - "With regards to feedback on the podcasts, I can only say positive things. Can we have more please!"
- 3.5.3 Several specialised workshops aimed at PhD students were also held at various points during the year: on the economics of entrepreneurship (Aberdeen), on robust regression methods (Strathclyde), on the economics of industrial organisation (Edinburgh), a series on advanced quantitative methods (St. Andrews) and a series on macroeconomic dynamics and monetary policy (Glasgow). All these short courses featured speakers of international stature from outside Scotland; all but one were also podcast; and funding or co-funding from SIRE was instrumental. (See section 5.5 for further details).
- 3.5.4 Advanced training courses will continue to be podcast in 2010-11, and the SGPE is looking into extending the range of courses available. Specialised workshops and masterclasses will also continue in 2010-11. Workshops that are scheduled or already have taken place include a 2-day workshop on panel data econometrics taught by Frank Windmeijer of Bristol University (Aberdeen, co-funded HERU); a 1-day workshop on experimental economics and neuroeconomics taught by Rosemarie Nagel of the University of Pompeu Fabra (Barcelona) (Edinburgh); and a continuation of St. Andrews' workshop series on advanced quantitative methods, with 7 workshops scheduled in 2010-11.

3.5.5 An additional development in 2009-10 relates to the ESRC's reorganisation of the structure of its support for postgraduate training. A Scotland-wide consortium application for a Doctoral Training Centre (DTC) – the Scottish Graduate School in the Social Sciences – was submitted in March 2010. The SGPE was an important part (“pathway”) of the consortium; it figured prominently in the application Case for Support as an example of a successful inter-university collaboration in postgraduate training with a 20-year track record and ESRC recognition. The SGPE PhD Director, Prof. Mark Schaffer, was a member of the DTC Steering Committee and served on the DTC Drafting Subcommittee that wrote the application.

Part 4: SIRE Appointments

Senior Appointments

- 4.1 At the time of the last SIRE Report, covering the period up to 30 September 2009, two of the five SIRE Chairs allocated to the BIC programme at the University of Edinburgh had yet to be filled.
- 4.2 Professor *Mike Elsbby* has been appointed to one of these vacant posts, from December 2010. Professor Elsbby is a young, high-potential labour economist, with an already strong reputation on both sides of the Atlantic. Since completing his PhD at the LSE he has worked at the University of Michigan (as well as holding visiting appointments at the Federal Reserve Banks of New York, Minneapolis and San Francisco). His recent publications include: *Journal of Monetary Economics*, *Brookings Papers in Economic Activity*; and *American Economic Journal: Macroeconomics*. He is a Faculty Research Fellow, in Labor Studies, at the NBER. His research focuses on the interface between macroeconomics and labour economics. Recent work has examined the role of declines in wage growth among low-skilled workers on long term increases in joblessness in the U.S., the measurement of labour market flows in developed economies, the joint modelling of labour market flows over the business cycle and across firms, and the aggregate labour market effects of downward rigidity in wages. SIRE/Edinburgh faced strong competition to recruit Mike Elsbby – we are pleased to have come out as victor.
- 4.3 The final SIRE Chair at Edinburgh has still to be filled. While, in some respects, it is disappointing that it is taking so long to make this appointment, we note the comment made in the 2009 IAB's report on SIRE's progress that "There is certainly no reason to be concerned that a handful of chairs and lectureships remain unfilled." We continue to actively recruit to this post, but are mindful of the importance of maintaining or ideally surpassing the high standards which have been set by the appointments made to date. As the IAB report notes: "Now is the time to capitalize on SIRE's solid beginning by being all the more demanding in terms of SIRE's recruiting targets. In particular, SIRE must resist all temptation to finish the recruiting job by relaxing recruiting standards. Instead, SIRE should now be patient and attempt to put the icing on the cake by recruiting especially well known economists."
- 4.4 The departure of Ulf Gerdtham, one of the original SIRE Chairs at Aberdeen, was noted in the 2009 Report. With the agreement of the SIRE Executive and the SFC, this post (which had earlier been upgraded from a Lectureship, originally allocated to Aberdeen in the SIRE award, to a Chair) was re-advertised at Professor/Reader level. The vacancy has now been filled, at Reader level, with the appointment of *Ramses Abul Naga* from October 2010. Dr Naga holds a PhD from the LSE and was previously a Senior Lecturer at Bath. His research interests span: measurement of inequality and well-being; health economics and developing countries; and micro-econometrics
- 4.5 Also noted in the 2009 Report were the departures of Guido Cozzi and Klaus Wälde from the SIRE Chairs at Glasgow. To date, Glasgow have filled one of these vacancies, with the appointment of *Charles Nolan*, formerly a Professor at St Andrews. This move has enabled Scotland to retain Professor Nolan in the face of strong competition from outwith Scotland. His research interests are:

quantitative general equilibrium macroeconomics and monetary theory, international finance and business cycle analysis. He has recent publications in: *Econometrica*, *Journal of Monetary Economics* (x2), the *Economic Journal* and the *Journal of Money, Credit and Banking*. Charles worked for 8 years as an economist at the Bank of England, is a member of the European Monetary Forum, and has been the Director of and run the successful annual conferences of the Centre for Dynamic Macroeconomic Analysis (CDMA) for a number of years. Charles is taking over the role of Director of SIRE's MFLR programme. The remaining vacancy at Glasgow is in the process of being filled.

- 4.6 With the agreement of the SIRE Executive and the SFC, Dundee converted the SIRE Chair originally awarded to them, into a Readership, combined with a new Research Officer position. The Reader post has been filled by *Arnab Bhattacharjee from October 2010*. Dr Bhattacharjee holds PhDs in Economics, from Mumbai, and Statistics from the Indian Statistical Institute. He has worked at the Reserve Bank of India, the Department of Applied Economics, Cambridge, and more recently as a lecturer at St Andrews. His main research area is applied econometrics, with a focus on semi-parametric inference under order restrictions and arbitrary cross section and spatial dependence. His interests span a wide variety of applications, including: industrial economics, corporate finance, housing, health, macroeconomics, monetary policy and economics of networks. Recruitment to the accompanying Research Officer post is currently in process.
- 4.7 It is disappointing to note a further senior departure with the move of Sascha Becker from the SIRE Chair at Stirling to Warwick. Sascha proved to be an inspired young hire, initially appointed to a Readership he was rapidly promoted to a Chair, with publications in the *Quarterly Journal of Economics* and the *American Economic Review* (among others) during his time in Stirling. A replacement appointment to this Chair is currently at the short-list stage.

Table 4.1 SIRE Senior Post-holders as of 30.09.2010

Programme	University	Appointee
BIC	Edinburgh (5)	José V (Sevi) Rodriguez Mora Maia Güell Ed Hopkins Mike Elsby (starting Dec 2010) 1 vacancy (recruitment in process)
	Heriot Watt (1)	Tooraj Jamasb
WW	Aberdeen (2 + 1 initially converted from L to P, recently replaced by R)	Hans Hvide Miguel Costa-Gomes Ramses Abul Naga (Reader)
	Stirling (1)	Replacement appointment in process.
	Dundee (1) (P converted to R + RA)	Arnab Bhattacharjee (Reader) RA appointment in process
MFLR	Glasgow (3)	Gabriel Talmain Charles Nolan 1 vacancy (recruitment in process)
	St Andrews (3)	Rod McCrorie Paola Manzini Marco Mariotti George Evans ²
	Strathclyde (2)	Gary Koop Bernard Fingleton

² Part-time 0.2 FTE

Junior Appointments

- 4.8 *Silvia Mendolia* has been appointed to the vacant Lectureship at Aberdeen, commencing in January 2010. Her post is 50% in Economics and 50% in HERU (the Health Economics Research Unit). Her fields of research are labour and health economics. Her recent research focuses on the impact of labour market conditions on the well-being of the family. She previously worked part-time at the Social Policy Research Centre (University of New South Wales), while working on her PhD at UNSW.
- 4.9 Jakub Steiner's departure from Edinburgh to Northwestern was noted in the 2009 Report. Despite intensive recruiting efforts, we were unable to refill this post in 2009-10 with a suitably high quality appointment. It is about to be re-advertised for the 2010-11 recruiting cycle. Olga Gorbachev also departed in the summer of 2010, returning to the US (University of Delaware), for personal reasons. She departed on a high note, having just had a paper accepted for publication in the *American Economic Review*. This further vacancy is also being advertised in the 2010-11 recruiting round.
- 4.10 Lise Tole left Strathclyde in January 2010 to move to a lectureship in the University of Edinburgh Business School. Although moving away from a SIRE (SFC co-funded) post, she has been retained within Scotland. Marco Faravelli left St Andrews in the summer of 2010 to move to the University of Queensland. These SIRE lectureships at Strathclyde and St Andrews are currently vacant.

Table 4.2 SIRE Junior Post-holders as of 30.09.2010

Programme	University	Appointee
BIC	Edinburgh (4)	Tatiana Kornienko Kohei Kawamura Two vacancies (recruitment in process)
	Heriot-Watt (1)	Philippe LeMay-Boucher
WW	Stirling (1)	Ian Lange
	Dundee (2)	Dennis Petrie Andrzej Kwiatkowski (January 2010)
	Aberdeen (2 – minus 1 converted to P)	Silvia Mendolia (Jan 2010)
MFLR	Glasgow (3)	Luis Angeles Céline Azémar Iona Moldovan
	Strathclyde (2)	Vacancy Rodolphe Desbordes (Promoted to Senior Lecturer)
	St Andrews (3)	Fabio Arico Gonzalo Forgues-Puccio Vacancy

Part 5: SIRE events, activities and achievements

5.1 SIRE Centre

5.1.1 Major events during reporting period

SIRE Forum for Young Researchers

Four SFYR meetings took place during the reporting period. The first two were organised, hosted and co-funded by the University of Dundee, the latter two by the University of Edinburgh. In both cases the organisers were SIRE lecturers, Dennis Petrie in Dundee and Kohei Kawamura in Edinburgh.

November 4th 2009, Dundee:

Invited speaker:

- Professor Andrew Street (York) “Getting out what we put in: how productive is the NHS?”

SIRE presenters:

- Professor Sascha Becker (Stirling) “Catch me if you can: education and catch up in the industrial revolution.”
- Dr Yin Zhang (Dundee) “Multidimensional measurement of poverty: an application to China.”

36 participants from Dundee, Aberdeen, Stirling, St Andrews, Edinburgh, Edinburgh Napier, Heriot-Watt, Glasgow.

December 2nd 2009, Dundee

Invited speaker:

- Dr Gulcin Oskan (York), who unfortunately had to cancel due to illness. Dr Paul Allanson (Dundee) presented instead.

SIRE Presenters:

- Dr Alex Trew (St Andrews) “Contracting institutions and growth”
- Dr Paul Alagidede (Stirling) “Beyond unit roots: a close look at the net barter terms of trade for developing countries.”

28 participants from Dundee, Stirling, St Andrews, Glasgow, Heriot Watt.



February 10th 2010, Edinburgh

Invited speaker:

- Professor Amrita Dhillon (Warwick) “Corporate control and multiple large shareholders”

SIRE presenters:

- Dr Martin Jones (Dundee) “On the autonomy of experiments in economics.”
- Dr Daniel Danau (St Andrews) “Capital structure and contract renegotiation with private firms in public projects.”

15 participants from Edinburgh, Strathclyde, Aberdeen, St Andrews, Edinburgh Napier.

May 5th 2010, Edinburgh

Invited speaker:

- Professor Imran Rasul (UCL), who unfortunately was unable to attend to flight cancellations. Dr Santi Sanchez-Pages (Edinburgh) presented instead: “The interplay between biological features and social preferences.”

SIRE presenters:

- Dr Philippe LeMay-Boucher (Heriot Watt) “Double, double toil and trouble: an investigation into witchcraft expenditures in the heartland of voodoo.”
- Dr Dimitra Politi (Edinburgh) The economic effects of micronutrient deficiency: evidence from salt iodization in the United States.”

SIRE Econometrics Workshop

December 11th 2009 Edinburgh (organisers: Andy Snell and Gary Koop)

The workshop encompassed two keynote presentations:

- Hashem Pesaran (Cambridge) “Weak and strong cross section dependence and estimation of large panels.”
- Costas Meghir (UCL, now Yale) “Matching, sorting and wages.”

41 participants from Edinburgh, Aberdeen, Dundee, Glasgow, Glasgow Caledonian, Heriot Watt, St Andrews, Stirling, Strathclyde.



March 2nd 2010 Strathclyde (organiser Gary Koop)

There were two keynote presentations;

- Sylvia Frühwirth-Schnatter (Johannes Kepler University Linz), "Stochastic Model Specification Search for Gaussian and Partially Non-Gaussian State Space Models"
- John Geweke (University of Technology Sydney), "Prior Predictive Analysis and Model Evaluation."

The programme also included a 'young econometricians' session, where younger researchers presented their work. The presenters were:

- Joshua Chan (Queensland) "Efficient simulation and integrated likelihood estimation in state space models"
- Deborah Gefang (Lancaster) "Reinvestigating the regime changes in business cycles: a Bayesian dynamic factor approach."

This session was followed by a Roundtable Discussion where the invited speakers provided comments on the young researchers' presentations, applied econometrics in general and took questions from the audience about issues and controversies in modern applied econometrics.

33 participants from Strathclyde, Glasgow, Edinburgh, St Andrews, Heriot Watt and Stirling.

July 22nd-23rd 2010 Conference in Honour of Sir David Hendry



As an addition to the regular SIRE Econometrics workshop series, Roderick McCrorie (a SIRE Chair and co-director of the workshop series) put together a prestigious conference to honour the eminent Scottish econometrician Sir David Hendry (Oxford). The conference, which was co-funded by SIRE, the University of St Andrews and the Royal Economic Society, incorporated the inaugural SIRE Econometrics lecture, which we plan to make an annual event. This year's lecture was given by Nobel Laureate Robert Engle (NYU). The conference attracted a glittering array of econometricians from both sides of the Atlantic. See section 5.4 for a more detailed report of the conference.



SIRE-Scottish Government Joint Policy Forum

Following on from the inaugural Policy Forum, which took place in May 2009, we have held three similarly styled events in 2009-10, with the venue alternating between St Andrew's House and the University of Edinburgh.

October 29th 2009 – St Andrew's House: Health

The Forum focussed on issues in health economics: incentives and obesity. The first session on incentives started with Angela Campbell, the Deputy Director, Health Analytical Services, setting out the policy agenda, followed by Martin Chalkley (Dundee) outlining the latest academic thinking. The presentations were followed by a lively discussion. The second session, on obesity, was again led off by a government economist, Marjorie Marshall, who outlined the policy agenda. Then Martin O'Connell (Institute for Fiscal Studies and a recent graduate of St Andrews) outlined some work he had recently completed (with Rachel Griffiths of the IFS) on the likely impact of a 'fat tax'. Martin's presentation generated considerable interest, in respect of both the possibility of introducing a 'fat tax' in Scotland to tackle its chronic obesity and health problems and, more generally, on the methodology used by IFS researchers to establish the incidence and hence impact of the tax. Participants included 11 government economists (drawn from Health Analytical Services, Health Improvement Strategy, Justice Analytical Services, and the Office of the Chief Economic Adviser), 10 academics from Dundee, St Andrews, Aberdeen and Edinburgh, and an economist from NHS Scotland

January 25th 2010 – University of Edinburgh: Environment

The Forum focussed on issues in environmental economics: carbon assessment, and ecosystem services valuation. The first session, on carbon assessment, began with Stevan Croasdale and Jonathan Dennis, of the Scottish Government, providing an overview of methods, uses and next steps. Kim Swales (Strathclyde) provided a sympathetic, but thorough and detailed evaluation and response. The second session was led off by Sandra Dandie, for the Scottish Government, providing an overview of the work that is taking place or planned on ecosystem services evaluation and its uses. Nick Hanley (Stirling) responded with an insightful overview of the potential pitfalls in evaluation, identifying what is and what is not achievable. Both sessions prompted lively discussions, which highlighted a number of important issues. Participants in the Forum included 14 Scottish Government economists, representatives from Aberdeen Centre for Environmental Sustainability (ACES), the Centre for Sustainability Accounting (CenSA) Ltd., the Scottish Environment Protection Agency, and Scottish National Heritage, and 10 academic participants from Strathclyde, Heriot Watt, Edinburgh, St Andrews, Dundee and Stirling.

May 14th 2010 – St Andrew's House: Behavioural Economics

The Forum focussed on recent developments in behavioural economics and their implications for policy analysis. The Forum was led off by Nick Hanley (Stirling) presenting an insightful and thought-provoking overview of the insights from behavioural economics into problems of measuring preferences

and values. This was followed by a presentation from Ed Hopkins (Edinburgh) outlining recent insights from behavioural economics into inequality, status-seeking, self-control and social behaviour, which have a wide-ranging relevance for policy analysis. Given the more academic sounding nature of the Forum's topic, it is particularly pleasing to note that it not only attracted high and broad-ranging participation from Scottish Government economists, but it also gave rise to a particularly stimulating and lively discussion covering both the positive lessons to arise from recent developments in behavioural economics, as well as concerns about its potential for misuse in policy contexts. There were 9 academic participants from Edinburgh, St Andrews, Stirling, Aberdeen and Strathclyde.

All the Forums to date have received strongly positive feedback from government and academic participants and have, in a number of instances, resulted in follow up contacts being made. This positive feedback is well reflected in a letter from the Cabinet Secretary for Finance and Sustainable Growth, John Swinney, which states: "In particular, I am aware that my own economists within the Scottish Government have benefited greatly from a series of joint workshops and lectures with SIRE members."

The Policy Forum series will be continuing in 2010-11. Indeed, at the time of writing, the first Forum has recently taken place, on the topic of Internationalisation of SMEs, and planning for the second Forum, on Education, is well under way.

SIRE-City Councils Round Table



Following on from the success of the SIRE-Scottish Government Joint Policy Forum, and fruitful discussions about knowledge exchange activities with staff from the Economic Development office of the City of Edinburgh Council, we held an inaugural round table meeting on June 25th 2010 on the theme of 'Productivity'. The format was similar to the Policy Forum, with a masterful keynote presentation from Richard Harris (Glasgow and CPPR). Richard's talk prompted a lively and wide-ranging discussion, with good engagement from the invited participants. Inter alia the discussion identified several themes, which could fruitfully be followed up at future Round Tables.

The participants included 10 SIRE academics, from Glasgow, Strathclyde, Edinburgh, Heriot Watt and West of Scotland, and representatives from: City of Edinburgh Council, Glasgow City Council, Edinburgh and Glasgow Chambers of Commerce, Scottish Enterprise, Glasgow-Edinburgh Collaboration Initiative (GECI),



and Scottish Government. Feedback on the inaugural Round Table was strongly positive, and a follow up Round Table, on the theme of ‘Internationalisation of SMEs’ (linked to the recent Policy Forum) is planned for later this year.

“State of the Scottish Economy” lecture by Mr John Swinney MSP

On February 25th 2010 SIRE hosted a lecture on the State of the Scottish Economy by Mr John Swinney MSP, Cabinet Secretary for Finance and Sustainable Growth. In the lecture, Mr. John Swinney outlined recent developments in the Scottish economy, set out his outlook for economic recovery and discussed the challenges and opportunities that will face Scotland in the years ahead. The format of the event allowed time for questions from the audience, as well as more informal discussion at a reception immediately following the lecture. The event drew a broad audience from academic, public and private sectors and provided a valuable opportunity for networking.

David Hume Institute and SIRE – Tim Besley Lecture

SIRE colleagues have become regular participants, as presenters, discussants and audience members, in the David Hume Institute seminar series, which attracts a wide-ranging and influential audience from academic, public and private sectors. SIRE participation is actively encouraged by the DHI, under the Directorship of Jeremy Peat. To further develop this collaboration, SIRE sponsored a lecture in the 2009 Autumn Seminar Series of the DHI, by Professor Tim Besley on the “The economics of public service delivery: competition, incentives and ownership.” The lecture, chaired by Robert Black, the Auditor General, took place on November 12th 2009 at the Royal Society of Edinburgh.

Professor Besley is the Kuwait Professor of Economics and Political Science at the LSE, where he is also Director of the Suntory Toyota International Centres for Economics and Related Disciplines. He also serves as a Research Fellow at the CEPR and the IFS and, until recently, an external member of the Bank of England Monetary Policy Committee. Professor Besley’s lecture provided an overview of the latest economic thinking on the topical issue of providing high quality public services at reasonable cost in the face of limited and tightening public budgets and seemingly ever rising expectations. His lecture masterfully spanned academic contributions and more concrete issues of practical application and implementation.

SIRE will be sponsoring a further DHI lecture in the Autumn Series of 2010, to be given by David (Danny) Blanchflower, a part-time Professor at the University of Stirling and another former external member of the Monetary Policy Committee.

European Economic Association Meetings – Glasgow 2010



The University of Glasgow was host to the 2010 European Economic Association annual conference. The annual conference series, which began in 1986, has only been held in the UK once before, Cambridge in 1991. Bringing a major international economics conference of this kind, with over 900 delegates, to Scotland is a notable feat. Among other things it provides a good indication of the rising international status of economics in Scotland, as well as an excellent showcase for Scottish economic research and Scotland more generally. Planning and hosting an event of this scale involves a great deal of work, and thanks are due to the local arrangements committee: Alberto Paloni, Richard Harris, Campbell Leith and Gabriel Talmain.

The 2010 conference, the 25th in the annual series, included four keynote lectures. The Schumpeter Lecture, by Orazio Attanasio (UCL), the Adam Smith Lecture, by Nobel Laureate Joseph Stiglitz (Columbia), the Presidential Lecture by Timothy Besley (LSE) and the Marshall Lecture by Esther Duflo (MIT).

SIRE was pleased to be able to sponsor the Marshall Lecture. Esther Duflo is one of the world's foremost young economists. She completed her PhD at MIT in 1999 and was immediately appointed to an Assistant Professorship at MIT. She became a full Professor in 2004 and since 2005 has been the Abdul Latif Jameel Professor of Poverty Alleviation and Development Economics and Director of the Abdul Latif Jameel Poverty Action Lab at MIT. Esther Duflo has received numerous academic honours and prizes including the John Bates Clark Medal (2010), a MacArthur Fellowship (2009), the American Economic Association's Elaine Bennett Prize for Research (2003), the "Best French Young Economist Prize" (Le Monde/Cercle des économistes, 2005), the Médaille de Bronze (Centre National de la Recherche Scientifique, 2005), and the Prix Luc Durand-Reville (Académie des Sciences Morales et Politiques, 2008). In 2008-2009 she was the inaugural holder of the international chair "Knowledge Against Poverty" at the College de France.

As well as publicity for SIRE at the lecture itself, the sponsorship provided SIRE with exhibition space, distribution of a SIRE flyer to all delegates, and the SIRE logo on the conference website, programme booklets, and the conference delegate bag.

Further information about the 2010 EEA Congress can be found at:

<http://www.eea2010glasgow.org/conference-programme.asp>

5.2 Behaviour, Incentives and Contracts (BIC)

5.2.1 Major events during the reporting period

October 2nd-5th 2009 visit of Claude d'Aspremont

In early October we welcomed Claude d'Aspremont (Université Catholique de Louvain, Center for Operations Research and Econometrics (CORE)) for a five day visit to St Andrews and Edinburgh. Claude gave seminar presentations at both St Andrews and Edinburgh on “Competition with varying degrees of toughness”, and had extended discussions with BIC researchers in both locations.

October 7th-8th 2009 visit of Hervé Moulin

Later in October we welcomed Hervé Moulin (Rice University, Texas), who again visited and gave seminar presentations at both Edinburgh and St Andrews:

- Oct 7th Edinburgh “Egalitarianism under earmark constraints”
- Oct 8th St Andrews "Fair division under single-peaked preferences and earmarking"

November 10th-11th 2009 visit of Tom Hubbard

In November we welcomed Tom Hubbard (Northwestern), who visited and gave seminar presentations at both Edinburgh and Aberdeen on “The Economics of Radiator Springs: Industry Dynamics, Sunk Costs, and Spatial Demand Shifts” (with Jeffrey R. Campbell)

November 13th 2009: A morning with John Moore and Tim Besley

Taking advantage of Tim Besley’s visit to Scotland to give the SIRE-sponsored David Hume Institute lecture (see section 5.1) we held a morning workshop, which provided a rare opportunity to see two of the UK’s and world’s leading economists in action. There were two presentations:

- Tim Besley (LSE) “Estimating the peace dividend: evidence from Northern Ireland house prices.”
- John Moore (Edinburgh) “Contagious Illiquidity”.

The latter presentation gave SIRE an early opportunity to hear and comment on what was to be John Moore’s Presidential Address to the 10th World Congress of the Econometric Society in Shanghai in August 2010.



November 30th 2009: An afternoon of behavioural and experimental economics



This half day workshop, in Edinburgh, provided a forum for presenting some of the latest work in this area undertaken by SIRE researchers. There were three presentations:

- Nick Feltovich (Aberdeen) “Payoff levels and loss avoidance in strategic behaviour”
- Santiago Sanchez-Pages (Edinburgh) Testosterone, facial symmetry and cooperation in the Prisoners’ Dilemma” (joint with Enrique Turiegano, Madrid)
- Marco Mariotti (St Andrews) “Reasoning by checklists” (joint with Paola Manzini, St Andrews)

There were 26 participants from Edinburgh, Aberdeen, Dundee, Heriot-Watt, Glasgow, St Andrews and the Scottish Government. The format of the vent provided ample opportunity for discussion and interaction, both throughout the afternoon and at the post-event dinner.

February 10th 2010, SIRE Forum for Young Researchers

This SFYR meeting, hosted in Edinburgh and organised by Santi Sanchez-Pages and Kohei Kawamura featured BIC research and researchers. (See section 5.1 for further details).

March 19th 2010 visit of Larry Samuelson

In March we welcomed Larry Samuelson (Yale and a member of SIRE’s International Advisory Board) to Edinburgh. Although his visit was for just one day, he arrived early in the morning providing time for plenty of informal and informed discussion with BIC researchers (and, more generally, with members of the SIRE Executive and the SFC). Larry’s visit culminated with a seminar presentation on: “Incentives for experimenting agents.”

April 8th-9th 2010: Well-being, Happiness and the Environment Workshop:

This two day international workshop, in Stirling, organised by Nick Hanley and Mirko Moro (Stirling), linked research themes within BIC and W&W. See section 5.3.1 for further details.

April 26th-29th 2010 visit of Julia Thomas and Aubhik Khan

In April we welcomed Julia Thomas and Aubhik Khan (Ohio State and NBER), who visited and gave seminar presentations at Edinburgh and St Andrews:

- April 26th, Edinburgh, April 29th, St Andrews: “Credit Shocks and Aggregate Fluctuations in an Economy with Production Heterogeneity” (joint with Aubhik Khan)
- April 26th, Edinburgh: “Inflation and Interest Rates with Endogenous Market Segmentation”.

May 5th 2010 SIRE Forum for Young Researchers

This SFYR meeting, hosted in Edinburgh and organised by Santi Sanchez-Pages and Kohei Kawamura featured BIC research and researchers. (See section 5.1 for further details).

May 14th 2010 SIRE Policy Forum on Behavioural Economics

BIC researchers took a prominent role in this very successful Policy Forum with Scottish Government economists held in St Andrews House. (See section 5.1 for further details).

May 26th – 27th 2010 visit of Fiona Scott Morton

In May we welcomed Fiona Scott Morton (Yale) for a two day visit. Much of her visit was taken up by providing a two day master class to PhD students and BIC researchers on Applied IO (see section 5.5), but there was also time to share and discuss research ideas.

May 31st 2010 visit of Al Roth

At the end of May we welcomed Al Roth (Harvard) to Edinburgh. As well as engaging in discussion with BIC colleagues, he presented a seminar on: “Matching with Couples: Stability and Incentives in Large Markets”.

5.2.2 Other seminar highlights in the reporting period include:

September 22nd 2009, Enrico Moretti (University of California, Berkeley) “Real Wage Inequality” – Edinburgh

October 14th 2009, Ross McKittrick, (University of Guelph, Ontario) “A Simple State-Contingent Pricing Rule for Complex Intertemporal Externalities” – Strathclyde

October 19th 2009, Maria Guadalupe (Columbia), “Corporate Governance, Stock Returns and Firm Outcomes: Causal Evidence from a Regression Discontinuity Design” – Edinburgh

November 9th 2009, Gauti Eggertsson (Federal Reserve Bank of New York), “The Fed’s Response to the Financial Crisis” – Edinburgh

December 10th 2009, Marc Fleurbaey (Paris Descartes) – St Andrews

January 11th 2010, John Hassler (Institute for International Economic Studies, Stockholm), “Optimal taxes on fossil fuel in general equilibrium” – Edinburgh

February 15th 2010, Jacob Goeree (Cal Tech) “An equilibrium analysis of the simultaneous ascending auction” – Edinburgh

February 22nd 2010, John Van Reenen (LSE) “Trade induced technical change? The impact of Chinese imports on innovation, diffusion and productivity” – Edinburgh

March 5th 2010, Irma Clots Figueras (Universidad Carlos III de Madrid) “Education, Language and Identity” – Edinburgh

May 4th 2010, Matheus Grasselli (McMaster) “Investment under uncertainty and competition in incomplete markets” – St Andrews

May 17th 2010, Ian MacKenzie (Zurich) “Reconsidering the choice of market-based environmental policy instruments: rent creation and political influence” - Edinburgh

June 7th 2010, Jim Andreoni (UCSD) "Risk Preferences are not Time Preferences." - Edinburgh

June 14th 2010, Alan Kirman (l'Université d'Aix-Marseille III et Directeur d'Etudes à l'Ecole des Hautes Etudes en Sciences Sociales) “The Economic Crisis is a Crisis for Economic Theory” – Edinburgh

June 14th 2010, Sylvie Thoron (GREQAM, Université de Toulon) “Comparison of arbitration mechanisms - Theory and experiment” – Edinburgh

5.2.3 Forthcoming seminar highlights include:

October 4th 2010, Giammario Impullitti (Cambridge)

October 6th 2010, Francisco Pérez-González (Stanford University)

October 11th 2010, Gregory Clark (UC Davis)

October 11th 2010, Paul Seabright (Toulouse)

October 25th 2010, V. Bhaskar (UCL)

November 8th 2010, Laura Mayoral (IAE, Barcelona)

5.2.4 Recent major achievements and impacts include:

John Moore (Edinburgh) as the current President of the Econometric Society gave the Presidential Address at the 10th World Congress of the Econometric Society in August 2010 in Shanghai on “Contagious illiquidity”. John also gave a keynote lecture at the 2010 African Econometric Society Conference in Cairo in July 2010, and the Leo Hurwicz Lecture at the joint Latin American and Caribbean Economic Association and Latin American Econometric Society Congress in Buenos Aires in October 2009.

Marco Mariotti and Paola Manzini, recent SIRE Chair appointments at St Andrews, have been awarded an ESRC grant of £75,792 to run from November 2009 for one year for research on “Formal Models of Bounded Rationality”. They also held a £7,500 grant from the Nuffield Foundation from October 2009 through July 2010 for research on “Alternative mechanisms for the elicitation of time preferences.”

John Moore's work on illiquidity and systemic risk has attracted considerable interest and attention from central bankers around the world. John gave a keynote lecture at the Uruguayan Central Bank in October 2009; later in October he contributed to a Basel Committee on Banking Supervision (BCBS) and Committee on the Global Financial System (CGFS) roundtable on systemic funding liquidity risk held at the Banque de France; and in November gave an invited presentation at the Sveriges Riksbank, workshop on "Financial Markets and the Macroeconomy: Challenges for Central Banks" in Stockholm.

David Ulph (St Andrews), the SIRE Director, holds an ESRC grant of £61,548 running from October 2008 through September 2012 for research on "Business, Taxation and Welfare". He has another ESRC grant, of £137,054, from January 2010 through December 2012, for work on "Optimal enforcement and decision structures for competition policy". And a further grant, from HM Customs and Excise, for £27,000 from October 2008 through September 2011 for work on "Tax policy and the global dimensions of avoidance".

John Moore was named a Thomson Reuters Citation Laureate in 2010, joining a small and highly prestigious group of very eminent world economists. See <http://science.thomsonreuters.com/nobel/>

During the reporting period, Paul Hare (Heriot Watt) completed his research on selecting good quality investment projects and implementing them, for which he had been awarded a £116,621 grant from DFID from June 2008 through December 2009.

John Beath (St Andrews) has been along standing holder of the May Wong Smith Research Fellowship and the Stanley Smith Research Fellowship, from the May and Stanley Smith Charitable Trust. John continues in his role as Secretary-General of the Royal Economic Society, to which he was appointed in June 2008 (only the 9th post-holder in over 100 years). In September 2009 he was appointed to the Council of the ESRC.

John Moore's five-year European Research Council Advanced Grant of 1.6 million Euros, announced in the 2009 SIRE Report, continues. The award is for his study of "Money, Liquidity and the Aggregate Economy", building on his recent work with Nobuhiro Kiyotaki (Princeton). Only 48 such grants were awarded across Europe in Humanities and Social Sciences.

Jonathan Thomas, along with co-investigators Andy Snell and Ric Holt (all Edinburgh) continue to work on the research project "Cohort effects within firms, and their implications for labour market outcomes and the business cycle" for which they were awarded an ESRC grant of £342,976, announced in the 2009 SIRE Report.

BIC Researchers have also obtained a number of smaller awards: Philippe LeMay Boucher (Heriot Watt) from the ILO and Carnegie Trust; Atanas Christev (Heriot Watt) from the Royal Society of Edinburgh; Vladislav Damjanovic (St Andrews) from Carnegie Trust; Laurence Lasselle (St Andrews) from the Economics Network; Kannika Thampanishvong (St Andrews) from Carnegie Trust; and Santiago Sanchez-Pages (Edinburgh) from Abbey/Santander Research Funding.

Stuart Sayer (Edinburgh) continued his collaboration with the University of Edinburgh Business School and the School of Geosciences on the Chevening Fellows Programme "Finance and Investment in Low Carbon Economy". This Programme,

which brings with it approx £200,000 of income per year was originally announced in the 2009 SIRE Report. The 2010 programme was, again, a major success, bringing in 'high-flying' Fellows from Australia (x2), Brazil, China (x2), Poland, Indonesia, Colombia, India (x2), Sri Lanka, Zambia, Taiwan, and Mexico. Inter alia, the programme provided a valuable opportunity to showcase climate change policies and research being undertaken in Scotland. Despite this success, UK government expenditure cuts have unfortunately led to the suspension of all Chevening Fellows Programmes in 2010-11.

Mark Schaffer (Heriot Watt), along with colleagues, has continued his collaboration with BP in the production of the *BP Statistical Review of World Energy*

Paul Hare (Heriot Watt) has been a partner in the Improving Institutions Pro-Poor Growth (IPPG) Research Programme, funded by DFID and based at the University of Manchester, since its inception in 2005. Over the years, project meetings and workshops have been held in the UK, Kenya, India, Bangladesh and Ecuador. In early November, Paul and his researcher, Felicia Owusu Fofie, visited Accra, Ghana, for the closing policy workshop of their research project on Ghana. The workshop was attended by about 40 policymakers and business representatives, including two government ministers, both of whom delivered very interesting presentations. Some media representatives also attended part of the workshop, and Paul was interviewed by one of Ghana's main TV channels, by a radio reporter, and for Ghana's daily newspaper, The Daily Graphic.

David Ulph (St Andrews) the Director of SIRE has been elected a Fellow of the Royal Society of Edinburgh. In February 2010 he shared a platform with Nobel Laureate Robert Solow when he gave an invited talk on "Growth-Driving Science and Technology as a Deus Ex Machina of Policy Making" in the symposium "Scientific Rationality and Policy-Making: Making Their Marriage Work" at the 2010 American Association for the Advancement of Science (AAAS) Annual Meeting in San Diego.

Kohei Kawamura (Edinburgh) was a visiting scholar at the Research Institute of Economy, Trade and Industry (a government funded policy research institute in Tokyo) in December 2009 for its project on Japanese corporate governance. He will also hold the same position in December 2010. (see <http://www.rieti.go.jp/en/>)

Martin Fransman's (Edinburgh) latest book "The New ICT Ecosystem - Implications for Policy and Regulation" (Cambridge University Press, 2010) has been awarded the Joseph Schumpeter Prize 2008-2010.

5.2.5 A selection of major publications in reporting period

Manzini, P. & Mariotti, M. (2009) "Consumer choice and revealed bounded rationality" *Economic Theory* 41, 379-392.

Gorbachev, O. "Did Household Consumption Become More Volatile?" forthcoming, *American Economic Review*

Manzini, P., Mariotti, M. & Mittone, L. (2010) "Choosing monetary sequences: theory and experimental evidence" *Theory and Decision* 69, 327-354.

Damjanovic, T. & Ulph, D. (2010) "Tax progressivity, income distribution and tax non-compliance" *European Economic Review* 54, 594-607.

Sanchez-Pages, S (2009) "Conflict as a Part of the Bargaining Process." *Economic Journal* 119(539), 1189-1207.

Martins, P., **Snell, A. and Thomas, J.** "Downward Wage Rigidity in a Model of Equal-Treatment Contracting", forthcoming, *Scandinavian Journal of Economics*

Thomas, J. 2010 "Labor Contracts, Equal Treatment, and Wage-Unemployment Dynamics," forthcoming (July), *American Economic Journal: Macroeconomics*

Jamasb, T. and Söderberg, M. (2010). The Effects of Average Norm Model Regulation: The Case of Electricity Distribution in Sweden, *Review of Industrial Organization*, Volume 36, Issue 3, May, 249-269.

Hopkins, E. "Job Market Signalling of Relative Position or Becker Married to Spence", forthcoming *Journal of the European Economic Association*.

Hopkins, E and Kornienko, T. "Which Inequality? The Inequality of Endowments Versus the Inequality of Rewards", forthcoming *American Economic Journal: Microeconomics*.

Hopkins, E and Kornienko, T. "Status, Affluence, and Inequality: Rank-Based Comparisons in Games of Status" *Games and Economic Behavior*, November, 2009, 67, 552-568.

Michel Benaïm, M., Hofbauer, J. and **Hopkins, E.** "Learning in Games with Unstable Equilibria" *Journal of Economic Theory*, 2009, 144, 1694-1709.

Jamasb, T., Growitsch, C., Müller, C., and Wissne, M. (forthcoming). Social Cost-Efficient Service Quality - Integrating Customer Valuation in Incentive Regulation: Evidence from the Case of Norway, *Energy Policy*.

Yu, W., **Jamasb, T.,** and Pollitt, M. (2009). Does Weather Explain the Cost and Quality Performance? An Analysis of UK Electricity Distribution Companies, *Energy Policy*, Volume 37, Issue 11, November, 4177-4188.

Yu, W., **Jamasb, T.,** and Pollitt, M. (2009). Willingness-to-Pay for Quality of Service: An Application to Efficiency Analysis of the UK Electricity Distribution Utilities, *The Energy Journal*, Volume 30, Issue 4, 1-48.

- Growitsch, C., **Jamasb, T.**, and Pollitt, M. (2009). Quality of Service, Efficiency, and Scale in Network Industries: An Analysis of European Electricity Distribution, *Applied Economics*, Volume 41, Issue 20, 2555-2570.
- Carlin, W., **Schaffer, M.** and Seabright, P., 2010. "A Framework for Cross-Country Comparisons of Public Infrastructure Constraints on Firm Growth," *CEPR Discussion Papers* 7662
- Baum, C., **Schaffer, M.**, and S. Stillman (2010), 'Ivreg2: Stata module for extended instrumental variables/2SLS and GMM estimation, *Statistical Software Components*, S425401
- Blackburn, K. & **Forgues-Puccio, G. F.** (2009) "Why is corruption less harmful in some countries than in others?" *Journal of Economic Behavior and Organization* 72, 797-810.
- Manzini, P. & Mariotti, M.** (2009) "Choice over time" in Anand, P., Pattanaik, P. & Puppe, C. (eds.). *Handbook of Rational and Social Choice* Oxford University Press 239-270.
- Manzini, P.**, Sadrieh, A. & Vriend, N. (2009) "On Smiles, Winks, and Handshakes as Coordination Devices" *Economic Journal* 119, 826-854.
- Manzini, P. & Mariotti, M.** (2009) "Alliances and negotiations: An incomplete information example" *Review of Economic Design* 13, 195-203.
- Sanchez-Pages, S** and Turiegano, (2010) E "Testosterone, facial symmetry and cooperation in the Prisoners' Dilemma", *Physiology & Behavior*, 99(3), 355-361
- Sanchez-Pages, S** and Straub, S. "The Emergence of Institutions," forthcoming in *The B.E. Journal of Economic Analysis & Policy* (Contributions).
- Sanchez-Pages, S** "Bargaining and Conflict with Incomplete Information." forthcoming in the *Oxford Handbook of the Economics of Peace and Conflict*.
- Martins, P., Solon, G. and **Thomas, J.** "Measuring What Employers Really Do about Entry Wages over the Business Cycle" *NBER Working Paper* w15767, February 2010
- Cason, T., Friedman, D. and **Hopkins, E.** "Testing the TASP: an Experimental Investigation of Learning in Games with Unstable Equilibria", forthcoming *Journal of Economic Theory*.
- Bayo-Moriones, A. Galdon-Sanchez, J. and **Güell, M.** "Is Seniority-Based Pay used as a Motivation Device? Evidence from Plant Level Data", *Research in Labor Economics*, , 2010, volume 30, 155-187.
- Costa-Gomes, M.A.**, Crawford, V.P. and Iriberry, N, Comparing Models of Strategic Thinking in Van Huyck, Battalio, and Beil's Coordination Games, *Journal of the European Economic Association*, vol. 7, pp 365-376, 2009
- Fransman, M.** *The New ICT Ecosystem - Implications for Policy and Regulation*, Cambridge University Press, 2010

5.3 Work and Well-being (W&W)

5.3.1 Major events during the reporting period

October 29th 2009 SIRE Policy Forum on Health Economics

W&W researchers took a prominent role in this very successful Policy Forum with Scottish Government economists held in St Andrews House. (See section 5.1 for further details).

December 4th 2009: Environmental and Energy Economics Workshop

The third in the series of SIRE Environmental and Energy Economics Workshops took place at Heriot-Watt in December. As well as providing a valuable networking opportunity, there were presentations from:

- Dan Eager (Edinburgh), Janusz Bialek (Durham) and Tim Johnson (Heriot-Watt), "Simulating investment in electricity generation capacity as a dynamic control problem"
- Tooraj Jamasb (Heriot-Watt and Cambridge), "Network Regulation by Norm Model: The Case of Electricity Distribution in Sweden"
- Richard Welpton (Office of National Statistics), "Introduction to the Environmental and Energy Data in the Virtual Microdata Laboratory at the Office of National Statistics"
- Daniel Hinze (Environmental Analysis Unit, Scottish Government), "Carbon Assessment of the 2010-2011 Draft Budget"
- Susana Ferreira (University of Georgia) and Mirko Moro (University of Stirling), "Income and Preferences for the Environment: Evidence from Subjective Well-Being Data"

December 4th 2009: Economic History Workshop

The first SIRE Workshop in Economic History, organised by Bob Hart and Sascha Becker (Stirling) was held at the University of Stirling in December. The emphasis of the group is on quantitative and economics-based approaches to topics in economic history. There were presentations from:

- Luis Angeles (Glasgow): 'Colonialism, European Descendants and Democracy'.
- David Greasley (Edinburgh): 'Housing investment and the Great Depression in the USA'.
- Bob Hart (Stirling): 'Real wages and the Great Depression'.

Encouragingly, 16 people attended, from the universities of Aberdeen, St. Andrews, Dundee, Stirling, Heriot-Watt, Edinburgh, Strathclyde and Glasgow. The workshop provided a valuable opportunity to share new techniques and quantitative approaches to historical data, and discover common research interests, which included: the Great Depression; the role of religion; international aspects of economic, cultural and political development.

January 25th 2010 SIRE Policy Forum on the Environment

W&W researchers took a prominent role in this successful Policy Forum with Scottish Government economists held in the University of Edinburgh. (See section 5.1 for further details).

March 3rd 2010: : Environmental and Energy Economics Workshop

The fourth in the series of SIRE Environmental and Energy Economics Workshops took place at Stirling in March. There were presentations from:

- David Ulph (St. Andrews) “Optimal Climate Change Policies When Governments Cannot Commit”
- Frans DeVries (Stirling) “On Technological Implications of Emissions Trading: Absolute versus Relative Design Schemes
- Grant Allan (Strathclyde) "Regional Economic Impacts of Biofuels: Lessons from Non-marine Derived Biofuels for Marine Algae Production in Northern Ireland, the Border region of Ireland and Western Scotland"
- Sue Chilton (Newcastle) “Willingness to Pay, Willingness to Accept and “Smooth vs Kinked” Utility of Wealth Functions: An Empirical Test of a Theoretical Debate”

As usual, this workshop drew a wide audience, with participants from: Strathclyde, Stirling, Edinburgh, Dundee, Heriot Watt and St Andrews. The 14 Fellows from the Edinburgh Chevening Fellows Programme on “Finance and Investment in a Low Carbon Economy” were a welcome addition the audience and discussion. In the morning, prior to the workshop, the ‘high-flying’ Fellows, from Australia (x2), Brazil, China (x2), Poland, Indonesia, Colombia, India (x2), Sri Lanka, Zambia, Taiwan, and Mexico, were given presentations on the environmental economics research being undertaken at Stirling.

March 24th 2010: Work and Well-being Workshop

This successful half day workshop, in Dundee, provided a follow up on the earlier SIRE Policy Forum on health economics and a vehicle for presenting some of the latest work in this area undertaken by SIRE researchers and others. There were presentations from: Tim Barmby (Aberdeen), Colin Green (Lancaster), Paul Seaman (Dundee) and Tom Spencer (Social Justice Statistics, Scottish Government).

April 8th-9th 2010: Well-being, Happiness and the Environment Workshop:

This two day international workshop, in Stirling, was organised by Nick Hanley and Mirko Moro (Stirling). There were key note presentations from:

- David Maddison (U of Birmingham), “Do Geographical Variations in Climate Influence Happiness?”
- Nick Hanley (U of Stirling), “Decision versus Experienced Utility: An investigation using the Choice Experiment Method”
- Peter Martinsson (U of Gothenburg, Sweden), “Subjective Well-Being among the Very Poor: Are they Different?”
- Katrin Rehdanz (Christian-Albrechts University of Kiel, Germany), “Species diversity and human well-being: A spatial econometric approach”

- Heinz Welsch (U of Oldenburg, Germany), “Is Pro-Environmental Consumption Utility Maximizing? Evidence from Happiness Data”

With additional presentations including:

- G. Mackerron (LSE), “Mean streets, green streets: Valuing urban environmental quality with spatial subjective wellbeing data”
- Filka Sekulova (U Autònoma de Barcelona, Spain), “On the happiness costs and benefits of climate change”
- Francesco Sarracino (CEPS/INSTEAD, Luxemburg) “Predicting the trend of well-being in Germany: how much do comparisons, adaptation and sociability matter?”
- Tom Murray (U of Birmingham), “Income Elasticity of Marginal Utility: What can Life Satisfaction tell us?”
- Martin Ljunge (U of Copenhagen, Denmark), “Half the job is showing up: taxes, sick leaves, and well-being”
- Chris Barrington-Leigh (U of British Columbia, Canada), “Sustainable well-being and relative consumption effects beyond income”
- Mirko Moro (U of Stirling), “Income and Preferences for the Environment: Evidence from Subjective Well-Being Data”
- David Comerford, (UCD Geary Institute, Ireland), “Experimental Evidence of Utility Misprediction in Transport Mode Choice”
- Finbarr Brereton (Urban Institute Ireland, Ireland), “Environment, land-use and well-being”
- Elissaios Papyrakis (U of East Anglia, UK), “Economics of Climate Change and the Easterlin paradox”
- Jan Eichhorn (U of Edinburgh), “Employment and Happiness: Defining the context”

The principal aim of this workshop was to assess the contribution of the recent economic literature that links self-reported measures of mental health, life satisfaction or happiness to environmental quality. What can we learn about the relationship between the environment and well-being from this literature? Can this data be used to inform cost-benefit analyses and public policies?

The workshop gave special attention to:

- the promotion of an ample and informed debate on the validity of the life satisfaction approach in eliciting preferences towards the environment;
- the policy implications arising from the current literature;
- the relationship between the life-satisfaction approach and standard methods used in analysing preferences towards public goods;
- the methodological and statistical issues to limit biases in survey methodologies and parameter estimation (e.g., endogeneity, measurement errors of variables, GIS techniques for happiness research).

May 21st 2010: Economic History Workshop

The second SIRE Workshop in Economic History, organised by Bob Hart and Sascha Becker (Stirling) was held at the University of Stirling in May. There were presentations from:

- Tim Barmby (Aberdeen): ‘What lies beneath? Effort and incentives on archaeological digs in the 1930s’
- Sascha Becker (Stirling): ‘Does parental education affect fertility? Evidence from pre-demographic transition Prussia’
- Robert Mochrie (Heriot Watt): ‘The extent of cross subsidy in the Free Church of Scotland’
- Gary Shea (St.Andrews): ‘The role of East India Company owners in the South Sea Bubble’

There were 14 participants from the Universities of Aberdeen, St. Andrews, Dundee, Stirling, Heriot Watt, Edinburgh, Strathclyde, West of Scotland. A further workshop is planned for November 2010.

5.3.2 *Grant Income during reporting period*

PI:	Fiona Denison (Edinburgh)
Other Economics Investigators:	G Scotland (HERU)
Value:	£37,679
Period:	1 year
Funded By:	Chief Scientist Office
Title:	The clinical and short-term NHS costs of maternal Obesity for maternity services in Scotland
PI:	M Cruickshank (Aberdeen)
Other Economics Investigators:	P McNamee (HERU)
Value:	£180,793
Period:	5 years
Funded By:	Chief Scientist Office
Title:	The Scottish Cervical Cancer Prevention Programme
PI:	A Ludbrook (HERU)
Other Economics Investigators:	P McNamee (HERU)
Value:	£19,737
Period:	1 year
Funded By:	SCPHRP (CSO)
Title:	Feasibility Study of Use of Direct Payments for Informal Care
PI:	D Petrie (Dundee)
Other Economics Investigators:	A Ludbrook (HERU)
Value:	£15,941
Period:	8 months
Funded By:	NHS Health Scotland
Title:	Scoping Study on the economic impact on the alcohol industry of pricing and non-pricing policies to regulate the affordability and availability of alcohol in Scotland
PI:	A. Ma (HERU)
Other Economics Investigators:	D Skatun (HERU), M Sutton (Manchester) Guthrie (Dundee)
Value:	£49,132
Period:	1 year
Funded By:	Chief Scientist Office
Title:	An examination of changes introduced in the quality and outcomes framework in 2006/07 and their effect on the delivery of primary care in Scotland

PI: M Watson (Aberdeen)
Other Economics Investigators: A Ludbrook (HERU)
Value: £49,782
Period: 1 year
Funded By: Chief Scientist Office
Title: Screening and brief interventions for alcohol misuse delivered in the community pharmacy setting: A pilot study

PI: M van der Pol (HERU)
Value: £54,647
Period: 3 years
Funded By: MRC
Title: PhD Studentship: Time preferences for future health events

PI: B Eberth (HERU)
Other Economics Investigators: A Ludbrook & R Hernandez (HERU)
Value: £94,311
Period: 3 years
Funded By: Chief Scientist Office
Title: Socioeconomic Inequalities in Health & Behaviour: Application of novel approaches to identify human inequality in Scotland and England to inform policy

PI: R Elliott (HERU)
Other Economics Investigators: D Skatun, A Ma (HERU)
Value: £68,983
Period: 8 months
Funded By: Department of Health
Title: The staff market factor component of the resource allocation weighted capitation formula

PI: A Anderson (Dundee)
Other Economics Investigators: A Ludbrook (HERU)
Value: £1,470,694
Period: 3 years
Funded By: MRC (NPIR Funding)
Title: BeWEL the impact of BodyWEight and physical activity

PI: B Smith (Aberdeen)
Other Economics Investigators: P McNamee (HERU)
Value: £1,058,605
Period: 4 years
Funded By: MRC
Title: Engaging with older people to develop and deliver interventions for the self-management of chronic pain

PI: A Ludbrook (HERU)
Value: £13,495 (MRC part)
Period: 3 years
Funded By: MRC Capacity Building Studentship and University of Aberdeen
Title: Economic Analysis of dietary and physical activity behaviours: Consequences for obesity interventions

PI: M Ryan (HERU)
Value: £237,671
Period: 2 years
Funded By: MRC
Title: What health care experiences matter to patients and how can we assign a value to them for policy making purposes

PI: R Elliott (HERU)
Other Economics Investigators: D Skatun (HERU)
Value: £59,863
Period: 3 years
Funded By: MRC Capacity Building Studentship
Title: NHS staff skills mix and local labour markets: the role of reward structures, shortages and competition in determining the mix of the NHS workforce

PI: I Theodossiou (Aberdeen)
Other Economics Investigators: T Barmby, D McCausland, K Pouliakis, A Zangelidis (Aberdeen)
Value: £355,000
Period: 3 years
Funded By: EU 7th Framework
Title: An Inquiry into the Health and Safety at Work; a European Union Perspective' (HEALTHatWORK).

PI: H Hvide (Aberdeen)
Value: £95,000
Period: finishes this year
Funded By: ESRC
Title: Entrepreneurial Performance.

Dr Paul Allanson and Dr Dennis Petrie (Dundee) have been awarded £49,112 by the Scottish Government's Chief Scientist Office (CSO). The research, which will be undertaken in collaboration with Professor Ulf Gerdtham at Lund University in Sweden, will develop a modeling framework to explain changes in income-related health inequalities and benchmark performance in tackling income-related health inequalities. The framework will be used to account for the historical trends in income-related health inequality in Scotland and provide an assessment of how well Scotland has performed in tackling health inequalities compared to the other home nations. The project will also assess the adequacy of current data sets to support robust policy conclusions from the longitudinal analysis of income-related health inequalities in Scotland.

ESRC Collaborative Governmental PhD Studentship (2009, Dundee) 'The design of the Single Payment Scheme', £55815. Project start date: 01/10/2009. Duration: 1+3 Award. Student: Kalina Kasprzyk.

Dr Carlo Morelli and Dr Paul Seaman (Dundee) were awarded £4,000 by the Equalities and Human Rights Commission (Scotland) to undertake a literature review of the persistent income inequality literature, and undertake new empirical research on persistent income inequality within Scotland. This empirical research examined the period since the early 1990s and concluded that when controlling for household size (an important consideration when comparing Scotland with the rest of the UK) Scotland's record on reducing permanent income inequality was no better than that for the rest of the UK, and that devolution has had little discernable effect.

ESRC PhD studentship (2010, Dundee) 'The Effects of Economic Insecurity on Health and Wellbeing', project start date: September 2010, duration 1+3 Award. Student: Daniel Kopasker, Supervisor Catia Montagna

NHS Tayside, Substance Misuse Information – Tayside: “SUMIT”, £300,000, Dennis Petrie, Catia Montagna (Dundee) with B. Kidd (PI) – Jan/Feb 2011 for 18 months

Knowledge Transfer Partnership (KTP KTP00681), Funding body: TSB and Scottish Government, Role: Lead Academic and principal investigator, (£127,383) – Catia Montagna (PI), Sushil Mohan (Dundee), Sept 2008-Sept 2010

Teaching Resources for Undergraduate Economics (TRUE): Monojit Chatterji (Dundee) is co-researcher in the TRUE project led by Rebecca Taylor at NTU. The project is funded by JISC to the amount of £ 218,152 from April 2009 to March 2010.

Frans de Vries (Stirling) European Investment Bank, “Designing Markets for Ecosystem Services Delivery (ECO-DELIVERY)” €300,000

Nick Hanley (Stirling) Scottish Funding Council, Marine Alliance for Science and Technology Scotland, £310,000

Nick Hanley (Stirling) ESRC “Further work on relationships between upland farming, policy change, and biodiversity” £30,000

Bob Hart (Stirling) ESRC “Real Wages and the Great Depression” £51,000

David Bell (Stirling) ESRC “Centre for Population Change” £230,000

Sascha Becker (Stirling) “The Long-Run Effect of Imbalanced Sex Ratios”. €56,000 from the University of Padova

David Bell (Stirling) Joseph Rowntree Foundation, “Financial Care Models in Scotland and the UK”. £49,700

David Bell (Stirling) ESRC “Scotland’s Ageing Population: Microsimulation” £41,451

5.3.3 Recent impacts and knowledge exchange activities include:

Anne Ludbrook (HERU) led research which informed the possible price or tax policies under consideration by the Scottish Parliament, with the Alcohol Etc. (Scotland) Bill introduced in November 2009 and the House of Commons Health Select Committee recommendation for the introduction of minimum pricing.

In January 2010, the Research Councils UK launched a publication highlighting the impacts of research council funded research on public policy. They report that: “Results of research on the health and economic impacts of passive smoking formed an ‘enormously influential’ part of the evidence considered by the Scottish Cabinet when deciding to introduce the ban on smoking in public places, which came into force in March 2006. This has been, arguably, the most successful piece of public health legislation for a generation. Research by a collaboration of staff in the health economics research unit (HERU) and the department of Public Health at the University of Aberdeen covered health gains, exposure to environmental tobacco smoke, smoking behaviour and economic impacts, including effects on the hospitality sector. The researchers undertook a modelling exercise to place the likely impacts of restrictions on smoking in public places in a Scottish context. The impact of this research has been independently assessed as part of the external review of HERU: “It was the view of colleagues both within the NHS and within SEHD (Scottish Executive Health Department) that without the unit’s input the bill would not have been brought forward.” See [Impacts on public policy](#)

Farrar, S., Yi, D., Chalkley, M., Sutton, M. and Ma, A. (HERU and Dundee): “Impact of Payment by Results on providers and services: latest findings from the national evaluation”. Department of Health, Health Reforms Evaluation Programme meeting, London.

Elliott, R.F., Ma, A., McConnachie, A., Morris, S., Rice, N. and Skåtun (HERU and Aberdeen). “The staff market forces factor component of the resource allocation weighted capitation formula: New estimates”. Technical Advisory Group (TAG), Department of Health London; and Advisory Committee Resource Allocation (ACRA). Department of Health, London.

Pol, M. van der (HERU). “Valuing future health: empirical evidence and implications for discounting practices. Valuing Future Flexibility”. Institute for Advanced Studies, Glasgow, September 2009.

Pol, M. van der (HERU). ”How to conduct a cost-effectiveness analysis of telemedicine/telecare. Telemed and eHealth”, Royal Society of Medicine, London, November 2009.

Ryan, M. (HERU) “Measuring values in HTA: Going beyond QALYs. Health Technology - burden or benefit in an economic crisis?” 12th European Health Forum Gastein, Bad Hofgastein, September 2009.

Ryan, M. (HERU) “Values missed by HTA – an Alternative Approach”. Drug Information Association Health Technology Assessment Forum, Hotel Marriott Rive Gauche Hotel, Paris. November 2009.

Farrar, S., Yi, D., Chalkley, M., Ma, A., Sutton, M. and Sussex, J. (HERU and Dundee) “Payment by Results: impact and policy implications”. Symposium on Policy Implications of Emerging Findings for the English NHS. London, King's Fund, February 2010.

Ludbrook, A. (HERU) “Alcohol by the numbers”. Holyrood event, 'Alcohol in Scotland'. Edinburgh. June 2010.

Ryan, M. (HERU) “Measuring preferences in economic evaluations: going beyond QALYs” Health and Policy Care Unit, London School of Economics, London. January 2010.

Silvia Mendolia (HERU) XXIII Annual Conference of the European Society for Population Economics (ESPE), Seville June 2009 Paper presented: “The impact of job loss on family mental health”

T Barmby (Aberdeen) Nov 2009 Presentation to Swedish Economic Council “The Market for Absence”

Anne Ludbrook (HERU) was a member of the NICE Programme Guidance Development Group which has recently published its guidance on Alcohol-use disorders: preventing harmful drinking. The guidance covers the affordability and availability of alcohol and screening and brief interventions.

Paul Allanson (Dundee): 9th International German Socio-Economic Panel User Conference, contributed paper “On the characterisation and measurement of the

welfare effects of income mobility from an ex-ante perspective”, Berlin, June 30 – July 2, 2010.

Martin Chalkley (Dundee) contributed to two day workshop hosted by the Chief Dentist for England which considered the mechanism for evaluating pilot of the new dental contract arrangements proposed in the Steele Report.

Martin Chalkley (Dundee) acted as an assessor for Department of Health Policy Research Units call (value £25m).

Martin Chalkley (Dundee) acted as expert advisor to Department of Health regarding outputs of Patient Choice research.

John Dewhurst (Dundee) served as The Chairman of the International Evaluation Panel for research proposals in the field of economics for the Research Council for Culture and Society of the Academy of Finland

The work of Dr Carlo Morelli and Dr Paul Seaman (Dundee) on inequality and devolution is recognized as impacting on government policy, providing the evidence base for changes in Scottish provision of free school meals. As a result Drs Morelli & Seaman have been appointed to government panels on poverty, advise Government and the Equality and Human Rights Commission (Scotland) on a regular basis and have received funding from the EHRC (Scotland) and Royal Society Edinburgh.

Consultation on “Joint Report on Consumer Remedies – Report No 216”, Scottish Law Commission, 2009, John Dewhurst and Catia Montagna (Dundee)

Paul Allanson (Dundee) has been nominated to sit on the Scottish Government's ScotStat Agricultural Committee. ScotStat is a network for users and providers of Scottish Official statistics that aims to improve communication amongst those interested in particular statistics and facilitate the setting up of working groups on specific statistical issues. The Agricultural Committee considers and defines the key information required from good quality agricultural statistics for policy and research purposes, ensuring that the burden on data providers is minimised whilst meeting statutory requirements and ensuring data collected is fit for purpose.

Monojit Chatterji (Dundee) serves on the School Teachers Pay Review Body till July 2010. He continues as Chair of the National Joint Council (the bargaining body for UK Fire Service).

Catia Montagna (Dundee) had a visiting position at the University of Aarhus, August-December 2009.

Ian Lange (Stirling) went to Washington DC in May to advise the US Environmental Protection Agency Evaluation Support Division on voluntary program evaluation.

Apart from many appearances on BBC2's Newnight Scotland, David Bell (Stirling) has appeared on BBC1's 6pm News – in April 2010 - where he was interviewed by Hugh Pym on the current UK recession.

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Gravelle, H., Sutton, M. and **Ma, A.** Doctor behaviour under a pay for performance contract: treating, cheating, and case finding. *The Economic Journal*. 2010; 120(542): F129-F156.

McNamee, P., Ternent, L., Yugbare-Belemsaga, D., Gbangou, A. and Newlands, D. A game of two halves? : Incentive incompatibility, starting point bias and the bidding game contingent valuation method. *Health Economics*. 2010; 19(1): 75-87.

Morris, S., Goudie, R., Sutton, M., Gravelle, H., **Elliott, B.**, Hole, A., **Ma, A.**, Sibbald, B. and **Skåtun, D.** Determinants of general practitioners' wages in England. *Health Economics*. In press; doi:10.1002/hec.1573

Pol, M. van der. and Cairns J. Descriptive validity of alternative intertemporal models for health outcomes: an axiomatic test. *Health Economics* In press, published online June 2010

Seymour, J., **McNamee, P.**, Scott, A. and **Tinelli, M.**; Shedding new light on ceiling and floor? A quantile regression approach to compare EQ-5D and SF-6D responses.; *Health Economics*. 2010; 19(6); 683-696;

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Ryan, M., Watson, V. and Entwistle, V. Rationalising the 'irrational': A think aloud study of discrete choice experiment responses. *Health Economics*. 2009; 18(3): 321-336.

Ryan, M. and **Watson, V.** Comparing welfare estimates from payment card contingent valuation and discrete choice experiments. *Health Economics*. 2009; 18(4): 389-401.

Sutton, M., Elder, R., Guthrie, B. and Watt, G.C.M. Record rewards: the effects of targeted quality incentives on the recording of risk factors by primary care providers. *Health Economics*. 2009; 19(1):1-13.

Sussex, J. and **Farrar, S.** Activity-based funding for National Health Service hospitals in England: managers' experience and expectations. *European Journal of Health Economics*. 2009; 10(2): 197-206.

Battu H, Seaman P and Zenou Y “ Job contact networks and the ethnic minorities Forthcoming in *Labour Economics*.

Hvide, H. and Møen, J, Lean and hungry or fat and content? Entrepreneur wealth and start-up performance., *Management Science*, Forthcoming, 2010

Drakopoulos, S, **Theodossiou, I.** and Lakioti, E, Childhood Socioeconomic Deprivations and Later Adulthood Health, *International Journal of Social Economics* , forthcoming, 2011

Zangelidis A and I. Livanos “Multiple Job-Holding Among Male Workers in Greece, *Regional Studies*, forthcoming.

Zangelidis A, H. Dickey and V. Watson “Is It All About Money? An Examination of the Motives Behind Moonlighting”, *Applied Economics*, forthcoming.

John Skåtun “The Death Rate of Smokers and its external effect” *Journal of Economic Studies* forthcoming

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Døskeland, T. and **Hvide, H.**, Do individual investors have asymmetric information based on work experience?, *Journal of Finance*, 2010

Economou, A. and **Theodossiou, I.**, Poor and sick: estimating the relationship between household income and health , *Review of Income and Wealth*, 2010

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Theodossiou I and **K. Pouliakas** "Measuring the Utility Cost of Temporary Employment Contracts using a Conjoint Analysis Approach", *Economica*, 2009.

Theodossiou I and **A. Zangelidis** “Should I Stay or Should I Go? The Effect of Gender, Education and Unemployment on Labour Market Transitions”, *Labour Economics*, 2009

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Chen, Yu-Fu and Michael Funke (2010) "Booms, Recessions and Financial Turmoil: A Fresh Look at Investment Decisions under Cyclical Uncertainty", *Scottish Journal of Political Economy*, 57, 290-317, 2010

Chen, Yu-Fu and Gylfi Zoega (2010) "An essay on the generational effect of employment protection", *Mathematical Social Sciences*, 59, 349-359

Chuah S, Hoffmann R, **Jones M** and Williams G (2009) An Economic Anatomy of Culture: Attitudes and Behaviour in Inter- and Intra-National Ultimatum Game Experiments, *Journal of Economic Psychology* 30, 732-734

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Hascic, I, **F. de Vries, N. Johnstone** and N. Medhi (2010), "Effects of Environmental Policy on the Type of Innovation: The Case of Automotive Emission-Control Technologies", *OECD Journal: Economic Studies*, 41-58.

Hart, RA and Ma Y (2010) "Wage-hours contracts, overtime working and premium pay", *Labour Economics*, 17,170-179.

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5.4 Macroeconomics Financial Linkages and the Regions (MFLR)

5.4.1 Major events during the reporting period

September 2nd-4th 2009 Centre for Dynamic Macroeconomic Analysis (CDMA) Conference

The sixth annual Centre for Dynamic Macroeconomic Analysis Conference, organised by Charles Nolan the new Director of MFLR, took place in St Andrews on 2nd-4th September 2009. The ongoing success of this conference series, which brings together leading macroeconomists primarily from the UK and Europe, is due, in part to funding from SIRE's MFLR programme as well as the active involvement and participation of SIRE post-holders. The conference presentations included:

- Laura Povoledo (UWE) "The volatility of the tradeable and nontradeable sectors: theory and evidence."
- Tatiana Kirsanova (Exeter) "The interest rate-exchange rate nexus: exchange rate regimes and policy equilibria."
- Patrick Minford, (Cardiff) "Trying to understand real exchange rate behaviour- one more time"
- Parantap Basu (Durham) "Inflation, Human Capital and Tobins q "
- Joe Pearlman (London Metropolitan) "Endogenous Persistence in an Estimated New Keynesian Model Under Imperfect Information"
- Roger Guesnerie (College de France) "Expectational coordination with long-lived agents"
- George Evans (Oregon and St Andrews) "Expectations, Deflation Traps and Macroeconomic Policy"
- Peter McAdam (European Central Bank) "Shocking Stuff: Technology, Hours and Factor Augmentation in Business-Cycle Models"
- Ioana Moldovan (Glasgow) "Monetary and Fiscal Policy under Deep Habits"
- Neil Rankin (York) "Output Persistence from Monetary Shocks with Staggered Prices or Wages under a Taylor Rule"
- Elisa Newby (Cambridge) 'A Distress for Notes of the Bank of England': Liquidity Crisis and the Suspension of the Gold Standard 1797-1821"
- Nicola Dimitri (Siena) "Dynamic Games with Time Inconsistency"
- Tony Yates (Bank of England) "Evolving and self-confirming inflation persistence"
- Peter Sinclair (Birmingham) "Government debt: bane, boon, or neither?"

Overall around 40 delegates attended the conference, these included (in addition to the presenters listed above) participants from St Andrews, Edinburgh, Birkbeck, Sienna, Cardiff, Cambridge and Oxford. Unfortunately the move of Charles Nolan from St Andrews to Glasgow meant a break in this conference series in 2010. However, it is good to report that the CDMA will continue under the new Director Kaushik Mitra with George Evans, a SIRE Chair, as Co-Director. Plans are already underway for a 2011 CDMA Conference on the theme of "Expectations in Dynamic Macroeconomic Models".

July 22nd-23rd 2010 Conference in Honour of Sir David F Hendry



This two-day conference was organised by Rod McCrorie, a SIRE Chair at St Andrews. It was co-sponsored by SIRE and the University of St Andrews, with additional sponsorship provided by the Royal Economic Society. Keynote presentations included:

- Sir David Hendry (Oxford), “Empirical model discovery and theory evaluation”
- Robert Engle (2003 Nobel Laureate in Economics, NYU Stern), “Volatility forecasting and the financial crisis”
- Soren Johansen (Copenhagen), “Transformation of cointegration and common trends under linear transformation of the data.”
- Katerina Juselius (Copenhagen), Testing exchange rate models based on rational expectations versus imperfect knowledge: a scenario analysis.”
- Halbert White (UC San Diego), “Robustness checks and robustness tests in applied economics.”

There were tributes to Sir David from: Kenneth Wallis (Warwick), Grayham Mizon (Southampton), Peter Sinclair (Birmingham and Bank of England), Richard Blundell (UCL, President of the Royal Economic Society), and Andrew Ross (Deputy Director, Government Economic Service)

Other conference participants included: Neil Ericsson (Federal Reserve), Aris Spanos (Virginia Tech), Juan Dolado (Carlos III), Stephen Pollock (Leicester), Robert Taylor (Nottingham), Majid Al-Sadoon (Cambridge), Dimitra Kyriakopoulou (Piraeus), Jouni Sohkanen (Oxford), and Robert Yaffee (NYU). The conference was notable for the extremely high quality of comments and level of engagement following each talk. Inter alia, the event was a valuable opportunity for SIRE researchers to present their work to such a strong gathering of econometricians and benefit from their insights and comments, with talks from Rod McCrorie (St Andrews) and Arnab Bhattacharjee (the newly appointed SIRE Reader at Dundee), and poster presentations from Julia Darby, Jiazhu Pan (both Strathclyde) and a brave PhD student, Liang Cao (St Andrews).

Robert Engle gave the inaugural SIRE Econometrics Lecture, a prestigious start to what we hope will become an annual series.

23rd-26th August 2010: European Economic Association Meetings

The University of Glasgow was host to the 2010 European Economic Association annual conference. The annual conference series, which began in 1986, has only been held in the UK once before, Cambridge in 1991. Bringing a major international economics conference of this kind, with over 900 delegates, to Scotland is a notable feat. While the conference itself covers all fields of economics, the local arrangements committee, comprised of leading MFLR researchers: Alberto Paloni, Richard Harris, Campbell Leith and Gabriel Talmain. (See section 5.1 for a more detailed report).

As well as hosting and organising this major international conference, MFLR researchers took a leading role in organising a substantial number of SIRE workshops and short-courses, including:

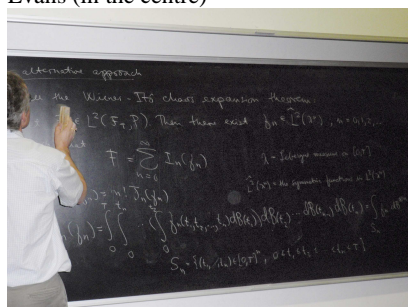
- **December 11th 2009 Econometrics Workshop:** organisers, Andrew Snell (Edinburgh) and Gary Koop (Strathclyde). Keynote speakers: Hashem Pesaran (Cambridge) and Costas Meghir (UCL, now Yale) . (see section 5.1 for a more detailed report)



Davidson event



Evans (in the centre)



Bernt Øksendal

- **January - April 2010 PhD Workshop Series in Advanced Quantitative Methods in Economics & Finance:** organiser, Laurence Lasselle (St Andrews). SIRE jointly sponsored this series of workshops along with GRADskills. This year, the workshops included contributions by Paul Elhorst (Groningen); George Evans (Oregon/St Andrews); Russell Davidson (McGill University, Canada); Kaushik Mitra (St Andrews); and Bernt Øksendal (Oslo). (see section 5.5 for a more detailed report)

- **March 2nd 2010 Econometrics Workshop:** organiser, Gary Koop (Strathclyde). Keynote speakers: Sylvia Frühwirth-Schnatter (Johannes Kepler University, Linz) and John Geweke (University of Technology Sydney). (see section 5.1 for a more detailed report)

- ***April 15th-16th 2010 SIRE Applied Robust Regression training workshop:*** organiser, Rudolphe Desbordes (Strathclyde). Keynote speaker: Abertde Vincenzo Verardi from the Universite Libre de Bruxelles (ECARES). (see section 5.5 for a more detailed report)
- ***May 18th-June 2nd 2010 PhD Training Workshops in Macroeconomics:*** organiser, Gabriel Talmain (Glasgow). Keynote speakers: Raouf Boucekine (Glasgow/University of Louvain); Tao Zhu (Glasgow/Hong Kong University of Science and Technology); Apostolis Philippopoulos (Glasgow/University of Athens). (see section 5.5 for a more detailed report)

5.4.2 Other seminar highlights in the reporting period include:

September 17th 2009: Robert Kollmann (Université Libre de Bruxelles), ‘Limited Asset Market Participation and the Consumption Real Exchange Rate Anomaly’ – St Andrews

September 18th 2009: Robert Kollman (Université Libre de Bruxelles), ‘International Portfolios, Capital Accumulation and Foreign Assets Dynamics’ (co-authored with Nicolas Coeurdacier (London School of Economics), and Philippe Martin (Sciences Politiques, Paris)) – Heriot-Watt.

October 9th 2009: Oren Sussman (Oxford), ‘Liquidity, contagion and financial crisis’ (co-authored with Alexander Guembel (Oxford)) – Heriot Watt.

November 5th 2009: Raouf Boucekkine (Louvain/Glasgow), 'Sustainability, Optimality, and Viability in the Ramsey Model' (co-authored with Noel Bonneuil, INED-EHESS, Paris) – Glasgow

November 9th 2009: Gauti Eggertsson (Federal Reserve Bank of New York) ‘The Fed’s response to the financial crisis’ - Edinburgh

November 26th 2009: Leo Von Thadden (European Central Bank), 'Monetary and Fiscal Policy Separations: 'Single Economy' vs. 'Monetary Union' Issues' - Glasgow

January 14th 2010: Terry McKinley (SOAS), 'The US-China Marriage of Convenience and the Prospects for Reducing Global Imbalances' - Glasgow

February 11th 2010: Ulf Axelson (Stockholm School of Economics/SIFR and London School of Economics), 'Investment Banking (and Other High Profile) Careers' (co-authored with Philip Bond, University of Pennsylvania) - Glasgow

February 25th 2010: Charles Gore (Glasgow Honorary staff), 'The Global Financial Crisis in a Development Perspective' - Glasgow

March 4th 2010: Mikhail Chernov (London Business School), 'Disasters Implied by Equity Index Options' (co-authored with David Backus, New York University and Ian Martin, Stanford University) - Glasgow

March 5th, 2010: Cédric Tille (Geneva), ‘On the Dynamics of Leverage, Liquidity and Risk’ – St Andrews

March 11th 2010: Valentina Corradi (Warwick), ‘Financial Econometrics’ – St Andrews

March 17th 2010: Howard Stein (Michigan), 'Africa, Industrial Policy and Export Processing Zones: Lessons from Asia' – Glasgow

March 19th 2010: Thorsten Beck (Tilburg), ‘Credit information risk sharing, banking sector outreach and corporate tax evasion’ – Heriot Watt

March 25th 2010: George Evans (Oregon/St Andrews), ‘Does Ricardian equivalence hold when expectations are not rational?’ – Heriot Watt

April 22nd 2010: Xunyu Zhou (Oxford), 'Greed, Leverage and Potential Losses: A Prospect Theory Perspective' (co-authored with Hanqing Jin, University of Oxford) – Glasgow

April 26th Aubhik Khan (Ohio State) “Inflation and interest rates with endogenous market segmentation” - Edinburgh

April 29th 2010: Julia K Thomas (Ohio State), ‘Credit Shocks and Aggregate Fluctuations in an Economy with Production Heterogeneity’ – St Andrews (and Edinburgh on April 26th)

May 6th 2010: Ian Marsh (City University, London), 'Some Evidence on the Effectiveness of a Securities Transaction Tax from the US Equity Market' (co-authored with Jun Nagayasu, University of Tsukuba and Jonas Wandrin, BNP Paribas, London) – Glasgow

May 20th 2010: Tao Zhu (Glasgow/Hong Kong University of Science and Technology), 'Partial Monitoring, Report Trading, and Co-operation' - Glasgow

5.4.3 Recent major achievements and impacts include:

Kaushik Mitra (St Andrews) was awarded an ESRC grant of £211,605 to run from October 2010 for three years, for research on “Macroeconomic policy changes and adaptive learning”

Gary Shea (St Andrews) was awarded £2,731 by the British Academy for research “Early British Financial Markets”, to run from January 2009 for two years.

Gary Koop (Strathclyde, SIRE Chair) continued work on his Leverhulme Trust grant of £125,785 on “Regime-switching and structural breaks in cointegrated macroeconomic models”. The grant finished at the end of September 2010.

Karen Turner (Strathclyde, now Stirling) continued work on her ESRC grant of £193,613 for research on “An empirical equilibrium analysis of the factors that govern the extent of energy rebound effects in the UK economy”. The grant finished at the end of September 2010.

Jim Malley and Konstantinos Angelopoulos (both Glasgow) have been awarded an ESRC grant of £118,464 running from 2010 to 2012 for research on “Optimal Taxation in Heterogenous Agent Dynamic General Equilibrium Models”.

Peter McGregor, Kim Swales and Robert Wright (all Strathclyde) continued work on their ESRC grant of £496,000 for research on “The overall impact of higher education institutions on regional economies in the UK”. The grant finished in 2010.

Gary Koop (Strathclyde, SIRE Professor) has been awarded an ESRC grant of £325,000 for a research project on 'Macroeconomic forecasting in turbulent times'. The research grant covers the period from October 2010 to September 2013. Traditional forecasting procedures can perform poorly, particularly in times of rapid change. This research will develop new forecasting methods which should, in theory, work well in such times. In a series of empirical forecasting exercises, these new methods will be compared to traditional alternatives.

SIRE researchers at Strathclyde continue to play an active role in the Fraser of Allander Institute for Research on the Scottish Economy. Inter alia, the Institute publishes the influential *Fraser Economic Commentary*, which attracts extensive media coverage. The *Fraser Economic Commentary* provides a valuable outlet for non-technical accounts of research by MFLR researchers, aimed at the policy and business communities. Recent contributions include: “Energy efficiency and the rebound effect”; “Devolved immigration policy: will it work in Scotland?”; “How can we measure Scotland’s footprint?”; “Graduate migration flows in Scotland”; “The Impact of Higher Education Institutions on the Scottish economy”; “The demographic challenge facing Scottish Higher Education Institutions”; “Measuring the volume and value of Scottish Higher Education Institutions”; “A distinctive energy policy for Scotland?”; “The impact of low carbon generation on the future price of electricity”.

Roger Sandilands (Strathclyde) presented expert oral and written evidence to a Glasgow City Council committee regarding alternatives to local government finance, resulting in approval of a pilot study of the feasibility of land value taxation in Glasgow.

Macroeconomists associated with the MFLR continue to be participants in national and international policy analysis and research. For example, Charles Nolan (Glasgow) and Campbell Leith (Glasgow) are regular attendees at the Bank of England’s twice-yearly Policy Forum Roundtable event, and Alexandros Kontonikas (Glasgow) was appointed Visiting Research Fellow at the Directorate of Economic and Financial Affairs (ECFIN) of the European Commission.

Robert Wright (Strathclyde) has been appointed to the Methods and Infrastructure Committee, one of the three policy committees of the ESRC. He has also been appointed to the International Expert Network, whose membership is from the ESRC Council and the Policy Committees. A further appointment is to the Advisory Board of the Economics Network of the UK’s Higher Education Academy.

Robert Wright (Strathclyde) is also a member of the International Advisory Board of the Centre for Microfinance and Development at the University of Dhaka in Bangladesh (chaired by Professor Muhammad Yunus, founder of the Grameen Bank and winner of the 2006 Nobel Peace Prize) and the Advisory Network of the recently established Social Justice Foundation.

Ian Wooton (Strathclyde) continues as a Director of the European Trade Study Group, and was co-organiser of the 2010 ETSG Conference, held in Lausanne. The ETSG is the world’s largest conference on international trade, with around 400 participants and 300 presentations. .

Gabriel Talmain (Glasgow, SIRE Chair) delivered the keynote address at the First International Symposium in Computational Economics and Finance, held in Sousse, Tunisia, 25-27 February. Other keynote speakers were William Barnett (Kansas) and Alan Kirman (Marseille).

5.4.4 Publications in reporting period include:

- Devereux, M. B. & **Sutherland, A.** (2009) "A portfolio model of capital flows to emerging markets" *Journal of Development Economics* 89, 181-193.
- Devereux, M. B. & **Sutherland, A.** (2010) "Valuation effects and the dynamics of net external assets" *Journal of International Economics* 80, 129-143.
- Devereux, M. B. & **Sutherland, A.** (2010) "Country portfolio dynamics" *Journal of Economic Dynamics and Control* 34, 1325-1342.
- Evans, G. W.**, Honkapohja, S. & **Mitra, K.** (2009) "Anticipated fiscal policy and adaptive learning" *Journal of Monetary Economics* 56, 930-953.
- Damjanovic, T.** & **Nolan, C.** (2010) "Seigniorage-Maximizing Inflation under Sticky Prices" *Journal of Money, Credit and Banking* 42, 503-519.
- McCrorie, J. R.** (2009) "Estimating continuous-time models on the basis of discrete data via an exact discrete analog" *Econometric Theory* 25, 1120-1137.
- Cobham, D.** (edited with Øyvind Eitrheim, Stefan Gerlach and Jan F. Qvigstad) *Twenty Years of Inflation Targeting: Lessons Learned and Future Prospects*, Cambridge University Press, forthcoming, September 2010
- Cobham, D.** (with Chris Adam) 'Using real time output gaps to examine past and future policy choices', *National Institute Economic Review*, no. 210, October 2009, pp. 98-110
- Christev, A.**, and **Méltiz, J.**, 2010. "EMU, EU, capital market integration and consumption smoothing," CEPR Discussion Papers 7776
- Ibrahim, B.** and **Brzezczynski, J.**, 2009. "Inter-regional and region-specific transmission of international stock market returns: The role of foreign information," *Journal of International Money and Finance*, vol. 28(2), pages 322-343
- Hyde, S., and **Sherif, M.** (2010), 'Tests of the conditional asset pricing model: further evidence from the cross-section of stock returns', *International Journal of Finance and Economics*, 15(2): 198-211
- Bhattacharjee, A.**, Chadha, J. S. & Sun, Q. (2010) "Productivity, Preferences and UIP Deviations in an Open Economy Business Cycle Model" *Open Economies Review* 21, 365-391.
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- Bhattacharjee, A.**, Higson, C., Holly, S. & Kattuman, P. (2009) "Macroeconomic Instability and Business Exit: Determinants of Failures and Acquisitions of UK Firms" *Economica* 76, 108-131.
- Christie, Alex** and **Swales, J. Kim** (2009) The Barnett allocation mechanism: formula plus influence. *Regional Studies* (1). pp. 1-15. ISSN 0034-3404

- Swales, J.K.** and McLachlan, H.V. (2009) Commercial surrogate motherhood and the alleged commodification of children: a defense of legally enforceable contracts. *Law and Contemporary Problems*, 72 (3). pp. 91-108. ISSN 0023-9186
- Desbordes, R.** (2010) *Global and diplomatic political risks and foreign direct investment. Economics and Politics*, 22 (1). pp. 92-125. ISSN 0954-1985
- Desbordes, R.** and **Azémar, C.** (2010) Short-run strategies for attracting foreign direct investment. *The World Economy* . ISSN 0378-5920 (In Press)
- Desbordes, R.** and Vicard, V. (2009) Foreign direct investment and bilateral investment treaties: an international political perspective. *Journal of Comparative Economics*, 37 (3). pp. 372-386. ISSN 0147-5967
- Desbordes, R.** and Boucekkine, R. and Latzer, H. (2009) How do epidemics induce behavioral changes? *Journal of Economic Growth*, 14 (3). pp. 233-264. ISSN 1381-4338
- Desbordes, R.** and **Azémar, C.** (2009) Public governance, health and foreign direct investment in Sub-Saharan Africa. *Journal of African Economies*, 18 (4). pp. 667-709. ISSN 0963-8024
- Fingleton, B.** (2009) Spatial autoregression. *Geographical Analysis*, 41 (4). pp. 385-391.
- Fingleton, B.** (2009) Prediction using panel data regression with spatial random effects. *International Regional Science Review*, 32 . pp. 195-220. ISSN 0160-0176
- Fingleton, B.** and Fischer, M. (2009) Neoclassical theory versus new economic geography: competing explanations of cross-regional variation in economic development. *Annals of Regional Science* . ISSN 0570-1864
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5.5 Scottish Graduate Programme in Economics (SGPE) PhD Programme

Several specialised workshops aimed at PhD students were held at various points during the reporting period:

September 25th-26th 2009 The Economics of Entrepreneurship

Professor Scott Shane from the Department of Economics at the Weatherhead School of Management at Case Western Reserve University, Cleveland, Ohio, was the key speaker at the two day workshop hosted and co-funded by the University of Aberdeen and SIRE. Scott Shane is the author of over 60 scholarly articles on entrepreneurship and innovation management and has written or edited 10 books. He currently serves as editor of the R&D, Innovation, and Entrepreneurship Division of *Management Science*. Theory building and empirical testing of the factors shaping the identification, evaluation and exploitation of opportunities and creation of new enterprises were the key topics explored in the workshop, which attracted over 20 PhD students from throughout Scotland. The training workshop was organised by Hans Hvide (Aberdeen SIRE Chair).

April 15th-16th 2010 Applied Robust Regression

Vincenzo Verardi (FUNDP, Namur and ULB, Brussels) was the keynote speaker at this two day workshop, hosted at Strathclyde and organised by Rodolphe Desbordes (Strathclyde and SIRE). In regression analysis, the presence of outliers in the sample can strongly distort the classical least squares estimator and lead to unreliable results. The workshop discussed the identification and treatment of outliers using Stata. The workshop not only covered standard methods such as the Hat matrix, standardized residuals, studentized residuals, DFFIT, Cook distances, DFBETA but also more robust alternatives such as M-estimators, S-estimators, MS-estimators, and CLAD. Using Stata, several examples from varying fields of economics were presented relying on both real and simulated data. Some multivariate robust data analysis tools were also introduced, e.g. robust PCA. The workshop proved very popular, attracting 44 participants from Glasgow, Edinburgh, Stirling, Aberdeen, St Andrews, and Dundee. Given the success of this workshop, we hope to organise a follow-up event to deal with more advanced robust regression techniques.

Workshop series in Advanced Quantitative Methods in Economics and Finance

The 2nd PhD – Workshop Series in Advanced Quantitative Methods in Economics & Finance, organised by Laurence Lasselle (St Andrews) and co-sponsored by SIRE and GRADskills, was held in St Andrews between January and April 2010. The presenters were:

- 18th January: Kaushik Mitra (St Andrews) “What quantitative methods does a macroeconomist need to know?” and Paul Elhorst (Groningen) “Spatial econometrics”.
- 26th March: George Evans (Oregon and St Andrews) “Expectations, Learning and Macroeconomic Policy”
- 6th April: Russell Davidson (McGill) “The bootstrap in econometrics”
- 7th April: Bernt Øksendal (Oslo) “Mallavian calculus for Lévy processes and applications to finance”

Further information about the presenters and podcasts and slides of their presentations are available at: <http://www.sire.ac.uk/AQMworkshop.html> In addition to the lectures themselves, the workshops include opportunities for PhD students to present case studies applying these techniques to issues arising from their own work or the literature. There was also time for open questions, allowing participants to get advice on basic questions, recommended articles and books, and problems with their own research related to the session topic. The sessions attracted between 14 and 19 participants drawn from St Andrews, Abertay, Edinburgh, Glasgow, Heriot-Watt, Strathclyde and Dundee.

A 3rd series will be taking place in 2010-11, again organised by Laurence Lasselle. The extended programme for the 3rd series will include 7 workshops, with two workshops being held over 2 days. The presenters include: Karim Abadir (Imperial), Rabah Amir (Arizona), Timothy Feddersen (Northwestern), Cars Hommes (Amsterdam), Seppo Honkapohja (Bank of Finland), Eric Maskin (Institute for Advanced Study, Princeton, Nobel Laureate 2007), as well as SIRE Professors Gabriel Talmain, Paola Manzini and Marco Mariotti.

May 25th-26th 2010: Applied Industrial Organisation

Fiona Scott Morton (Yale) gave this course, hosted at Edinburgh and organised by Ed Hopkins. The course covered a great many practical techniques in applied industrial organisation (IO) in a short amount of time. The first day focussed on regression looking at: price dispersion, estimating demand elasticity, evidence of market power, and instrumental variables. The second day focussed on structural estimation of differentiated product demand systems, as well as reviewing student answers to a pre-set applied task. The course attracted 19 participants from Edinburgh, Aberdeen, Dundee and Stirling.

May 18th - June 2nd 2010: Macroeconomic Dynamics and Monetary Policy

Gabriel Talmain (Glasgow) organised three PhD training sessions in macroeconomic dynamics and monetary policy. The presenters were:

- Raouf Boucekkine (University of Louvain and Glasgow) ‘Optimal Control’.
- Tao Zhu (Hong Kong University of Science and Technology and Glasgow) ‘Monetary Economics’.
- Apostolis Philippopoulos (University of Athens and Glasgow) ‘Fiscal Policy in General Equilibrium’

The sessions were attended by academics and PhD students from four SIRE universities.