



September 2008

PLEASE NOTE THIS DATE

Lunchtime Seminar, Monday 15 September 2008

Speaker: Glenn Otto, UNSW
Topic: Can Asset Pricing Theory Explain Sydney House Prices?
Cost: \$20.00 for Non-members (incl. GST and lunch)
Venue: Ground Floor East Seminar Room, Currency Museum, Reserve Bank of Australia, 65 Martin Place, Sydney (Page 2)
Time: 12.30 for 12.50

Australian Business Economists Lunch Wednesday 24 September 2008

Speaker: Mr Phillip Glyde, Executive Director,
 Australian Bureau of Agricultural and Resource Economics
Topic: Soft Commodities Outlook
Venue: Swissotel Sydney, 68 Market Street Street, Sydney
Cost: \$135 members, \$165 non-members, \$1160 tables (of 8 guests each) Lunch includes two courses and beverages
Time: 12:30 pm - 2:00 pm
Enquiries: info@abe.org.au or call 0419 256 339

Cost-Benefit Analysis with Case Studies (September Workshop)

Two-day Workshop: 29-30 September 2008 AGSM, Level 6, 1 O'Connell Street, Sydney
 Dr. Peter Abelson (Page 3)

The 37th **AUSTRALIAN CONFERENCE OF ECONOMISTS** 30 September to 3 October 2008 (registrations are on 29 September) at the Queensland Gold Coast Holiday Inn. (Page 2)

AREAS OF EXPERTISE Search Facility – National Data Base (Page 3)

Economists' Corner (Page 4)

Other Events and Announcements

- Please note that we have a **JOBS FOR ECONOMISTS** web page on the Central Council website. We invite members to contact us when advertising for an Economist. <http://www.ecosoc.org.au/cc/jobs>
- **Renewing your membership via Direct Deposit into our account?** Please make sure you identify yourself, preferably by including both your ID number AND your surname. Renew on-line <http://www.ecosoc.org.au/nsw/nsw-membership-form>
- **REMEMBER that you can check, update and add your details on the Membership Data Base.** <http://svc179.wic010v.server-web.com/media/memView/login.asp>

Lunchtime Seminar, Monday 15 September 2008

Speaker: Glenn Otto, UNSW

Title: Can Asset Pricing Theory Explain Sydney House Prices?

The last ten years have seen a sharp rise in the *relative* price of residential property in Sydney. In the mid-1990s residential properties in Sydney sold for about 15-20 times their annual market rental. By 2004 this ratio had doubled – with buyers willing to pay up to 30-40 times annual rents. While the price-rent ratio has declined since this peak, it remains above mid-1990 levels.

Houses (and apartments) are durable assets that provide a flow of rents or utility services to their owners over time. Therefore current property prices should reflect buyers' and sellers' expectations of (1) future rents or utility flows and (2) the discount rate they apply to the future stream of rents. Asset pricing theory does admit one other possible driver of house prices – a speculative bubble, in which house prices can rise independently of expected future fundamentals.

Using quarterly data (1991-2006) for Sydney LGAs there is little evidence that variations in price-rent ratios reflect future rent growth. Instead changes in price-rent ratios apparently reflect changing expectations about future discount factors. In

particular the observed rise in price-rent ratios requires a significant fall in the risk premium on residential property in Sydney. Some important geographic differences in the behaviour of property prices across metropolitan Sydney are identified. A significant proportion of the variation in property prices in outer western regions of Sydney is not explained by either rents or discount factors; pointing to a possible role for a speculative bubble.

Glenn Otto is an Associate Professor in the School of Economics at UNSW and is currently Director of the Master of Economics program. He has degrees from the University of Queensland, Australian National University and Queen's University in Canada. Glenn's primary research interests are in the area of macroeconomics and applied econometrics. He has written on optimal models of the current account, public capital and productivity and business cycle fluctuations. His research has been published in the *Journal of Monetary Economics*, *Journal of Money, Credit and Banking*, *Economic Inquiry* and the *Economic Record*

Cost: \$20.00 Non-members (incl. GST and lunch) PLEASE CONTACT ecosoc@optushome.com.au for booking

Venue: Ground Floor East Seminar Room, Currency Museum, Reserve Bank of Australia, 65 Martin Place, Sydney, 12.30 for 12.50.

AREAS of EXPERTISE SEARCH FACILITY National Membership Database

At the request of the Society's President, Professor Bruce Chapman, we are making some additions to the membership database allowing members to search for other members' *Areas of Expertise*.

We urge as many members as possible to make entries in one or both of the 2 columns available for listing *Areas of Expertise*. (Currently, only about 50 members have made entries in these Fields.) And don't forget to check the Tick Box on the database below the fields labelled *Areas of*

Expertise to indicate whether you would like other members to be able to view your area.

This facility allows members to use an in-built query to search for other members' *Areas of Expertise*. The list that the query creates contains Members' names and 'non-alive' email addresses only.

To update your membership entry go to:

<http://svc179.wic010v.server-web.com/media/memView/login.asp>

Australian Conference of Economists – ACE 2008

30 September to 3 October

INFRASTRUCTURE, CENTRAL BANKING & TRADE Change in our time
CALLING FOR PAPERS AND REGISTRATIONS

All around us we are seeing the growing consequences of the changing face of economics. Vanishing access to clean drinking water and increasingly volatile energy prices are the tip of the iceberg. Resources are becoming scarcer and our demands on them are increasing.

Globalisation has changed the world forever. Will central banking need to change with it, or have we found the right levers to pull?

Economics used to see great battles of economic theory. Now the battle that matters is over the most basic of economic questions – the allocation (and trading) of scarce resources.

Speakers:

[Kathryn Dominguez](#) Professor of Public Policy and Economics (University of Michigan)

[Ian MacFarlane](#) Former RBA Governor (Goldman Sachs)

[Charles Perrings](#) Professor of Environmental Economics (Arizona State University)

[John Quiggin](#) Head of RSMG (UQ)

[Adonis Yatchew](#) Editor 'The Energy Journal' (University of Toronto)

[Joshua Gans](#) Professor of Management (University of Melbourne)

Go to <http://www.ace08.com.au>

Cost-Benefit Analysis with Case Studies (SEPTEMBER)

Two-day Workshop: 29-30 September 2008 AGSM, Level 6, 1 O'Connell Street, Sydney
Dr. Peter Abelson

Sponsored by NSW Treasury

The two-day workshop will cover the principles and practice of cost-benefit analysis. It will include basic and more advanced concepts and many practical case studies.

The workshop will run from 9.00 a.m. to 5.00 p.m. on 29 and 30 September. There will be four sessions of about 90 minutes on each day. Each session will contain a lecture on core principles of CBA and one or more case studies. Participants will receive copies of the power point presentation in advance and full course notes.

The workshop should be useful to participants with little knowledge of economics as well as to those who are already familiar with microeconomics and cost-benefit analysis.

Workshop Sessions

1. Introduction to cost-benefit analysis

Overview of CBA principles and process. Efficiency measures: net present value, internal rate of return, benefit-cost ratios.

Case studies: Major transport projects.

2. Valuation principles

Definitions of benefits and costs. Valuation principles. Willingness to pay, demand curves and consumer surplus. Opportunity cost and producer surplus.

Case studies: examples from the housing sector.

3. Valuing benefits in practice

Estimating demand curves. Revealed and stated preference methods. Case studies: from health and education sectors.

4. Further valuation Issues

Choice of numeraire. Related markets. Secondary effects. Taxes and transfer payments.

Case studies: Major events and regional benefits case studies.

5. Social welfare, efficiency and equity

Defining social welfare. The relationship between efficiency and welfare. Why and when equity matters. Dealing with distributional issues in CBA.

Case studies: evaluating ownership models.

6. Discount rates and the treatment of time

Time preference rates and the opportunity cost of capital. The choice of discount rates for publicly and privately funded projects.

Case studies: climate change policies and other long term projects.

7. Risk and uncertainty

Defining risk and uncertainty. Attitudes to risk neutrality and aversion. Methods for dealing with risk under different circumstances.

Case studies: Transport pricing, planning regulations and terrorism.

8. CBA and alternative economic evaluation methods

Review of CBA, financial analysis, cost-effectiveness analysis, economic impact analysis, computable general equilibrium analysis, and multi-criteria analysis. Case study: taxi deregulation and other MCA /CBA comparisons.

Reference: Boardman, A.E., Greenberg, D.H., Vining, A.R. and D.L.Weimer, 2006, Cost-Benefit Analysis: Concepts and Practice, 3rd edition, Pearson, New Jersey.

Peter Abelson is a Director of the consultancy Applied Economics P/L, a Visiting Scholar at the University of Sydney, and Adjunct Professor of the Australian and New Zealand School of Government. He is a part-time principal economic advisor to the NSW Treasury. Peter obtained a Ph.D. in Economics from London University and held a Personal Chair in Economics at Macquarie University from 2001 to 2005. In recent years he has run several two-day workshops on cost-benefit analysis in Melbourne for the Victorian Department of Infrastructure as well as for the Economic Society of Australia (NSW branch). His consulting work in areas such as transport, urban and environmental issues, health, and education economics includes many cost-benefit studies. Peter re-drafted The Handbook of Cost-Benefit Analysis for the Department of Finance which was republished in January 2006. He is the author, Public Economics: Principles and Practice (2008) which is the leading text in this field in Australia.

Registration fee is \$800 + GST payable to NSW Treasury.

To enroll, contact: Gai Sturtridge at
gai.sturtridge@treasury.nsw.gov.au
tel: (02) 9228 5893

Economists' Corner

This '*Economists Corner*' section of the newsletter is devoted to highlighting how economic analysis can shed light on key public policy issues in Australia and around the world. In this section, links are provided to commentaries and articles on particular issues by prominent economists, as well as those published by public and private institutions. The objective is not to endorse any particular viewpoint, but to provoke thought and discussion amongst ESA members.

This month's '*Economists' Corner*' draws on Timothy Taylor's well-known 'suggestions for further reading' in the Winter 2008 issue of the *Journal of Economic Perspectives*.

The Economics of Development

For those interested in the economics of development, the World Bank's '[World Development Report 2008](#)' is an important reference. It focuses on the role of agriculture in alleviating the poverty of the world's poorest people. The report notes that in Sub-Saharan Africa, the majority of

impoverished people live in rural areas and rely on agriculture for income. However, a comparatively small proportion of public spending in these countries is allocated to agriculture. The report may lend support to the view that development spending in agriculture is more effective in alleviating poverty than spending in other areas.

Income Distribution

The US Treasury have released a report entitled '[Income Mobility in the US from 1996 to 2005](#)'. Among the key findings of the study: (1) roughly half of taxpayers who began in the bottom income quintile in 1996 moved into higher quintiles by the end of the study period; (2) more than half of all taxpayers have moved into different income quintiles across the study period. Arguably, the report lends support to the view that there is considerable income mobility in the US.