

OXFORD ECONOMICS NEWS

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Economic Modelling in a Rapidly Changing World

The Department is delighted to announce the establishment of a new research institute to be directed by **Professor Sir David Hendry**, Professor of Economics and Fellow of Nuffield College, and former head of the Department of Economics. The Institute for Economic Modelling is jointly funded by George Soros and Sir James Martin, who have each generously donated US\$ 5million to fund the Institute’s initial programme of research. The Institute, based in the Department of Economics, will be part of the James Martin 21st Century School and will also be affiliated with the Institute for New Economic Thinking (INET), which was founded by George Soros in 2009 to support creative thought and open discourse in economics and policy worldwide.

The 21st century has begun with the largest global economic and financial crisis since the Great Depression eighty years ago. Many factors have been blamed for this disastrous outcome, but a failure to forecast it combined with poor initial policy responses are partly at fault. However, the current financial crisis is just the latest example of a major change that was unanticipated and had deleterious effects globally on economies, with many becoming unemployed, losing their homes, and suffering serious losses. Almost all economic variables evolve, but their distributions also sometimes shift abruptly. This feature of economies has crucial implications that must be researched if economic analyses, policies and forecasts are to be well based. The new institute's five-year programme of research will carefully investigate the implications of abrupt unanticipated changes in economic conditions, such as the recent financial crisis, for economic analyses and policy, econometric modelling and forecasting, and the appraisal of empirical evidence, and will seek to develop methods that remain viable when there are sudden changes.



Professor Sir David Hendry

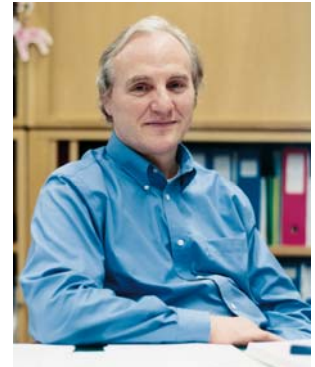
Professor Sir David Hendry said: “I am excited by the establishment of a new institute for modelling economic behaviour in a rapidly changing world. The reality is that economies are subject to large shocks that alter previous relationships and lead to poor forecasts, and the institute will play a key role in advancing research to confront such issues”.

The new Institute will also undertake collaborative research with the Central European University, and will develop master classes and lecture courses, as well as consider curriculum development related to the research findings.

Inside this issue:	Economic Modelling in a Rapidly Changing World	1
	The 2009-2010 Clarendon Lectures in Economics.....	2
	Oxonomics: Oxford University Economic Studies	2
	British Academy Postdoctoral Fellowships	2
	Natural Resource Charter.....	3
	Oxford Centre for the Analysis of Resource Rich Economies.....	3
	Zvi Meitar Research Prize.....	4
	David Walton Distinguished Doctoral Scholarship.....	4

The 2009-2010 Clarendon Lectures in Economics

The 2009-10 Clarendon Lectures in Economics sponsored by Oxford University Press, were given by Ernst Fehr, Professor in Microeconomics and Experimental Economics and Director of the Institute for Empirical Research in Economics at the University of Zurich, Switzerland. The series of three lectures was entitled, "The Biological Foundations of Economic and Social Behavior". In the first lecture Professor Fehr reviewed the literature on cross-cultural variations in behaviour and how these might be linked to theories in evolutionary psychology and then presented one of his recent contributions to this field. The second lecture reviewed recent work by Professor Fehr and others on the role of hormones in determining individual behaviour. In the third and final lecture Professor Fehr focused on his recent contributions in the new field of neuroeconomics examining the biological foundations preferences.



Professor Ernst Fehr

Neuroeconomics merges methods from neuroscience and economics to better understand how the human brain generates decisions in economic and social contexts. The emerging neuroeconomic approach seeks a micro-foundation behind social and economic activity in neural circuitry, using functional magnetic resonance imaging (fMRI), transcranial magnetic stimulation (TMS), pharmacological interventions, and other techniques. Traditional economic analysis generally makes the simplifying assumption that people are exclusively self-regarding. However, there is a large body of experimental evidence that suggests that many people exhibit social preferences, i.e., their preferred choices are based on a positive or negative concern for the welfare of others and on what other individuals believe about them. Professor Fehr's work on social neuroeconomics tries to understand the brain processes that govern these regular deviations from purely self-interested behaviour. Professor Fehr's work is characterized by the combination of game theoretic tools with experimental methods and the use of insights from economics, social psychology, sociology, biology and neuroscience for a better understanding of human social behaviour.



Oxonomics: Oxford University Economic Studies

Created and edited by research students in the Department of Economics, Oxonomics offers early career researchers an opportunity to publish their work alongside contributions to current economic policy debates by more established academics and policymakers. The 2009 volume includes articles by Nicholas Dimsdale on the British experience of the recent financial crisis; policy proposals from Steve Nickell to address perceived problems in the British housing market; and a paper by Bob Allen on why the industrial revolution happened in 18th century Britain and not elsewhere. Contributions from young researchers include papers by Daniel Solomon, a PPE graduate from Somerville College, on the impact of postal voting on electoral turnout, and by Kiril Kosev, a DPhil candidate at Nuffield College, on the role of personal connections in the industrial and financial structures of a developing economy and their impact on performance. www.economics.ox.ac.uk/oxonomics/

British Academy Postdoctoral Fellowships

Congratulations to **Catherine Porter** (DPhil Economics, 2009) and **Andrew Rhodes** (DPhil Economics, 2010) on the award of British Academy Postdoctoral Fellowships. Catharine's research focuses on the strategies adopted by poor households in developing countries for dealing with income risk, and how these impact on the welfare of different household members. The question addressed in Andrew's research is how can retailers charge very different prices for essentially identical products, even in online retailing where consumers have access to numerous price comparison sites. His objective is to develop an economic model of competitive retailing which generates price dispersion in a natural way.

Natural Resource Charter

Countries with non-renewable natural resource wealth face special opportunities and special challenges. If used well, these resources can create greater prosperity for current and future generations; if used poorly, they can cause economic instability, social conflict and lasting environmental damage. The Natural Resource Charter is a document designed to help governments and citizens of resource-rich countries harness natural resource wealth, making decisions based on sound economic principles, leveraging mechanism design and good resource governance, and learning from the mistakes (and successes) of the past. The Charter is also a rallying call for citizens, civil society groups and donors, to help focus and coordinate existing efforts to improve natural resource management.

The Charter brings together the latest research and best practise in natural resource management into an accessible and comprehensive form. The Charter's recommendations address each step along the resource decision chain, from discovery, the decision to extract, and capturing resource rents, through to managing and smoothing revenue flows, and the use of revenue for economic development.

The Charter has been drafted by an independent group of the experts in economically sustainable resource extraction, including economists, lawyers, political scientists and practitioners. Assembled by **Professor Paul Collier**, director of the Centre for the Study of African Economies, the drafting group also includes **Professor Tony Venables**, director of the Oxford Centre for Analysis of Resource Rich Economies, Professor Tom Heller of Stanford Law School, Professor Michael Ross of UCLA and is chaired by Nobel Laureate Professor Michael Spence.

Whilst the Charter is free from political or institutional heritage, the Charter is financially supported by DFID, and was identified in the recent 2009 White Paper as part of the UK government strategy to support economic development through better natural resource management. It has since received support from the African Development Bank as well as being showcased at the annual IMF World Bank meetings in Istanbul in late-2009 and at the World Economic Forum in Davos in January 2010.

The Charter is intended as a 'living document' that will continue to incorporate the latest research and best practice. OxCARRE will be hosting the first annual technical workshop, bringing together economists and experts involved in policy making to present the latest research into the management of natural resources and other related topics. Further information about the Charter can be accessed at: www.naturalresourcecharter.org

Oxford Centre for the Analysis of Resource Rich Economies



BP Professor Tony Venables

The **Oxford Centre for the Analysis of Resource-Rich Economies (OxCARRE)** was established in October 2007 to become a global centre of excellence in the economics of resource rich countries. OxCARRE's establishment was made possible by a generous grant from BP, from which it receives core funding. However, this is a non-exclusive relationship, and OxCARRE's research is independent of positions taken by any funders.

The aim of the Centre is to conduct rigorous and independent research to improve understanding of the performance of resource rich economies, and to inform policy design to improve this performance. It brings together existing Oxford expertise in theoretical and empirical economics and apply this to the issues facing resource rich economies and acts as the core of a global network of researchers in this area.

Since its creation in 2007, OxCARRE has established itself as a leading research centre in the field through its publications, seminar series and annual conferences. It is actively engaged in shaping and developing policy through its engagement with international institutions and through its work on the Natural Resource Charter (see above).

OxCARRE is directed by **Tony Venables, BP Professor of Economics** at the University of Oxford. Prior to joining the Oxford Department, Tony was Chief Economist at the UK Department for International Development and Professor at the London School of Economics. Professor Rick van der Ploeg, formerly of the European University Institute, is a co-director of the Centre, which also includes six postdoctoral researchers.

Zvi Meitar Research Prize



Dr Victoria Prowse

For the second consecutive year, an economist has been awarded the Zvi Meitar/Vice-Chancellor Oxford University Research Prize in the Social Sciences. This prestigious research prize is awarded to scholars in the early stages of their career who have shown outstanding promise. The prize of £35,000 is intended to support the further career development of young

researchers within the Humanities and Social Sciences. The 2009 prize was awarded to **Dr Victoria Prowse** to support her research using experimental methods to study the nature of interactions between individuals in a labour market context. This project will combine emerging behavioural theories, such as loss aversion, reciprocity and preference for status with models of labour market interactions to generate predictions concerning individual behaviour in a variety of different labour market settings.

These predictions will then be tested using data collected from laboratory experiments. The results of this research project will improve our understanding of what motivates workers and provide a firmer foundation for policymakers when determining labour market regulations. In 2008, **Dr Rui Esteves** received the prize to support his work on financial integration during the 'first wave of globalisation' in the four decades prior to the first world war. This work involves the compilation of an historical database of French capital exports from the records of the *Commission des valeurs mobilières* which detail the tax liability of French investors in foreign enterprises. This data is to be combined with existing databases on British and German capital exports to analyse the magnitude and direction of capital flows during this period.



Dr Rui Esteves

It is the Department's ambition to provide all outstanding young scholars who apply with the financial support necessary to undertake doctoral studies or postdoctoral research at Oxford.

For further information and details of how you may help please see:

http://www.giving.ox.ac.uk/academic_departments/social_sciences/economics.html

David Walton Distinguished Doctoral Scholarship

The David Walton Distinguished Doctoral Scholarship for 2010 has been awarded to **Charles Brendon**. Charles is completing a doctoral thesis in theoretical macroeconomics in which he seeks to provide a theoretical account of demand deficient unemployment without relying on the price rigidities characteristic of much New Keynesian literature, together with developing a new approach to optimal monetary policy in economies that feature forward-looking price-setting behaviour. Prior to starting his DPhil in October 2008, Charles graduated with distinction from the Oxford MPhil in Economics and was awarded the George Webb Medley Prizes for the best MPhil thesis and for the best MPhil examination performance in 2008.

As part of the scholarship, Charles will undertake an internship at the Bank of England during the summer of 2010. He will be working in the Monetary Assessment and Strategy division whose aim is to keep the Bank connected with developments in research around the world on monetary strategy, inflation targeting and the monetary transmission mechanism.

The David Walton Memorial Fund was established in 2006 in memory of David Walton (1963-2006), a member of the Monetary Policy Committee of the Bank of England and Visiting Research Professor at Oxford University to provide support for doctoral students of Economics at the University of Oxford. David Walton Distinguished Doctoral Scholarships are awarded to outstanding young researchers in the field of macroeconomics or finance. The Bank of England and Goldman Sachs have each generously offered an internship of up to three months duration for successful candidates. The Department is very grateful to both organisations for providing our students with this excellent opportunity.



David Walton