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Sponsored by CIMA- Chartered Institute of Management Accountants

## Welcome!

# Economics and Finance Newsletter

Dear all,

Hello and welcome to the March issue of our newsletter.

I cannot believe that it is already middle of March. The weather is warming up and Easter is round the corner. I hope all of you are working well as the exam is fast approaching.

This term's staff-student liaison meeting was held on 2<sup>nd</sup> of March. We were very happy to learn that there were no level 1 and level 2 issues and hence we dealt with the emerging level 3 issues only. These pertain to dissertations and three modules (Labour Economics, Advanced Economic Analysis and International Finance). All three module co-ordinators are working closely with the lecturers concerned to deal with the issues urgently so that none of our students is adversely affected.

Following request from student reps, we have worked with the admin team to extend the deadline for the submission of the final dissertation to 3 pm 29 March. Academic tutors are in place till the end of March. Ourania is available whole day everyday while Liang is available 10-1 pm everyday - I hope you are making use of them.

Although there have been some complaints from UG/PG students about exam timetable, we are unable to have any influence as it is fixed by the central timetabling office.

The 'Life After Brunel' event that took place on 28 February went very well. I thought the panel was

excellent as many of them were our old students. I was very pleased to see many level 3 students who will soon leave us. I hope you found the event useful. If you have participated in the event and want to contact the panel members, could you please let me know. I could then put you in touch with them.

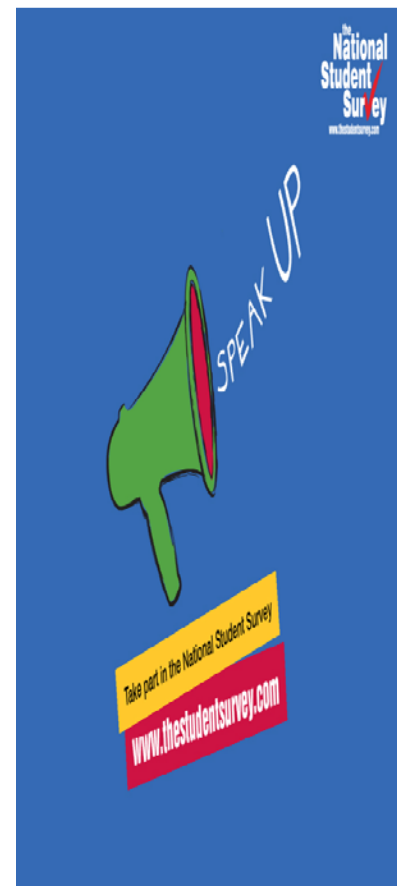
CIMA business game took place on Thursday 10<sup>th</sup> March and was a huge success. More than fifty students participated in the event and received a CIMA certificate. CIMA has now agreed to sponsor the Brunel Economics and Finance Society and has encouraged us to organise a bigger event next year. More on this later.

NSS is now in its final stage. The latest participation rates are 58.72%, 49.30% and 49.30% for Economics, Accounting and Finance respectively (compared to 90.91% in History, 70.37% in Politics, 63.47% in Psychology within the School of Social Sciences). So a significant proportion of our students have not yet participated. If you have not already done so, please can I urge you to spare 5 minutes of your break time participating in the NSS, which will make a difference to all of us.

Do take care of yourself before and during the exam and do not hesitate to let me know if there is any concern so that we can address it immediately.

Best wishes

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(prepared with the help of Eesha Phakey, Shivani Patel and Pankhuri Bhatnagar)



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# Mao-nomics



Here are two interesting things that I learned while talking to some Chinese students last week: First, most Chinese believe that Mao was a great man. Sure, he has done some terrible deeds but, in their eyes, he is great nonetheless. Second, China got lucky when Mao's son was killed by an American bomb during the Korean War and thereby any chance of a dynastic succession was, literally, blown apart. Even 35 years after his death, the Chinese have a complicated relationship with Chairman Mao. Shortly after he passed away, his wife was put on trial for the excesses of Cultural Revolution. She claimed that Mao had been responsible but was dully put in jail while Mao was embalmed and placed in a grand mausoleum on Tian An Men Square. His portrait still overlooks the square but his policies were completely reversed in the meantime. In many respects, Red China these days is more capitalist than Germany or France.

The third interesting thing I learned a while ago when talking to another young Chinese economist. I asked her why China implemented and maintained the so-called *hukou* system of household registration. This system, in essence, forces people to live in the place where they were born. If you were lucky to have been born in one of the major cities, you get good education, health care and job prospects. If, however, you grew up in rural area, you may well be destined to stay a farmer all your life – or become one of growing number of unofficial migrants doing menial work in cities. My Chinese friend said, basically, that China, as a very poor country 50 years ago, could not allow the benefits of development, as modest as they were back then, to be equally shared by its entire population. Therefore, they limited them to the urban residents. The rest of the country, meanwhile, was expected to grow agricultural produce for the urban folks and patiently wait their turn.

This did not make a whole lot of sense to me initially: while it may wise to bestow more benefits to the urban population if urban residents are more politically active, this comes at the economic cost of misallocating resources: just because you were born in a village, you may not be particularly suited to become a farmer. But upon some deeper thought, I started to see her point: it is about the relative scarcity of factors of production. Mao seems to have understood neoclassical economics.

My view of China through the lens of neoclassical economics is the following: it is a two-sector economy, with a traditional agricultural sector and a modern manufacturing sector. Output is produced in both sectors using two inputs: labor and land in the agricultural sector and labor and capital in the manufacturing sector. Hence, each sector has one input that is specific to it and as such immobile and one input, labor, that can potentially move between sectors. Initially most people live in the rural areas and thus participate in the agricultural sector (by 1978, only 18% of the Chinese population lived in urban areas). The price of each factor of production depends on its relative abundance: land and capital are scarce and thus should be relatively expensive while labor is abundant and cheap. Furthermore, if workers are allowed to move between rural and urban

## Continued...

Now enter Chairman Mao. During his reign, China became essentially closed to the outside world. Therefore, the main source of capital was the savings of the Chinese themselves. With labor being the abundant factor of production, capital should command a high price. The *hukou* system does three things. First, by keeping most of the population in the agricultural sector, it keeps the agricultural wage very low and the rent on land high (under Mao, private owners of land were expropriated so the state effectively owned all land). Second, by stopping rural residents from moving to cities, capital becomes more abundant there relative to the number of workers allowed in. Third, by restricting the number of urban workers, their wages were kept relatively high.

Under Mao, China was mainly an agricultural economy. Moreover, Chinese agriculture was very labor intensive: rice needed to be sown first, then manually replanted to a different field, and all along it required extensive irrigation and fertilization, at a time when use of mechanization and even draft animals were limited. Having a large pool of cheap rural workers was therefore an advantage. In the meantime, the higher wages of urban residents made sure that urban population had little incentive to oppose the regime. Hence, the *hukou* system effectively redistributes income from rural workers to the urban ones while making sure that the cost of capital is kept in check too.

What about some other peculiar Chinese features, such as the introduction of Special Economic Zones (SEZs) and the One-child policy? Both were introduced only in 1978, two years after Mao had died – but I believe they follow similar logic as the *hukou* system. The SEZs essentially apply the *hukou* system to foreign investors: instead of letting them open factories anywhere, the government initially designated only certain areas for them: the most famous of these is Shenzhen, originally a small village near Hong Kong and now a major city of 15 million. This tilted the odds in favor of the Chinese: while labor was abundant and capital scarce in China as a whole, this was less so in the SEZs. Being restricted to the SEZs thus forced the foreign investors to pay higher wages to their Chinese workers and earn lower return on their capital.

The one-child policy, in turn, makes labor less abundant, thus again helping keep the price of capital in check. Enforcement of the policy is easier and therefore it is likely to be more effective in urban areas: rural residents often flout the policy by not registering their *illegal* children and accepting that these children will have no access to public goods such as education and health care. Therefore, the policy will put greater upward pressure on wages of urban workers, thereby keeping the agricultural wage still relatively low. As an additional benefit, restricting people to have one child induces them to invest more into the education of their children, thus raising the average level of human capital.

The *hukou* system, one child policy and the special economic zones are strange and bizarre, at least from a Westerner's point of view. But, if you are dictator concerned with staying in power and extracting rents from your subjects and foreign investors alike, they can make economic sense.

**Jan Fidrmuc, Head of Research, Department of Economics and Finance**



# CALL FOR PAPERS

## BMRC-QASS Conference on Macro and Financial Economics

**Special Issue(s) of Quantitative and Qualitative Analysis in Social Sciences (QASS) Deadline for Submissions: April 18, 2011**

Conference Date: May 24, 2011

The Brunel Macroeconomic Research Centre (BMRC) in the Department of Economics & Finance, together with the editorial board of QASS: [www.qass.org.uk](http://www.qass.org.uk) is organising the 6th (one-day) Conference on Macro and Financial Economics on Tuesday 24<sup>th</sup> of May at Brunel University

Keynote and invited speakers include:

- Richard Baillie (Michigan State University and Queen Mary University of London),
  - Christian Conrad (University of Heidelberg),
  - Nikolaus Hautsch (Humboldt University of Berlin),
  - Miguel Leon-Ledesma (University of Kent),
  - Paul Levine (University Surrey),
  - Anastasios Magdalinos (University of Southampton),
  - Anthony Neuberger (University of Warwick),
  - Simon Wren Lewis (University of Oxford),
- Dimitris Vayanos (London School of Economics)

There is no charge for the conference, which is sponsored by the Brunel Macroeconomic Research Centre

We welcome submissions of papers on any aspects of recent developments in macro and financial economics (theory and applications)

Papers should be submitted via email to: Dr. Evangelos Dioikitopoulos: [evangelos.dioikitopoulos@brunel.ac.uk](mailto:evangelos.dioikitopoulos@brunel.ac.uk)

Selected papers from the conference will be published in a special issue(s) of QASS

Upon submission, authors should indicate whether they wish their paper to be considered for publication in the special issue(s) of QASS

Notification to authors regarding acceptance to the BMRC-QASS Conference: April 25, 2011

Please refer to the QASS website for news and latest *updates of the Conference*: [http://www.qass.org.uk/callforpapers\\_brunel\\_11.htm](http://www.qass.org.uk/callforpapers_brunel_11.htm)

For additional information, please contact Dr. Evangelos Dioikitopoulos

Admission is free, but registration in advance is required. Please email Aris Kartsaklas at [aris.kartsaklas@brunel.ac.uk](mailto:aris.kartsaklas@brunel.ac.uk) to register

# Past Events

## Networking event : Life after Brunel

On 28th February we held the event 'Life After Brunel: How To Make Use of My Degree?'. There was a number of speakers including employers ( KPMG and BDO ), independent financial adviser and entrepreneur, most of them being ex-Brunel graduates. In addition to the conventional employment, the panel highlighted the possibility of starting new business and also the importance of social networking. The event was a success and we were very pleased to receive positive feedback from students. We would like to thank everyone who was involved in organisation and also those who attended.



## CIMA Business Game

This event took place on Thursday 10th March. We were very fortunate to have a CIMA representative, Nicole, who spoke to students about CIMA management accounting. More than fifty students took part in a business game based on past assessment day materials. Students found the event helpful as it gave them an insight into what assessment days are like and informed them about a different financial sector.



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# Future Events

## First Interdisciplinary Workshop on Mathematics of Filtering and its Applications (MFA2011)

From 13 July to 15 July 2011. The first interdisciplinary workshop on the mathematics of filtering and its applications will be held at Brunel University.

### Workshop Aims and Objectives

The problem of estimating the latent states of a dynamical system from observed data often arises in many branches of physical and social sciences, including image processing, navigation, econometrics, finance and meteorology. Filtering refers to any method for obtaining such state estimates, recursively in time, by combining model predictions with noisy observations. While the solution to filtering problem for a linear dynamic system is well understood and has been studied extensively since 1960s, there is no single solution available for filtering in nonlinear systems which outperforms all the other possible solutions. For commonly occurring nonlinear model structures, the conditional distribution is often given by solution of a stochastic partial differential equation. This equation is usually quite difficult to solve numerically and is intractable if we need a solution in real time (as in the case of navigation applications) or if the state dimension is very large (as in the case of meteorology). Different Bayesian approximation methods exist for solving the nonlinear filtering problem arising in different fields such as image processing, meteorology and econometrics, each offering an application-specific compromise between estimation accuracy, computational burden and numerical robustness.

Due to diversity of applications, the researchers from different fields rarely have an opportunity to meet to learn from each other about mathematical innovations in filtering in their respective fields. The workshop on the mathematics of filtering and its applications being organized at Brunel University will bring together British researchers from different application areas to share state-of-the-art knowledge about filtering in their respective fields and to provide a platform for further research interaction.

The program for the workshop will include six invited lectures, contributed sessions along multiple streams (such as econometrics, bioinformatics and meteorology) and a conference dinner on 14th July.

There is the opportunity to present a paper or simply to attend as a delegate.

**For more information about this event, and a registration form please email Alessandra Canepa at [Alessandra.canepa@brunel.ac.uk](mailto:Alessandra.canepa@brunel.ac.uk)**



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