

# forum forum

Newsletter of the Economic Research Forum

Vol. 20 No.1 Spring 2013

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Editor: Mirette F. Mabrouk  
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Forum is produced twice a year.

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## *A Word from the Managing Director*

### **Taking stock**

**T**wo years ago the ERF region shook as a wave of popular political uprisings swept through it. Now that the waters are subsiding, the people of the region are starting to take stock of the terrain. The uprisings have ushered in myriad changes and it is vital to examine them and see what they mean for the future of the region's people. ERF firmly believes that to be relevant, it must also examine those changes, but in a developmental context.

One major change has been the rise of Islamic parties to political power, which prompted us to devote the plenary sessions of the ERF's 19th Annual Conference to the theme of Economic Development and the Rise of Islamist Political Parties. As regular readers of *Forum* know, the spring issue typically provides detailed coverage of the Annual Conference, providing a front row seat for those who could not join us and a chance to put the proceedings into perspective, for those who did.

The plenary speakers examined such questions as the reasons for the ascendance of such parties, what happens comparatively when Islamist parties attain power and whether these parties developed defining characteristics as far as economic development policies are concerned. Are the resulting development outcomes similar? And finally, what lessons can we draw from this comparative analysis for Arab Spring countries?

The conference also provided an opportunity for visitors to hear more about ERF's latest international publication, *Economic Incentives and Environmental Regulations*. Edited by ERF Fellow Hala Abou-Ali and published by Edward Elgar, in cooperation with ERF, this book explores in an incentive framework challenges related to water, sanitation and hygiene, air pollution, and land degradation in a diversified portfolio of MENA countries.

Beyond the Annual Conference, this issue of the *Forum* also offers news on ERF's research, recent event and new affiliates and a book review. And for those who would rather not just read, ERF has set up a new video channel to enable visitors to its website to view selected events. The first offerings are presentations by the plenary speakers at the ERF 19th Annual Conference: *Economic Development and the Rise of Islamist Parties*. To view these videos please visit <https://www.youtube.com/user/ERFLatest>

Enjoy the issue

Ahmed Galal

A handwritten signature in black ink, appearing to read 'AGalal'.

*Or, “Now that we’ve found political Islam,*

## **What are we going to do with it?”**

**T**wo years after the political uprisings that swept through the ERF region, it has become painfully obvious to even the most hopeful observers that there will be no swift resolutions. The countries of the region are still struggling to deal with the ramifications of the upheavals, one of the most relevant of which has been the ascendance of political Islam.

Since Islamic parties have ridden the ballot-boxes into power and have assumed the socioeconomic responsibilities, the choice of theme for ERF’s 19th Annual Conference was especially timely, examining current economic development under these parties. The various Islamist parties in different countries raise differing questions around their historical context, capacity to rule and the future likelihood of cleanly navigating through a transitional period.

The first plenary, entitled *The Causes of the Arab Uprisings and the Rationale for the Rise of Islamist Parties to Power*, kicked off with opening remarks by ERF Managing Director Ahmed Galal and ERF Board of Trustees Chairman, Abdelatif Al-Hamad (Arab Fund for Economic and Social Development).

The first speaker was Ishac Diwan (Harvard University and ERF) who pointed out a salient fact in any discussion on the uprisings and their results. While the existing literature can explain the origins of regional autocracies and how they functioned, it cannot satisfactorily explain why they collapsed. Corruption, cronyism, inequality of opportunities, desire for equality, democracy, inequality of opportunities in the labor market, modernization, increased education are some explanations he noted.

Using Egypt as an example, he highlighted the fact that instead of a political opening up, the state adopted a balancing act of repression and cooptation with fewer political rights, and a rise of both private investment levels and subsidies. According to



*Clockwise from L: Ahmed Galal, Abdelatif Al-Hamad, Jean Philippe Plateau Samer Shehata, and Ishac Diwan*

Diwan, there were reasons behind the disturbance of this precarious balance: the rise in education boosts aspirations for democracy by richer and more educated people and, to a lesser extent, the increase in grievances especially among the poor and middle-class and youth bulge variations and instability. While the poor were most concerned about inequality, the middle class emerged as main champion for democracy.

### **On why we need to look at the big picture.**

*A glimpse into the historical perspective is essential in order to assess Islamism, the emergence of Islamist movements, their role and their future.*

**Jean Philippe Plateau, University of Oxford and Namur**



Michele Dunne

Neither political nor economic theories have, on their own, provided satisfactorily logical explanations. There is no one single factor for the Arab Spring, but rather a combustible mix of economic, social and political factors, according to Samer Shehata, Georgetown University. Former regimes had supplied state subsidies but these subsidies often failed to reach those who needed them most. On the political front, political rights were undermined, leading to increased repression.

Jean Philippe Platteau (University of Namur and University of Oxford) discussed the origins and roles of Islamist movements. He highlighted the circumstances in which Islamist movements rise and the historical depth of the phenomenon. According to him, Islamist movements are typically born in three types of circumstances: when there is a pressing need for political unity, or when a leader wants to accede to, or consolidate, political power; when elite is corrupt and dominant ulema keep silent; when there is an external aggression.

The second plenary session of the 2013 ERF annual conference titled *Comparative Economic Performance in Islamist-Governed Countries*, examined what happens comparatively when Islamist parties attain power and whether these parties developed defining characteristics as far as economic development policies are concerned. Are the resulting development outcomes similar? What lessons can we draw from this comparative analysis for Arab Spring countries?

The Arab Spring has led to significant political gains

for Islamists in Egypt and Tunisia. Islamist parties initially benefited from being the most organized and having a reputation for being incorruptible, but are now faced with the challenges of governing. The toppled governments in Tunisia and Egypt had been following neoliberal agendas while protecting bloated public sectors and directing state bank lending. The question is whether the Islamist governments can deviate substantially from this agenda.

In her presentation, Michele Dunne (Atlantic Council), focused on the situation in Egypt and Tunisia. As both countries are going through a period of economic and political transition, Dunne argued that it is not possible for Egypt and Tunisia to get through the many years of political transition without being undermined by economic collapse.

Following the 2011 uprisings, Tunisia chose a different political path than Egypt for its political transition beginning with withdrawing the military from politics and drafting the constitution before the parliamentary and presidential elections. To contrast, Egypt continued to receive foreign aid which was less than that delivered to Mubarak's government on annual basis. Although both countries started off at different places, both Tunisia and Egypt continue to face fundamental economic and political problems, added Dunne.

Hazem El-Beblawi, former deputy prime minister of Egypt, focused in his presentation on the Egyptian economy arguing that despite the fact that the 2011 revolution has negatively impacted the economy, the Egyptian economy is performing better than what was expected. However, that does not negate the fact that Egypt's financial situation is fragile. "The only way Egypt can move ahead is by increasing the productivity of the people by importing technology, making economic alliances, and most importantly by educating people about the problems," he added.

Jillian Schwedler (University of Massachusetts), focused on what she believed the three key issues that Islamist parties are facing with regards to economic development. First, these parties are operating in an unstable institutional environment, where institutions are not clear, not well established, and where power is volatile. In this context of general insta-

bility, the policy-making process is very difficult, argued Schwedler. The second challenge that she identified is the challenge of organized labor where millions of people are willing to take to the streets if their demands for employment are not met. Finally, the third challenge according to Schwedler, is that ruling Islamist parties are pulled in different directions within the parties themselves.

The speakers concluded that it is still unclear how the presence of Islamists in the governments makes a difference in the economy. “We should compare these new regimes and new parties with other new parties in comparable institutional context and let the Islam question come in later, rather than starting with the question that they are Islamist and what’s going to be problematic about them from that perspective,” said Schwedler.

The third plenary session of the 2013 ERF annual conference titled *Outlook and Possible Scenarios*, contemplated the likely scenarios as a result of the Islamist party rule. The Arab Spring revolutions had a clear economic underpinning: they were fuelled by unemployment, poverty, and lack of equal opportunities. At the heart of these revolutions is a search for social and economic justice.

The speakers elaborated on their views on the likely political settlements in different countries in the region, and addressed such questions as: after decades in opposition, how well are Islamist political parties likely to manage the economy? To what extent are they likely to adjust their initial positions given the prevailing balance of power in different countries? And will they be able to strike a healthy balance between the neo-liberal economic programs they have espoused with the need for social justice and income distribution?

Nathan Brown of George Washington University, identified two key issues that obstruct a smooth political and economic transformation in Arab Spring countries. The first issue that he identified is the troubled economy as the governments in these countries were not able to meet people’s expectations. “The political systems have not served their societies very well. The question is can the Islamists

**On why it isn’t just the thought that matters**

*In 2011 I was actually fairly optimistic because I thought that there was consensus on what needs to be done and I’m less optimistic today in 2013 because I’m not sure they’ve managed to find a process which can express that consensus and that consensus seems to be breaking down.*

*I think [Egypt has] in a position of political authority an Islamist movement that is simply not equipped historically as an organization and ideologically for the kind of developing and consensus that is necessary.*

**Nathan J. Brown, George Washington University**

correct that?” explained Brown. Brown described the Arab Spring countries as polarized and deeply divided. He added that the presence of Islamists in power emphasizes this division.

Hussein El Kazzaz, from the Office of the Egyptian President, presented what he described as the economic vision of the Islamists. “The Islamists’ view represents a paradigm of fairness of opportunities rather than fairness of distribution,” said El Kazzaz. According to El-Kazzaz, one of the major challenges that the Islamists will face in Egypt is bureaucracy which will hinder the transformation process.



Nathan Brown

He added that the transformation of extractive political institutions into inclusive institutions is necessary for Egypt to move forward. El Kazzaz also highlighted that the Islamists are faced with the challenge of changing their historical opposition mindset to a new ruling one.

**On why the Islamist parties are having difficulty.**

*Nobody three years ago would have in their wildest dreams projected that the Muslim Brotherhood in Egypt would be asked to come up with a really good plan to run the country. The movement feels overwhelmed by an enormous task.*

**Hussein ElKazzaz, Office of the President, Egypt**



“A two year window is simply the wrong prism to look at what has happened so far,” said Marwan Muasher, of Carnegie Endowment for International Peace. Muasher explained that no nation has been able to reconstruct autocratic regimes into democratic ones overnight. “The process of change was bound to happen, but people need to be patient and realistic in their judgment,” added Muasher. El Muasher analyzed the current political scene in Egypt and explained that neither the current government nor the opposition is working to develop democratic institutions. Both parties are working to exclude each other, and if the battle continues new autocratic regimes will emerge, he added. Muasher stressed that the economic performance is going to be a major determinant of whether the Islamists succeed. The

speakers concluded that political unity is necessary for continued political success, which goes hand in hand with economic development and prosperity. Economy cannot prosper in politically volatile environments where governance becomes increasingly fraught.

**On why we all need to pull together.**

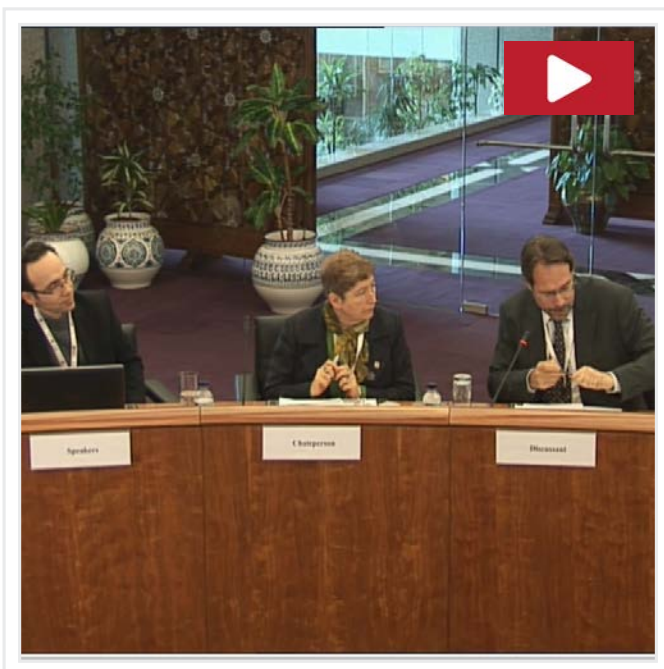
*In this battle of ideas I think neither of the two forces that we are seeing is particularly behaving in a democratic way. Neither the Islamic forces nor the secular forces are particularly working to develop democratic institutions: in the word of a recent report the government in Egypt often behaves in a majoritarian way as if the elections mean everything, and the secular forces of the opposition in Egypt often behave in a state of denial as if the elections mean nothing.*

**Marwan Muasher, Carnegie Endowment for International Peace**



## ERF Launches New Video Channel

Those who would rather not just read about the conference can view it. As part of its ongoing efforts to utilize new media tools, in addition to twitter feeds and blog posts, ERF has set up a new video channel to enable visitors to its website to view selected events. The first offerings are presentations by the plenary speakers at the ERF 19th Annual Conference: Economic Development and the Rise of Islamist Parties. To view these videos please visit <https://www.youtube.com/user/ERFLatest>



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## Book Launch

# Politics at the Expense of the Environment

**E**RF dedicated a session of the 19<sup>th</sup> annual conference to launch its new publication titled *Economic Incentives and Environmental Regulations*. Edited by Hala Abou-Ali and published by Edward Elgar, in cooperation with ERF, this book explores challenges related to water sanitation and hygiene, air pollution, and land degradation in a diversified portfolio of MENA countries. While these countries have very different socio-economic profiles, yet they all suffer from the same environmental problems.

The environmental challenges in modern times have accelerated, posing risks for the standards of living of future generations and raising the costs of mitigating negative environmental impacts. According to the book: “most MENA countries have instituted a ministry or a specialized authority to deal with these issues but environmental problems are still neglected and rank very low among the public priorities.” This might be explained by socio-economic and political reasons for example, the widespread poverty in some countries often provides a justification for policymakers to pay more attention to economic activities rather than environmental regulation.

The book provides extensive country analyses supported by references to the economic literature on regulation and incentives, and encompasses recent trends in environmental management modes and policy orientations. The topical chapters include a critical review of environmental policies with a focus on economic incentives on various environmental issues including irrigation water, air pollution, solid waste management and the impact of climate change and fisheries.

The session saw discussion on issues such as reasons for the lack of the environmental agenda. Institutions often fail consider the environment when making decisions for ecological reform, while instruments used to reduce environmental problems



Hala Abou-Ali

are often inefficient at mitigating environmental issues. Essentially, political issues become environmental problems.

The core of the environmental agenda is mainly political- argues Mohamed Yasser Sherif, Enviroics. There is an evident gap in environmental research in the MENA region but the book provides technical contributions for political economy reform. It also provides practical evidence and recommendations to be taken up by policy makers and fed into decision-making processes. Findings of this study needs to be packaged appropriately and translated to a language understandable by policymakers.

It is considered an incentive to worry about environmental policies that may mitigate issues arising from environmental degradation. The book illustrates the magnitude of economic costs to environmental issues in the hope of raising awareness, changing behavior and creating a new generation of citizens to take these issues seriously.

One chapter of the book is dedicated to discussing in detail the issue of regulating traffic to reduce air pollution in Greater Cairo. By the year 2022 carbon dioxide emissions will increase from 13 million tons per year to 16 million. Additionally, the average trip speed will decrease from 19.0 km/h to 11.6 km/h. This will result in adverse effects on the economy, air quality, public health and business environment operations.

## 19<sup>th</sup> Annual Conference

# Parallel Sessions

The parallel sessions covered the six broad economic themes that ERF concentrates on, namely: Microeconomics, Macroeconomics, Finance, Institutional Economics, International Economics and Labor and Human Development. Of the 221 proposals submitted to the conference, only 50 papers were accepted, and those were presented at the conference.

## Institutional Economics

The institutional economics sessions addressed such topics as Islamist Parties and Economic Development, Terrorism, Women's Rights, the Arab Spring.

*Women's Access to Justice in the Middle East & North Africa: An Empirical Investigation*, Nadereh Chamlou, Juan Botero, Alejandro Ponce, Malliheh Birjandi, Lella Hanafi, and Billgehan Gokcen

*Terrorism and Integration of Muslims: Evidence from Moroccan and Turkish Immigrants in the Netherlands*, Ahmed Elsayed and Andries de Grip

*Different Arab Springs? The Political Elite and De Facto Political Power*, Mina Baliamoune Lutz

*Who are the Democrats? Leading Opinions in the Wake of Egypt's 2011 Popular Uprisings*, Ishac Diwan

*Partis Islamistes, Pouvoir et Etat Profond dans le Monde Arabe: Analyse en Termes du Principal-Agent*, Brahim Elmorchid

*Islam, Institutions and Economic Development*, Abdalla Zouache

*Socio-demographic determinants of the support for Turkey's Justice and Development Party*, Cem Baslevent

*Modeling Political Performance of Islamist & Islamist-Rooted Parties in Turkey*, Ali T. Akarca



Participants at one of the conference sessions

*Political Patronage and Economic Opportunity: The Case of Vertical Integration in the Egyptian Clothing Industry*, Amirah El-Haddad

## Finance

The finance sessions addressed such diverse issues as Islamic Banking Development, Risk Management in Oil and Natural Gas Markets, Accounting Information System of Tunisian SMEs, Competitiveness in Turkish Banking, and Uncertainty, The Effect of Mergers and Acquisitions on Bank Efficiency.

*Investor Herds and Regime-Switching: Evidence from Gulf Arab Stock Markets*, Shawkat Hammoudeh, Mehmet Balçllar, and Riza Demirer



Participants at one of the conference sessions

## Macroeconomics

The macroeconomics sessions presented various topics namely: Macroeconomic Shocks and Banking Sector Developments in Egypt, Impact of Exchange Rate Volatility on Macroeconomic Performance in Sudan, Identification of Current Account Deficit in Turkey, The Demand for International Reserves and Monetary Disequilibrium in Egypt.

*Macro-Financial Linkages in Egypt: A Panel Analysis of Economic Shocks on Loan Portfolio Quality*, Inessa Love, and Rima Turk Ariss

*Macroeconomic Shocks and Banking Sector Developments in Egypt*, Hoda Youssef, and Santiago Herrera

*Fiscal Policy, Trade Surpluses and Exchange Rates in a Situation of Trade Liberalization and Crisis: The Case of Morocco*, Brahim Mansouri

*Extreme Risk Management in Oil and Natural Gas Markets*, Riadh Aloui, Mohamed Ben Aissa, Shawkat Hammodeh, and Duc Khuong Nguyen

*Ownership, Technical Efficiency and the Cost of Bad Loans: Evidence from the Tunisian Banking Industry*, Mohamed El Arbi Chaffai, and Semia Lassoued

*Does Islamic Banking Development Favor Macroeconomics Efficiency? Evidence on the Islamic Finance- Growth Nexus*, Laurent Weill, and Laurent Gheeraet

*Expected Utility Optimal Decisions Based on Zero Inflation and Interest Financing Contracts*, Fathi Abid and Jihence Rebai

*Accounting Information System of Tunisian SMEs: Complexity, Determinants and Impact on Financial Performance*, Yosra Nouir, and Sami Mensi

*Competitiveness in Turkish Banking and its Post-Crisis Performance: 2002-2004 vs 2008-2011*, Nurhan Davutyan and Canan Yildirim

*The Effect of Mergers and Acquisitions on Bank Efficiency: Evidence from Bank Consolidation in Egypt*, Malak Reda

*Impact of Exchange Rate Volatility on Macroeconomic Performance in Sudan*, Ebaidalla Mahjoub Ebaidalla

*Identification of Current Account Deficit in Turkey*, Nergiz Dincer, and Pinar Yasar

*The Demand for International Reserves and Monetary Disequilibrium in Egypt*, Hoda Selim

*The Dutch Disease Effect in a High vs Low Oil Dependent Countries*, Jean-Pierre Allegret and Tahar Ben-Khodja

*Natural Resource Abundance and Structural Change: The Dutch Disease in Algeria*, Sidi Mohamed Chekouri, Mohamed Benbouziane, and Abderrahim Chibi

## International Economics

The international economics sessions tackled issues such as Trade Volume and Economic Growth in the MENA Region, Business Cycle Synchronization in Euro Area and GCC Countries, Trade Determinants and Potentials of Syria, Moroccan Non-Tariff Measures' Impact on Domestic Firms.

*The Growth of Turkey in World Trade: Opportunity or Threat for MENA Countries?*, **Marouane Alaya and Imed Mezghani**

*Banking and Monetary Crises: Impacts on Exports of MENA Countries*, **Mohamed Ben Abdallah and Zouheir Bouchaddakh**

*Trade Determinants and Potentials of Syria: Using Gravity Model with an Estimation of Syrian Crisis Impact on Exports*, **Zaki Mehchy, Rabie Nasser, and Marc Schiffbauer**

*Moroccan Non-Tariff Measures' Impact on Domestic Firms: A Booster through Deeper Integration or Protection Measure?*, **Patricia Augier, Olivier Cadot, and Marion Dovis**

*Trade Volume and Economic Growth in the MENA Region: Goods or Services?*, **Fida Karam and Chahir Zaki**

*Approche de Négociation dans le cadre d'un Accord de Libre Echange Régional Liant des Pays du MENA*, **Nabil Boubrahimi**

*Contribution of Structural Change to Productivity Growth: Evidence from Tunisia*, **Mohamed Ali Marouani and Rim Mouelhi**

*Business Cycle Synchronization in Euro Area and GCC Countries: A Wavelets-GA Approach*, **Mustapha Djennas, Mohamed Benbouziane and Meriem Djennas**

## Labor and Human Development

Labor and human development are crucial development issues for the ERF region. Sessions tackled subjects like Return Migration and Fertility Choice, Wages and On-the-Job Training in Tunisia, Two-Way Relation Between Marriage and Work.

*Reseaux Sociaux et Insertion Sur le Marche du Travail en Algerie*, **Moundir Lassassi and Christophe Muller**

*Les Inégalités dans le Domaine de l'éducation au Maroc: Une Approche par l'économétrie Spatiale*, **Aomar Ibourk and Jabrane Amaghous**



Participants at one of the conference sessions



Participants at one of the conference sessions

*On the Two-Way Relation Between Marriage and Work: Evidence from Egypt and Jordan*, **Ragui Assaad and Rana Hendy**

*Evaluating the Impact of Ishraq: A Second Chance Program for Out-of-School Rural Adolescent Girls in Upper Egypt*, **Asmaa Elbadawy**

*Heyneman-Loxely Effect Revisited in the Context of MENA Countries: Analysis Using TIMSS 2007 Database*, **Donia Smaali Bouhlila**

*Does Longer Compulsory Education Equalize Educational Attainment by Gender, Ethnicity, and Socioeconomic Background?*, **Murat G. Kirdar, Meltem Dayioglu Tayfur and Ismet Koc**

*Preferences and Exposure to Shocks: Evidence from a Natural Experiment in Palestine*, **Elisa Cavatorta and Ben Groom**

*Bringing It all Back Home: Return Migration and Fertility Choice*, **Simone Bertoli and Francesca Marchetta**

*Wages and On-the-Job Training in Tunisia*, **Christophe Muller and Christophe J. Nordman**

*Productive Performances and Spatial Spillover: Evidence from the Egyptian Manufacturing Sector Using a Spatial Correlation Model*, **Mohamed Ben Jemaa**

*Agricultural Water-Use Efficiency in a Global Perspective: The Case of Iran*, **Gholam Reza Soltani**

*Agricultural Subsidies in the GCC between Cost and Benefit: The Case of Kuwait*, **Faten Jabsheh, Weam Benhbehani, Noura AbdulMalek and Mohamed Chemingui**

*A Long Run versus Short Run Study of Climate Change Effects on Agriculture Crop: Evidence from Tunisia*, **Younes Ben Zaied**

*Young People and the Digital Divide in Egypt*, **Mona Badran and Antonio R. Andrés**

## Microeconomics

The papers presented in the sessions covered topics ranging from Agricultural Subsidies in the GCC, Young People and the Digital Divide in Egypt, Agricultural Water-Use Efficiency in Iran, Study of Climate Change Effects on Agriculture Crop in Tunisia.

*The Egyptian Economy Post Revolution: Sectoral Diagnosis of Potential Strengths and Binding Constraints*, **Amr Hosny, Magda Kandil and Hamid Mohtadi**

*The Differential Effects of Oil Demand and Supply Shocks on the Global Economy*, **Paul Cashina, Kamiar Mohaddes, Maziar Raissi and Mehdi Raissi**

*Proxy Means Tests for Targeting Subsidies Scheme in Iran*, **Mohammad Bakhshoodeh**



Meltem Dayioglu and Djavad Salehi-Isfahani

## *Celebrating Excellence*

# Best Paper Awards

The papers submitted to the conference are assessed by a committee of internationally recognized academics from the ERF network, who judge them on the following criteria: whether the paper adds substantially to existing research in its field, sound methodology, meticulous research execution and finally, policy relevance. The awards are presented to authors of the best papers presented in each theme. The winners of the ERF 19th Annual Conference Best Paper Awards are listed below, along with abstracts of their papers.

## Institutional Economics

- *Political Patronage and Economic Opportunity: The Case of Vertical Integration in the Egyptian Clothing Industry*, Amirah El-Haddad

This paper investigates determinants of vertical integration in the Egyptian clothing industry. High-end market segments are a critical determinant of integration. Limited access to finance restricts the possibilities for many firms to undertake the investment required to integrate, whilst volatile and uncertain market conditions make firms more likely to rely on the market

for their inputs. Business in Egypt suffers from a bureaucracy that is both excessive and inefficient. The ability of businesses to grow through vertical integration, which required licenses, premises and so on, meant using the arbitrary and discretionary decision making system to their favor, negotiating government obstacles to successful business. Those linked to power, prospered, whilst the businesses of others foundered against the wall of bureaucracy and red tape. Access to power is revealed through the pattern of the first Presidential elections to follow the January 2011 revolution.



*Referees of the 2012 Best Paper Award*

## Finance

- *Extreme Risk Management in Oil and Natural Gas Markets*, Riadh Aloui, Mohamed Ben Aissa, Shawkat Hammoudeh, and Duc Khuang Nguyen

This paper uses the copula-GARCH approach to investigate the extreme dependence between crude oil and natural gas markets in the tails of the distributions. Using daily price data from January 1997 to October 2011, the in-sample results show evidence of asymmetric dependence between the two markets. Crude oil and gas markets tend to commove closely together during bullish periods, but not at all during bearish periods. Moreover, taking the extreme co movement into account leads to an improvement in the accuracy of the out-of-sample Value-at-Risk forecasts.

## Macroeconomics

- *Macro-Financial Linkages in Egypt: A Panel Analysis of Economic Shocks on Loan Portfolio Quality*, Inessa Love and Rima Turk Ariss

This paper assesses macro-financial linkages in Egypt focusing on the relationship between different macroeconomic aggregates and loan portfolio quality in a multivariate framework as well as through a panel vector autoregressive method that controls for bank-level characteristics. Using a panel of banks over 1993-2010, the authors find that a positive shock to capital inflows and growth in gross domestic product improves loan portfolio quality at banks, and that the effect is fairly similar in magnitude using the multivariate and panel vector autoregressive frameworks. In contrast, higher lending rates may lead to adverse selection problems and hence to a drop in portfolio quality. The paper also reports that a larger market share of foreign banks in the industry improves loan quality.

## International Economics

- *The Growth of Turkey in World Trade: Opportunity or Threat to MENA Countries?* Marouane Alaya, and Imed Mezghani

The aim of this paper is to study the impact of

the emergence of the Turkish economy on the MENA region. The paper focuses on two channels through which MENA countries and Turkey interact, namely FDI and trade flows. The researchers use different econometric techniques and estimation methods to find that crowding in effects are more likely than the competitive threat of Turkish economy.

## Labor and Human Development

- *Does Longer Compulsory Education Equalize Educational Attainment by Gender, Ethnicity, and Socioeconomic Background?*, Murat Kiradar, Meltem Dayioglu Tayfur, and Ismet Koc

This study examines the effects of the extension of compulsory schooling from 5 to 8 years in Turkey—which substantially increased the grade completion rates not only during the new compulsory years but also during the high school years—on the equality of educational outcomes among various subpopulations. While longer compulsory schooling decreases the educational gap for most subgroups—in particular, the gender gap in rural areas, the ethnic gap among men in both urban and rural areas, and the ethnic gap among women in urban areas; at the same time, it increases the gender gap in urban areas as well as the ethnic gap among women in rural areas. For instance, the gap in the 8th grade completion rate between ethnic Turkish and Kurdish women in rural areas increases from 22.5 to 44.6 percentage points for the 1989 birth cohort. The differences among subpopulations in the change in schooling costs (both monetary and psychic) during the new compulsory schooling years, in the cost of non-compliance with the policy, and in labor force participation are the key factors that drive these findings.

## Microeconomics

- *Proxy Means Tests for Targeting Subsidies Scheme in Iran*, Mohamed Bakhshoodeh

In this paper, the researcher developed a PMT model and examined several targeting lines to identify beneficiaries for targeting subsidy scheme in Iran. Based on findings of this study, setting a cut-off percentile of 40% is expected to compen-

sate almost 70 percent of the poorest households and to results in highest accuracy mainly in the rural areas where poverty is much severer than anywhere else in the country. Substituting a targeting scheme based on the results of the PMT model for the current scheme that covers almost

all households in the country, causes either transferring larger amount of money to extreme poor at the current budget or reduces the government expenditure in form of repayment after removing subsidies on fuel and energy.



*The recipients of the 2013 Best Paper Award*





## Book Review

# “Four Months in the Government’s Cage”

by Hazem El-Beblawi

Shorouk Press 2012

## Reviewed by Salma Mansour

**H**azem El-Beblawi spent four months as the second post-revolution Minister of Finance in Egypt. In this book, he outlines his views on Egypt’s economic problems at large and on the unique challenges facing the post-revolution economy in particular. He summarizes what many businessmen and economists already know but in an intuitive and all-encompassing format that is not currently available in the Arabic literature on the Egyptian economy. He gives an honest insider’s perspective intended for wider audiences and written in an accessible manner. The book serves to educate non-economists about key Egyptian economic matters while giving economists a reference on the main pressing public finance issues. This is much needed nowadays since the economic debate in Egypt is dominated by politicians and media figures who have strong opinions that are out of sync with the informed and powerful economic rationale presented by El-Beblawi in this book.

Before getting into the discussion of economic matters, El-Beblawi

gives an overview of what he refers to as the two most important documents about the Egyptian economy; the national budget and the balance of payments. Although it seems natural that he does so, this is worth pointing out because many politicians, media figures and opposition leaders start debates about the economy without actually having read the budget. Such debates are therefore largely uninformed and are politicized rhetorical exercises rather than constructive discussions.

In examining the budget, El-Beblawi highlights subsidy spending and debt service as key issues. He notes that these are the two largest spending items, together using up 55% of the national budget of Egypt. He believes that the subsidy spending is not only financially unsustainable but it also inefficient since fuel subsidies for example benefit the rich and poor alike. He later dedicates a full section of the book to an in-depth discussion of the typical issues surrounding subsidy spending. As for debt service, he argues that it has risen over the last de-



cedes due to repeated large deficits and rising interest rates.

These existing factors, combined with the instability which accompanied the first waves of the 2011 revolution lead to a liquidity crisis beyond the capacity of local financial resources in Egypt. The government therefore urgently needed to tap all regional and foreign financial help offered. Unfortunately, such financial help was overpromised and under-delivered by foreign countries. Meanwhile, there remained a negative misconception in local government circles about consumption borrowing as ineffective compared to investment borrowing. However,

given the liquidity crisis, El-Beblawi and his team saw a pressing need for consumption borrowing to stir up idle economic capacity and decided that investment borrowing was a non-pressing issue. Regrettably, securing loans to the Egyptian treasury was a challenge because non-government entities simply did not have the confidence to inject funds in the economy amid rising political uncertainty. As for foreign governments who may lend to Egypt, their funds are always part of a wider political deal that may or may not be in Egypt's best interest.

By virtue of his position and the political transition during which he took office, El-Beblawi's treatment of economic subjects is intertwined with aspects of politics and bureaucracy. There are three ways in which economic issues interact with politics in his analysis. First, this interaction was key on the local level as deteriorating security and governance ambiguity crippled day to day business thus compounding the economic crisis. This is because, on one hand, these factors further reduced investor and consumer confidence, tightening the liquidity. On the other hand, these factors also made the government less able to take meaningful and timely actions to mitigate the crisis, making matters worse.

Second, on the regional level, wealthy Arab states promised billions of dollars of economic support to Egypt, but only a few hundred millions of these materialized. This is because of the fact that the deteriorating local poli-

tics decreased certainty of repayment.

Egypt then had to turn to the International Monetary Fund, which brings us to the third medium of political-economic interaction in El-Beblawi's analysis. The IMF loan has been under on-and-off negotiations and continuous controversy for about a year at the time .

Although the author does not introduce material beyond that which is already known among mainstream Egyptian economists, his treatment of the economic crisis is exceptionally intuitive and overarches all key components of the crisis with capable discussion of how these relate to one another. He explains how the high debt service increases the budget deficit, creating a downward spiral over time. He describes deficits as inherited diseases that persist across generations. The point he does not make but one that can be deduced from the information given is that there is an inter-relationship between subsidies and debt service. Subsidies are the largest spending item, driving deficits. Such deficits cause the treasury to borrow, creating a debt service burden which in turn increases future deficits and so on. It is somewhat rare to find such a clear and concise depiction of a complex economic dynamic combining technical aspects of subsidies and debt.

Speaking of debt, and in relation to the peculiar aspects of Egyptian bureaucracy, El-Beblawi makes the shocking statement that it is difficult to pin down

how much the Egyptian state owes. It is somewhat of an outrageous statement because debt is one of the government's major problems yet the government authorities do not know how much they owe. This arises due to the complex relationship between public enterprises and the local banking system. Since the banking system is dominated by large public banks, these banks lend to public enterprises, which may or may not be particularly credit worthy. Therefore, these public enterprises owe sizable unresolved liabilities to the banks. El-Beblawi points out that the authorities did not know whether these liabilities should be counted as part of national debt or not, complicating the relevant policy analysis.

El-Beblawi's discussion of the Egyptian General Petroleum Corporation (EGPC), the state owned oil and gas provider constitutes an illustrative example capturing the above banking relationship as well as other typical economic problems in Egypt. EGPC suffers from excessive subsidy spending, over-borrowing and complex governance issues. EGPC buys oil products at international prices and sells them to the public below cost; it also provides products to sister government agencies which do not pay on time if at all. Naturally, this creates a large deficit for EGPC which it finances in two ways. First, it asks the Ministry of Finance for funds, contributing to the state's budget deficit. Second, EGPC borrows from local banks, especially public banks which give it preferential treatment. Since EGPC

is using up its debt ceiling with the banking system, it is asking for more subsidy funds from the Ministry of Finance further widening the deficit of the national budget.

El-Beblawi recognizes the economic and administrative difficulty of disentangling the financial relationship between EGPC, other agencies and public banks. However, until such issues are resolved, EGPC will continue to pose a burden on the state budget. Interestingly, although this is a fundamental problem touching the very health of the economy, it is rarely in the news or in political debates. This is because it is a complex administrative topic which is not politically charged enough to gain importance in the public discussion. In contrast, politically charged topics like wage reform often gain more than their fair share of public attention.

Although the author correctly and concisely states the fundamental problems of the Egyptian economy, both the long term and immediate ones, he then somewhat deviates from these fundamental issues when he sets public wage reform as his number one economic priority. El-Beblawi dedicates a sizable portion of the book to the discussion of minimum and maximum wages as means of wage reform in the public sector. Wage reform is one of the most complicated issues touching every arm of the Egyptian bureaucracy of six million people. One can criticize this step since it is immediately clear that addressing this issue requires extensive study-time and

administrative cost before meaningful progress is made. One can criticize it again given that the suggested wage reform scheme would raise the budget deficit rather than the other way around, at a time when the large budget deficit was already a major concern. When such cost is weighed against the fact that wage reform does not make a significant or immediate saving to aid the government in the context of a pressing liquidity crisis, it seems that the cost of such reforms outweighs their benefit.

So, there is room to say that wage reform is not a priority issue in comparison to the other critical issues facing his government. Even if we assume wage reform is a priority, one can disagree with El-Beblawi's opinions within the issue as well. His support for the minimum wage can be dangerous because it inspires parallel legislation for the private sector; this threatens to worsen Egypt's high unemployment which is already increasing on the back of the revolution.

As for his advocacy for maximum wages in the public sector, this threatens to discourage good calibers from joining the government. Although El-Beblawi identified this as a threat, he did not address remedies for it in his analysis. Egypt carries a sizable inefficient public sector with public sector wages being the third largest expenditure item on the budget. Government agencies and enterprises need deep reforms that can only be achieved with high quality management. Such management comes at a

price and therefore maximum wages would slow down reforms in public enterprises by limiting access to good management. It could be that the author and former Minister of Finance may have put this issue on the agenda simply as a political maneuver; this is often a necessary evil.

The book surveys the timeline of economic events unfolding during El-Beblawi's term, annotated with clarifications and details about headline economic matters and complemented with perspectives from inside the Ministry of Finance. Perhaps the only aspect of humor in this serious book is the author's description of the attitude of the Ministry of Finance's staff towards the IMF. The staff refers to it as the International Grouchiness Fund, where grouchiness rhymes with monetary in Arabic. The staff gave the fund a nickname proportional to what they view as unrealistic and burdensome conditions imposed by the IMF. Like the wider economic discussion in Egypt, there is little or no economic theory in the book. However, the book surpasses the typical discussion by having a wealth of common sense and budget facts supporting the author's views.

El-Beblawi's writing is non-technical but he still does justice to the economic reality of pre-revolution Egypt and also provides a candid discussion of the pressing post-revolution issues. Writing simply but completely about a topic is not an easy balance to strike in economic writing. The book is written in largely informal language without excessive use

of jargon; this helps the author formulate profound economic concepts in a simple and intuitive manner. This book could therefore improve the quality of public debate if the public, politicians and media figures take the time to read it, which is not a difficult task given its accessible presentation and short length.

This book fills a gap - the need for an accessible, brief, current and candid overview of the underlying problems of the Egyptian economy in Arabic. Indeed, there is a scarcity of Arabic economic literature and there is a particular lack of public finance literature on Egypt which is alarming since public finance has significant weight in the context of Egyptian economics. For these reasons, having general knowledge of the topics in this book should be a pre-requisite for any constructive discussion on Egyptian economics. This is especially true for post-revolution economics where public demands and political discussions are almost entirely detached from the realities depicted in this book.

A key conclusion to be made after reading this book is that things are easier said than done when it comes to economic policy in post-revolution Egypt. One can disagree with El-Beblawi's views but it is difficult to judge him given the legacy of economic vicious cycles he inherited and the challenges he faced in a unique moment in Egyptian history. Such difficulties are portrayed exceptionally well in this book where El-Beblawi succeeds in putting

the reader in the uncomfortable shoes of a policymaker.

In short, this book captures the tension between long term economic problems and urgent financial crises as well as the tension between what is economically correct and what is politically viable. Such tensions manifest themselves in the form of difficult choices facing policymakers, because a delicate balance must be struck between various goals. Every chapter of the book embodies the message that economic policymaking cannot be effective without parallel policies to address relevant gaps in governance and administration. If this book succeeds in educating stakeholders about key economic facts illustrated in the national budget and succeeds in emphasizing the urgent need for pragmatism about the resulting economic problems, then perhaps El-Beblawi has brought Egypt one step closer to economic recovery.

*Salma Mansour is a masters' student in economics at Duke University. Prior to attending Duke, she worked as a senior financial analyst (Associate) at the Private Equity firm Citadel Capital where she worked on oil and gas and infrastructure Public Private Partnerships (PPPs) in North Africa and East Africa. Ms. Mansour's interests are public finance and transportation economics, particularly that of railroads.*

## New ERF Affiliates

### *New Research Fellows*

#### **Riza Demirer, Turkey**

is an Associate Professor of Finance at Southern Illinois University Edwardsville where he has taught Financial Management, Corporate Finance, Investment Theory, Security Analysis and Risk Management since 2003. A native of Turkey, Demirer holds a B.S. in Industrial Engineering from Bogazici University, Turkey; M.S. in Operational Research from Lancaster University, U.K.; and a Ph.D. in Business from the University of Kansas, USA. During his study in the U.K., he also worked as a Researcher in the Corporate Modeling Group at Thames Water, Inc. in Reading. His research interests focus on asset pricing and risk management issues in emerging stock markets and commodity, in particular energy, markets. His recent work focuses on the issues surrounding market efficiency and asset pricing in a number of emerging and frontier stock markets in Asia and the Gulf Cooperation Council (GCC) area.



He has recently published in refereed journals including *Energy Economics*, *Journal of Economic Behavior & Organization*, *Journal of International Financial Markets, Institutions & Money*, *Research in International Business & Finance*, and *Review of Financial Economics*. He has served as an ad hoc reviewer for numerous academic journals as well as the National Science Foundation (NSF) Decision, Risk, and Management Science – Economics program.

#### **Mehmet Balcilar, Turkey**

is a Turkish national who graduated in 1996 with a Ph.D. in Economics from Wayne State University (WSU), U.S.A. During his study at WSU, he worked as a research assistant and taught undergraduate students as a graduate teaching assistant. He also



holds a masters degree in Economics from Cleveland State University, U.S.A and Cukurova University, Turkey. In 1996, Mehmet moved back to Turkey where he taught at Cukurova University before moving to the Kyrgyzstan. Between 2001 and 2004, he taught at the Kyrgyz-Turkish Manas University. In 2004 he moved to Kazakhstan and taught at KIMEP University then rejoined Cukurova University in 2006. He taught at Cukurova University for one year. In 2007, he moved to North Cyprus, where he is currently working at Eastern Mediterranean University as Professor of Econometrics and Head of the Department of Economics.

He is also advisor to the Republic of Turkey Prime Ministry Disaster and Emergency Management Administration since 2012. His fields of specialization are in the areas of Econometrics, Finance, Macroeconomics and Risk Management. Regionally, his main research is on Financial Markets, Housing and Forecasting. He has published in internationally refereed journals and he is a reviewer for journals like the *Energy Economics*, *Empirical Economics* and the *Economic Modeling*. He is also author of a book on *Mathematical Economics*.

#### **Mohamed El Hadi Aroui, Tunisia**

Mohamed Aroui is currently a Full Professor of Finance at the Université d'Auvergne and director of the Doctoral School SEJPG ED 245, Université de Clermont 1. He is a researcher at EDHEC Business School. He holds an MSc in Economics and a PhD in Financial Economics from the Université de Paris X and obtained his HDR (Habilitation for Supervising Doctoral Research) in Management Sciences from the Université d'Orléans. Winner of the AFFI-Euronext 2006 Prize, Aroui currently serves as a member of editorial and scientific committee of various academic international journals and conferences. His research works focus is on the cost of capital, economic development, energy economics



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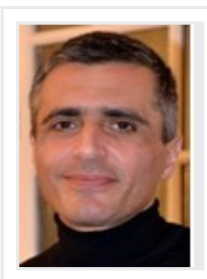
#### **Khamis Hamed Al-Yahyaee, Oman**

is an Omani national who graduated in 2007 with a Ph.D. in Banking and Finance from the University of New South Wales, Australia. He also holds a masters degree in Finance from the University of Denver, U.S.A. Al-Yahyaee is currently working as an Assistant Professor at the Department of Economics and Finance at the Sultan Qaboos University in Oman. He has been a faculty member of the Department of Economics and Finance since 1998. He was a Resource and Development Advisor at the Petroleum Development Oman. His research interests focus on capital structure, initial price offerings, market microstructure, security issuance, corporate governance, corporate cash holdings, dividends and ownership structure. He has published in a number of internationally refereed journals including *Journal of Banking and Finance*, *International Review of Finance*, *Journal of International Financial Markets, Institutions, and Money*, *Applied Financial Economics*, *Managerial Finance* and *Journal of International Finance and Economics*. He has also presented and discussed papers in renowned conferences. Dr. Al-Yahyaee has written technical reports for various government and non-government agencies and institutions. He is an occasional reviewer for leading journals such as *Journal of Banking and Finance* and the *Pacific-Basin Finance Journal*.



#### **Amine Tarazi, Syria**

is a professor of Economics and Finance at the University of Limoges (France) where he is currently the Director of a research center, LAPE, and Head of the Economics Department. He has also been a research consultant at the Banque de



France (French Prudential Authority). He served as a Vice-President in charge of Research and President of the Scientific Board of the University. He earned his Ph.D. in Economics from the University of Limoges in 1992 and holds a MSc in Money, Banking and Finance from the University of Birmingham (UK). He serves as a visiting professor in banking and finance in many countries and has coordinated several European Commission backed research projects and other international research programs. Among other duties, he has coordinated the European Commission ASIALINK/B7-301/2005/105-139 Program, <http://cba.upd.edu.ph/asialink>. His current research interests relate to financial institutions, bank risk and prudential regulation.

#### **Murat Kirdar, Turkey**

is a Turkish national who graduated in 2004 with a Ph.D. in Economics from the University of Pennsylvania, USA. Since then, he has been teaching at the Middle East Technical University, Ankara, Turkey. His fields of specialization are labor economics, development economics, and economic demography; and his recent research focuses on immigration and economics of education. Kirdar has published in internationally refereed journals such as *Economic Development and Cultural Change*, *International Economic Review*, *Labour Economics*, *Oxford Bulletin of Economics and Statistics*. He teaches courses on microeconomics, applied econometrics, and labor economics at the Middle East Technical University.



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Industrial Organization, Journal of Macroeconomics and Manchester School. He is a reviewer for journals like Economic Modeling and Applied Economics.

### **Bilin Neyapti, Turkey**

Neyapti received her PhD from University of Maryland (College Park, MD, USA) in the fields of Macroeconomics and Monetary Theory. She worked in the World Bank (1989-1997) and in the OECD (1997) on various economic development projects. She returned to Turkey in 1997 to join Bilkent University in Ankara, where she currently serves as Associate Professor of Economics. She has been a visiting professor at the University of Southern California in 2007. Neyapti's academic research has focused on the macroeconomic aspects of the relationship between economic development and institutions. Specifically, she has worked on the measurements of the institutional attributes such as central bank independence, quality of bank regulation and supervision and fiscal decentralization and their interactions with macroeconomic performance. Her empirical and theoretical studies have been published in international scientific journals such as Contemporary Economic Inquiry, Economics Letters, Economic Modeling, European Journal of Political Economy, Journal of Monetary Policy, and World Bank Economic Review. Her book titled "Macroeconomic Institutions and Development" (Edward Elgar Publ., 2010) presents a general framework for "New Development Economics", coupled with a synthesis of her empirical and theoretical findings. Neyapti currently serves on the Editorial Boards of the European Journal of Political Economy and Economic Systems.



high honors from University of Lille, France. He also holds a DEA (Diplôme d'Etudes Approfondies) in International Finance and International Trade and a BA diploma in Business Economics, from Faculty of Law, Economics, Politics and Management of Sousse, Tunisia. He has been visiting Professor at French universities where he taught International Finance and Banking Economics. His fields of specialization include International and Development Economics, International Finance, Conventional and Islamic Banking and Finance. The courses he taught at graduate and undergraduate levels include Market Microeconomics, Monetary Economics, International Trade and International Finance. His Publications have dealt with issues involving Capital Flows, Exchange Rate Regimes, Workers Remittances, International Trade, Inflation, Corruption, and Islamic Banking and Finance. He has published a book on Exchange Regimes and Capital Flows and numerous articles in French and in English in internationally refereed academic journals. He is currently serving as a reviewer and editor for several international renowned journals and conferences.



### **Shaker Sarsour, Palestine**

is a Palestinian national who graduated in 2012 with a Ph.D. in Economics from Siena University, Italy. He also holds two master degrees in Economics, one from Siena University, Italy, and the other degree from Birzeit University, Palestine. Between 2003 and 2006, he taught at Birzeit University as a part time teacher assistance, at the same time he was working as an assistant researcher at Palestine Economic Policy Research Institute (MAS). He worked as an Economic Consultant for the International Labor Organization (ILO) between 2004 and 2005. Recently, he is teaching at Birzeit University as a part time assistant professor. Between 2010 and 2012, he was the division chief of research division at the Research department in Palestine Monetary Authority (PMA); he is currently the division chief of public finance division at Research department in PMA. His fields



## *New Research Associates*

### **Mohamed Sami Ben Ali, Tunisia**

Ben Ali is a Tunisian National. He is currently an Assistant Professor of Economics and International Finance, Head of the Economics Department and member of the Scientific Board at IHEC Business School of Sousse, Tunisia. Ben Ali received his Ph. D. with

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**Ahmed Abdel Alim Khalifa, Egypt**

is an Egyptian national who graduated in 2009 with a Ph.D. in Economics from Colorado State University, U.S.A. During his study at CSU, he taught undergraduate students as an instructor for three years, 2006-2009. He also holds a master degree in Economics from Texas A&M University, USA in 2004. Ahmed served as Assistant Professor at Bloomsburg university of Pennsylvania for the academic year (2009-2010). He moved to Saudi Arabia in September 2010 to work as an Assistant Professor at King Fahd University of Petroleum and Minerals, Department of Finance and Economics. Ahmed's fields of specialization are in the areas of Macroeconomics, Energy Economics, Financial Markets and International Finance. Regionally, his main research is on Financial Markets and Energy Economics. In addition to his academic career, Ahmed is acting as a Project Manager for academic and commercial projects at the national level in Saudi Arabia and Kuwait. He has published and he is a reviewer in international refereed journals like Journal of Futures Markets, American Journal of Accounting and Finance, Energy Economics, and Managerial Finance.



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Hanan Nazier is an Egyptian national. At present, Hanan is an Assistant Professor of Economics, at the Faculty of Economics and Political science, Cairo University. She holds a Bachelor's degree in Economics from Cairo University, a Master's degree in International Economics from Cairo University, and a Ph.D. in Economics from Cairo University. Her areas of specialization are labor economics, international trade, and applied econometrics. She has published in internationally refereed journals. Her latest publication is *Higher Education Externalities in Egyptian Labor Markets* published in *Advances in Management and Applied Economics*, March 2013.



**Moez Ben Tahar, Tunisia**

Moez Ben Tahar graduated from University Nice Sophia Antipolis, France in 2011 with a Ph.D in Economics. Upon graduation, he worked as Economic and Financial Consultant for a consultancy firm in Monaco. He has been teaching at the Department of Economics at the University of Nice- Sophia Antipolis for five years. Currently he is an Assistant Professor and Director of International Relations at Central University in Tunisia. His fields of interest are Applied Macroeconomics, Economic development, fiscal policy, DSGE modeling and Econometrics. His research has been published in International





Review of Economics and Finance, Asian Review of Economics and Finance, Review of Economics and Society, and Review of Applied Economics

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**Almukhtar Al-Abri, Oman**

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**Marwa Biltagy, Egypt**

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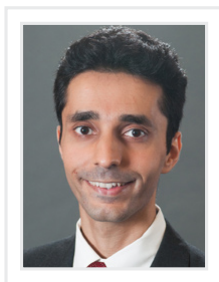
**Rania Salem, Egypt**

is a Sociologist who holds a B.A from the American University in Cairo, an M.Sc. from the University of Oxford, and a Ph.D. from Princeton University. She has worked as a Research Coordinator at the Cairo office of the Population Council and as a Post-Doctoral Fellow at the Harvard Center for Population and Development Studies. In 2012, she joined the sociology faculty at the University of Toronto as an Assistant Professor. Her teaching and research interests lie at the intersection of the fields of gender, family, economic sociology, development and the Arab Middle East. Her current research project, Economies of Courtship: Matrimonial Transactions and the Construction of Gender and Class Inequalities in Egypt, is a mixed-methods study of the causes and consequences of high marriage costs in contemporary Egypt. Salem is currently involved in several other collaborative projects. One examines how intimate partner violence affects Egyptian women's performance of market, subsistence, domestic, and care work. Another is a panel study investigating kin influences on young Qatari women's transitions into the labor force.



**Mahdi Majbouri, Iran**

Is an Iranian national who graduated with a Ph.D. in Economics from University of Southern California in 2010. Since graduation, he has been working as an Assistant Professor in Babson College, Massachusetts, USA where he has taught in graduate and undergraduate business programs. He also holds a B.S. in Mechanical Engineering and an M.B.A. from Sharif University of Technology in Tehran, Iran. Development and Labor Economics are his main research interests, but his past research covers topics in Finance, Real-estate Economics, and Microeconomic theory as well. His work has been published in The Journal of Real Estate Economics and The Quarterly Review of Economics and Finance. The puzzle of labor force participation of women in the Middle East is the subject of his current research.



four continents and includes policy dialogue, project management, research, and field work. Her areas of focus are primarily economics, human development, education, labor markets, and gender. In addition to 10 years at the World Bank. El-Kogali was Regional Director for West Asia and North Africa at the Population Council based in Cairo. She has published several papers on various development issues and made presentations at various high level conferences around the world. She has a BA in Economics from the University of Pennsylvania, USA and an MPhil with distinction in Development Studies from the Institute of Development Studies at the University of Sussex in the UK.

*From Research Associate to Research Fellow*

**Hania M. Sholkamy, (Egypt)**, Assistant Professor, The American University in Cairo

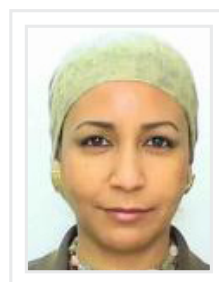
**Mohamed El Arbi Chaffai, (Tunisia)**, Professor, Universite de Sfax

**Hanan Morsy, (Egypt)**, Economist, International Monetary Fund

**Hala Abou-Ali, (Egypt)**, Assistant Professor, Cairo University

*New Policy Affiliate***Safaa El-Kogali, Sudan**

El-Kogali was recently appointed Sector Leader for Human Development covering education, health, employment and social protection for the Caribbean and Haiti at the World Bank's Latin America and the Caribbean Region (LAC) of the World Bank based in Washington DC. Before her current appointment, El-Kogali was a Senior Economist in the Human Development Department at the World Bank's Middle East and North Africa Region (MENA). She was the Team Leader for the Education Technical Program in the Kingdom of Saudi Arabia and the Education program in Djibouti. She was also the Human Development Coordinator for the Gulf Cooperation Council Countries, the Regional Coordinator for Early Childhood Development, and the Gender Focal Point for Human Development in the MENA region. A Sudanese national, El-Kogali has been working in the development field for 18 years. Her experience covers 15 countries across

*From Research Fellow to Policy Affiliates*

**Saleh Mounir Nsouli, (USA)**, Consultant, International Economic Consultancy

**Abdel-Hameed Bashir, (Sudan)**, Economist, Islamic Development Bank

## Research Activities

Since the last edition of *Forum*, ERF has been busy initiating new research activities dealing with several areas including new projects on Institutions and Macroeconomic Management in Oil-Rich Economies, Public Expenditure, Taxation and Inequality in Egypt, Measuring Top Incomes and Inequality in the Middle East. In addition, ERF has launched the first phase of the Open Access Micro Data Initiative (OAMDI). A brief description of these projects is presented below.

### **New Research on Institutions and Macroeconomic Management in Oil-Rich Economies**

The relationship nexus between institutions and development has regained a renewed impetus in recent years. This literature has argued that institutions are an important source of economic growth and most importantly for resource redistribution. Put more simply, no economic reform can be undertaken without sound institutions capable of implementing it.

The recent uprisings could be seen as an initial spark towards a more consolidated democratization process. In order for democracy to deliver better economic outcomes, it should promote and establish efficient political and economic institutions.

In this context and building on some the findings from a previous phase of research on the implications of oil windfalls on macroeconomic management, ERF has commissioned new research on *Institutions and Macroeconomic Management in Resource-rich Arab Economies*.

So far, research work on institutional weaknesses in the Arab world is scarce. In order to fill this research gap, the aim of project is to provide an in depth analysis of monetary and fiscal institutions for oil-dependent economies of the Arab region. In fact, the project has two components, which will be treated separately.

A first component will address issues related to monetary institutions. A proposal entitled “Institutional Requirements for Optimal Monetary Policy in the Resource-Dependent Arab Economies” was already submitted for ERF. The proposal explores broad issues related to the optimality of in-

stitutional arrangements in monetary policy. More particularly, the project will tackle the problem of how to achieve a counter-cyclical monetary policy in resource-dependent economies through several angles and with a combination of thematic papers and case studies. The proposal has been reviewed by independent referees and awaits the feedback of the scientific committee members.

A second component will address aspects related to fiscal institutions. A proposal entitled “Fiscal Institutions and Macroeconomic Management in Resource-Rich Arab Economies” was submitted to ERF. The project seeks to examine the role that budget institutions and the rules and procedures that govern them play in the macroeconomic management in resource-rich economies. In particular, the proposed research aims to provide better understanding of the role that fiscal institutions and fiscal rules may play in short run stabilization and economic diversification of resource-endowed countries, and especially Arab countries. Independent referees are currently reviewing the proposal.

### **Measuring Top Incomes and Inequality in the Middle East: Data Limitations and Illustration with the Case of Egypt, *Thomas Piketty and Facundo Alvaredo***

This paper will aim at understanding the income inequality with respect to top incomes in the Middle East and North Africa with a focus on one country (Egypt). To do this, the paper will, on the one hand, lay out a roadmap of the different methods and possibilities to understanding top incomes, and, on the other hand, analyze the existing household income and expenditure surveys (that ERF will make available to the authors) to learn about the extent of the mid reporting of top incomes in the survey data, in

comparison to national accounts. The paper will then serve as a background paper for future research on top incomes.

**Public Expenditure, Taxation and Inequality in Egypt, *Ahmed Kamaly***

This project will examine how taxation and public expenditure can be reformed in order to improve public expenditure schemes aiming to reduce income inequality and enhance economic growth. To this end, the project will investigate the effects of different subsidy reform options on households' welfare using a mixed demand system to analyze how consumption patterns would change, as well as the welfare implications for various income groups. This in turn would be used to compare between the current subsidy system and alternative options based on a consistent yardstick with micro dimensions. The project will tackle the problem of reforming the tax system in Egypt and its impact on inequality by looking at the multiplier effect of taxes across different income groups and the possible stabilizing effect of a progressive tax policy. In addition, it will examine the link between capital expenditure, on one side, and private investment and growth, on the other to analyze the trend of public investment and will try to gauge how public investment and its volatility have affected private investment, growth and equity over time. And finally, the project will look into the possible ways to "formalize" part of the informal sector in order to mobilize government revenues through widening the tax base.

**Open Access Micro Data Initiative (OAMDI)**

OAMDI offers researchers several types of micro data that ERF has collected, harmonized and prepared for dissemination in a convenient automated process. The first phase of the initiative covers 17 Household Income and Expenditure Surveys from 3 Arab countries, 3 Labor Market Panel Surveys from Egypt and Jordan, and a data set on micro and small enterprises from 4 countries. More data sets will be available in the near future.

The initiative, which involved cooperation with several regional statistical agencies, is modeled on the World Bank Open Data initiative.

To access these data sets, please visit [www.erfdataportal.com](http://www.erfdataportal.com)



## ERF Recent Events

### Workshop on The Challenge of Urbanization in the ERF Region

December 23, 2012, Cairo, Egypt

On December 23, 2012 (ERF) held a workshop on The Challenge of Urbanization in the ERF Region. The workshop is part of 12th Round of the Regional Research Competition supported by the Global Development Network (GDN).

Rapid urbanization creates many challenges for developing countries including rising poverty, unemployment and investment needs for expanding infrastructure.

According to UN projections the MENA population will reach 430 million by 2020, of which 280 million are expected to be urban. That is an urban population increase of over 65%, compared to the projected rural population increase of 8.5% (World Bank).

Against this very high rate of urbanization, the provision of adequate infrastructure and public services is clearly the key urban challenge. This is all the more challenging given the accumulation of un-serviced and underserviced populations and the increasing pressure on the fragile environment from urbanization.

Accordingly, ERF launched a call for proposals under the theme of The Challenge of Urbanization in the ERF Region. In response to the call for papers, ERF received 11 proposals, 6 of which have been peer reviewed and selected.

The selected projects covered various sectors (telecom, electricity, water and civil aviation), and countries (Egypt, Palestine and Turkey) as well as other countries from the region. Key issues centered around the relationship between urbanization and infrastructure. Among the research was a paper titled Urban Concentration, Poverty and Infrastructure by Khalid Sekkat, examining the effect of urban concentration on poverty. "Urban concentration,

defined as agglomeration of population in large cities, and poverty are two prominent characteristics of many developing countries in the MENA region. Both represent serious challenges for the development process," noted Sekkat during his presentation.

Six discussion papers were presented to over 30 participants, including prominent scholars, policymakers, and media representatives. The workshop was organized in three parallel sessions, one for each theme.

### Seminar on Egypt's Economy: Swift Solutions to Counter Pressing Challenges

January 2, 2013, Cairo, Egypt

In light of Egypt's current pressing economic challenges, ERF hosted this seminar to help air some of those challenges and possible solutions. The seminar is part of the fourth round of the "National Initiative for Economic Development," announced by Hesham Kandil, prime minister of Egypt. Ashraf El Araby, minister of planning and international cooperation, said that the government seeks to raise foreign currency reserves to \$ 19 billion on June 30, 2013 compared to the current \$ 15 billion.

"After the revolution the Central Bank's priority was to provide liquidity to local banks, but the increase in the budget deficit led to more pressure on liquidity of both foreign currency and local currency," explained Rania Al Mashat, deputy governor of the Central Bank. She added that security instability played a role in the decline of tourism, which led to a shortage of foreign currency.

While the focus of the discussion was mainly on the economy, economist Galal Amin, argued that the crisis is political rather than economic. He added that the absence of law, and what he referred to as chaos, in addition to the existing policies, had led to the

deterioration of domestic and foreign investment, and other challenges. Amin also stressed that the government needs to provide reassurance for tourists and investors and to create a climate of security and political stability.

The seminar attracted a large and diverse crowd: government officials, economists and experts who were representative of various ideologies and economic sectors, media, public figures and civil society representatives.

The national initiative is built on several stages, the first of which includes wide community participation through all available means such as forums, conferences, and workshops. The parties participating in the initiative will then submit recommendations to the government.

## Presentation on Why Nations Fail: The Origins of Power, Prosperity and Poverty January 20, 2013, Cairo, Egypt

In light of the region's economic and political challenges, ERF invited Harvard professor and ERF senior associate James Robinson to present his book *Why Nations Fail: The Origins of Power, Prosperity and Poverty*.

Written with Daron Acemoglu, an economics professor at the Massachusetts Institute of Technology, this groundbreaking book attempts to answer the question that has kept experts guessing for centuries: Why are some nations rich and others poor, divided by wealth and poverty?

According to the authors: "while economic institutions are critical for determining whether a country is poor or prosperous, it is politics and political institutions that determine what economic institutions a country has." Only inclusive political and economic institutions provide incentives for people to acquire (cutting-edge) skills and innovate. On the other hand "extractive" political and economic institutions exist for the benefit of a small elite which exploits



L to R: Galal Amin, Hazem El-Beblawi, Ahmed Galal, Ashraf Al-Arabi and Rania Al-Mashat

the masses who remain poor and disadvantaged. Extractive systems unlike the inclusive ones, fail to sustain growth and development. They are unable to generate technological change. The issues presented in the book are relevant to the political struggle in the region specifically in Arab Spring countries.

"It is now the time to think about ways in which we can formulate our political institutions in order to ensure prosperity and to make sure we are on the right track," added Ahmed Galal, managing director of ERF.

Robinson feels that the "Arab Spring was a revolt against these extractive institutions. The theory of



James Robinson

## Latest ERF Publications

### The Middle East Development Journal (MEDJ) Special Issue

The Economic Research Forum is proud to announce the publication of the third issue of the Middle East Development Journal (MEDJ).

**Vol. 5, No. 1.  
March 2013**



Introduction: Political and Economic Transformations in The Arab World  
*Ishac Diwan*

The Political Economy of Arab Presidents for Life — and After  
*Roger Owen*

The Elusive Quest for Economic Development in The Arab Countries  
*Ahmed Galal and Hoda Selim*

The Making of The Tunisian Revolution  
*Fadhel Kaboub*

Understanding Revolution in The Middle East: The Central Role of The Middle Class  
*Ishac Diwan*

On The Determinants of Democratic Transitions  
*Caroline Freund and Melise Jaud*

Islamists in Power? Inclusion, Moderation, and The Arab Uprisings  
*Jillian Schwedler*

Politico-Economic Developments in Turkey and The Transformation of Political Islam (1950–2010)  
*Hasan Ersel*

What Happened In The Early Years Of Democracy: Indonesia's Experience  
*Akhmad Rizal Shidiq and Philips Jusario Vermonte*

### Proceedings Volume

#### ERF's Eighteenth Annual Conference: Selected Papers

This volume contains five papers related to the theme of corruption and economic development, which was the common thread of all plenary sessions in the 18th Annual Conference of the Economic Research Forum (ERF).



### Working Papers Series

Since the last issue of Forum, 28 working papers have been published and disseminated electronically. All papers can be downloaded from the ERF website: [www.erf.org.eg](http://www.erf.org.eg). The recently published papers are listed below:

The Egypt Labor Market Panel Survey: Introducing the 2012 Round  
*Ragui Assaad and Caroline Krafft*  
Working Paper 758

The Differential Effects of Oil Demand and Supply Shocks on the Global Economy  
*Paul Cashin, Kamiar Mohaddes, Maziar Raissi, and Mehdi Raissi*  
Working Paper 757

Reseaux Sociaux Et Insertion Sur Le Marche Du Travail En Algerie  
*Moundir Lassassi and Christophe Muller*  
Working Paper 756

What Happened to Real Earnings in Egypt, 2008 to 2009?  
*Paul Cichello, Hala Abou-Ali, and Daniela Marotta*  
Working Paper 755

How Different Are the Wage Curves for Formal and Informal Workers? Evidence from Turkey  
*Badi H. Baltagi, Yusuf Soner Baskaya and Timur Hulagu*  
 Working Paper 754

Structural Labor Market Transitions and Wage Dispersion in Egypt and Jordan  
*Chaimaa Yassine*  
 Working Paper 753

What Determines the Access to Finance of SMEs? Evidence from the Egyptian Case  
*Hala El-Said, Mahmoud Al-Said and Chahir Zaki*  
 Working Paper 752

Aid, Exchange Rate Regimes and Post-conflict Monetary Stabilization  
*Ibrahim Elbadawi and Raimundo Soto*  
 Working Paper 751

The Global Impact of the Systemic Economies and MENA Business Cycles  
*Paul Cashin, Kamiar Mohaddes and Mehdi Raissi*  
 Working Paper 750

Approche de négociation dans le cadre d'un accord de libre échange régional liant des pays du MENA  
*Nabil Boubrahimi*  
 Working Paper 749

Exchange Rate Regimes for Post-conflict Recovery  
*Ibrahim Elbadawi and Raimundo Soto*  
 Working Paper 748

Distressed Whales on the Nile – Egypt Capitalists in the Wake of the 2010 Revolution  
*Hamouda Chekir and Ishac Diwan*  
 Working Paper 747

Politico-Economic Development of Turkey and The Transformation of Political Islam  
*Hasan Ersel*  
 Working Paper 746

Efficiency Gains from Liberalizing Labor Mobility  
*Frédéric Docquier, Joël Machado and Khalid Sekkat*  
 Working Paper 745

Arab Corporatism  
*Saifedean H. Ammous*  
 Working Paper 744

Enhancing Competition in A Post-Revolutionary Arab Context: Does the Turkish Experience Provide any Lessons?  
*Izak Atiyas*  
 Working Paper 743

Exchange Rate Undervaluation, Financial Development and Growth  
*Khalid Sekkat*  
 Working Paper 742

Flow of Migrants' Remittances into Sudan: the Role of Macroeconomic Environment  
*Ebaidalla Mahjoub Ebaidalla and Abdalla Ali Edriess*  
 Working Paper 741

Predicting Bank Financial Strength Ratings in an Emerging Economy: The Case of Turkey  
*Hulisi Ogut, M. Mete Doganay, Nildag Basak Ceylan, Ramazan Aktas*  
 Working Paper 740

Formal and Informal Social Protection in Iraq  
*Najat El Mekkaoui de Freitas and Hillary Johnson*  
 Working Paper 739

Detecting Corruption and Evaluating Programs to Control It: Some Lessons for MENA  
*Jeffrey B. Nugent*  
 Working Paper 738

The Spillover Effects of the Global Financial Crisis on Economic Activity in Emerging Economies – Investigating the Egyptian Case Using the Financial Stress Index  
*Amira El-Shal*  
 Working Paper 737

Econometric Modeling of World Oil Supplies: Terminal Price and the Time to Depletion  
*Kamiar Mohaddes*  
 Working Paper 736

Understanding and Avoiding the Oil Curse in Sudan  
*Kabbashi M. Suliman*  
 Working Paper 735

Is Corporate Governance Different for Islamic Banks?  
*Hamadi Matoussi and Rihab Grassa*  
 Working Paper 734



Exploring the Role of the Exchange Rate in  
Monetary Policy in Egypt

*Hoda Selim*

Working Paper 733

Is there A Bubble in Saudi Real Estate? Evidence  
from the Stock Market

*Mahmoud Haddad and Sam Hakim*

Working Paper 732

Cost Effectiveness Analysis of Family Planning  
Services Offered by Mobile Clinics versus Static  
Clinics in Assiut, Egypt

*Ghada Salah-El-Deen T. Al-Attar*

Working Paper 731