

### **Newsletter Issue 34, March 2017:**

The topics addressed in this issue of Economic Research are the following: (i) Low Socioeconomic Status Students in Higher Education: Entry, Academic Attainment and Earnings Expectations, by M.Eliophotou and N. Pashourtidou, (ii) Atypical Employment in Cyprus, Trends and Policies, by C. Koutsampelas, (iii) A Decade Long Economic Crisis: Cyprus versus Greece, by G. A. Hardouvelis and I. Gkionis, (iv) Fiscal Federalism: Public Goods, Transfers, and Common Pools, by J. von Hagen, (v) The role of survey data in the construction of short-term GDP growth forecasts, by Papamichael C. and N. Pashourtidou, (vi) Integrating and Assessing Economic Evidence under Cyprus Competition Law: Case Comment on the Cyprus Commission for the Protection of Competition Decision No. 42/2014, by Theodotou S. and S. Clerides.

Short summaries of the articles:

(i) The paper reports the findings of a study of low socioeconomic status students in higher education in relation to their participation, academic attainment, and earnings expectations after graduation. Data were collected from a sample of mainly third and fourth year students at the University of Cyprus. The findings point to significant differences between high and low socioeconomic status students in terms of preparation for higher education, academic attainment at university, and earnings expectations after graduation. In comparison to their high socioeconomic status peers, low socioeconomic status students were less likely to spend a large number of hours on preparatory private lessons and less likely to achieve a high grade at university. Moreover, students of lower socioeconomic status were found to expect lower employment earnings, although employment expectations (duration of unemployment and type of first job) were not significantly affected by parental socioeconomic status. The paper discusses the implications of the findings for educational policy and research.

(ii) The recent financial crisis in Cyprus caused considerable changes in the labour market in terms of increases in unemployment, reduction in wages and a large rise in the various forms of atypical employment such as temporary and part-time work. In this setting, the aim of the paper is to study recent trends in atypical employment in Cyprus (making appropriate comparisons with the respective international developments), describe and briefly evaluate the current policy and regulatory framework and finally propose policies which could close the gap in social provision between standard and non-standard workers.

(iii) The paper compares the recent economic crisis in Cyprus with the much larger and still on-going crisis in Greece, traces the causes behind their differences and assesses each country's future economic prospects. Cyprus entered its crisis with less onerous macroeconomic imbalances, yet with less robust financial and real estate sectors. Cyprus delayed signing its MoU with the lenders but subsequently delivered quickly on the program requirements, front-loading the fiscal policy restrictions. Greece reduced its fiscal deficits, yet, after its economy stabilized and began recovering in 2014, it suddenly adopted in 2015 a very naïve and backward looking confrontational strategy with its lenders, which brought a second recession. Today, at the end of 2016, Cyprus has managed to keep its international comparative advantages and has the luxury to focus on its long-term growth strategy, having lost only 5% of its pre-crisis income. Greece, after having lost over 22% percent of its pre-crisis income, has not yet escaped its crisis, is still burdened by economic stagnation, an unsustainable public debt and unusually high tax rates that constrain growth. The two countries share common risks today: A very weak financial sector with unusually high no-performing loans, and an unusually low ratio of investment to GDP.

(iv) The design of a federation raises important questions which have found very different answers in practice. An efficient assignment of public policies and revenues is important to make a federation viable, to maintain a balance of power between the central government and the states, and to find a good compromise between a strong government and a competitive market system. Transfers between the federal government and the state governments often become sources of conflict. Avoiding such conflicts demands a high degree of transparency, which can be better achieved with horizontal transfers among states of different tax capacity than vertical transfers from the centre to the states. Sustainability of public finances can be achieved best by either full fiscal autonomy of the states and/or fiscal unions, where the states with no borrowing autonomy are viable. Federations in which some states are highly and systematically dependent on transfers from the central government are likely to end up as debt unions. Finally, an important part of the design problem is to find an efficient way of changing the federal constitution, one that avoids the tendency for excessive centralism and yet allows for responding to changing circumstances in adequate ways.

(v) The aim of this paper is to investigate the role of Business and Consumer Survey data, published by the European Commission, in the construction of short-term gross domestic product (GDP) growth forecasts. A pseudo out-of-sample forecasting exercise is conducted in which the availability of data mimics real-time releases. A sequence of GDP growth

estimates is computed starting 5½ months prior to the publication of GDP growth and ending about 10 days before the release of the actual figure. The focus of the analysis is on Cyprus and some of its key trading partners. Due to the openness of the Cypriot economy, timely information on the expected economic performance of Cyprus's main trading partners is crucial to the assessment of domestic prospects and challenges. The analysis for Cyprus reveals that the use of survey data improves the accuracy of GDP growth estimates, but the forecasting gains are not always statistically significant. The improvements in forecast accuracy from the use of survey data are larger and more significant for the euro area, the European Union and Greece compared to those for Cyprus, while survey predictors are not found to enhance the precision of GDP growth estimates for the United Kingdom. Thus, survey information for the European Union and the euro area as a whole, as well as for Greece, can be used by practitioners to extract reliable signals for the short-term growth prospects of these economies and identify risks to the outlook for the Cypriot economy. The use of survey data for Cyprus resulted in large forecasting gains during the international financial crisis and its aftermath and predicted the depth of the recession in 2009 and 2013 fairly accurately. Moreover, information from the Business and Consumer Surveys correctly signalled the moderation of the recession in Cyprus in 2013–2014.

(vi) It is indisputable that economics has become an essential parameter in modern competition law enforcement, with the result that the analysis of a competition law case is virtually impossible without the integration and assessment of economic evidence in reaching the final decision. Best practice across the European Union ("the EU") in applying competition law clearly recognises the critical correlation between the proper selection, presentation and content of the relevant economic evidence and its appropriate interpretation and assessment by the decision-making body. In the case of Cyprus, this body is the Cyprus Commission for the Protection of Competition ("the Commission"). This paper is a case comment aiming to present the reader with an insight into the manner the Commission has handled and assessed economic evidence in the process of reaching its decision No. 42/2014, with particular reference to part 11.4.2 of its decision, which is the relevant economic analysis of the Commission. It begins with an exposition of the material facts, the decision and the economic dimensions of the case. It then focuses on the critical aspect of how the Commission dealt with and analysed the economic evidence before it in order to decide the case. The paper ends with a section on the approaches taken in competition law and practice both in Cyprus, with reference to the case in question, the

United Kingdom (“the UK”) and the wider EU framework. To the best of our knowledge, this paper is the first attempt to evaluate a competition case in Cyprus from an economics perspective. Providing that there is a significant gap in public discourse in this area, even among competition and economics experts, this paper marks the beginning towards the narrowing and the bridging of gap therein, and is accordingly of crucial importance to competition law and practice in the Republic of Cyprus.