

Newsletter issue 12 – October 2007

The 12th issue of 'Economics Research' contains articles on the economic impact of investments in research and development, the employment expectations of university students, the effects of public expenditure in infrastructure on costs and productivity, and the evolution of the gender gap in wages.

We examined the effect of the investment in research and development (R&D) on the output of the Cypriot economy and compared it with that of the rest of the new European Union member states. The estimated results show that investment in R&D has a positive effect on the output of the economy. Countries which are still at low R&D investment levels and countries with well educated labour force (for instance Cyprus, Hungary and Poland) enjoy higher rates of return on this kind of investment.

Data for graduate and undergraduate students of the University of Cyprus are employed to study the students' expectation formation process about the probability of future employment and salary after graduation, and whether these expectations are formed realistically/rationally. Graduates' characteristics that explain their probability of employment and their salary are also determined. Students are found to have rational expectations with respect to the effect of gender and family income on the probability of employment and future salary, but they do not hold realistic expectations with respect to the effect of graduate studies on employment and salary.

We analysed the contribution of public expenditure in infrastructure to the reduction of costs and the productivity of sectors of the Cypriot economy. By employing econometric techniques and using data for the period from 1988 to 2004, we found that the public expenditure on infrastructure reduces private costs by 7,5% on average. Finally, the average marginal benefit varies with the sector; sectors benefiting the most are those of trade, financial services and manufacturing.

The gender wage gap in Cyprus was substantially reduced from 1991 until 1997 and decreased further slightly until 2003. This reduction was mainly caused by the improvement in the education level of female employees and their relative position in their occupations. In addition the distribution of the wage gap reveals that the low and high paid female employees face the largest gap compared to male employees.