

## **Newsletter Issue 25 – October 2012**

The topics addressed in this issue of Economic Research are the following: (i) The Cost and Value of Education in Cyprus, (ii) Poverty and Migration: Findings from Cyprus (iii) Emissions-Based Vehicle Tax Reform for Cyprus and (iv) The Impact on the Cyprus Economy of the Implementation of the European Policy for Energy and Climate Change.

An important reason for the provision of free of charge education by the state is the guarantee of minimum consumption by economically deprived social groups. However, it is not obvious in what quantity and/or quality education should be provided; and how this provision should be differentiated to reflect on consumer preferences/needs. Cyprus has the highest total education expenditure as % of GDP in the European Union. It is, therefore, natural to ask how much the high private expenditure on education reflects idiosyncratic preferences or duplicated public and private education expenditure arising from low satisfaction from state provision. The main aim of this study is to investigate the above questions and further explore issues of efficiency and equity related to the quantity and quality of public education in Cyprus.

According to evidence obtained by the 2009 Family Expenditure Survey, our study concluded that immigrants in Cyprus face a considerably higher risk of poverty than the natives. Most deprived are migrants from Asia and Africa, while Europeans from Mediterranean countries and Western Europe are in better position than migrants from Eastern Europe. The disadvantaged position of migrants cannot be explained only on the basis of their socio-demographic characteristics.

Several policy tools are being employed or debated as possible ways of curbing carbon emissions in the transportation sector. One such instrument is the taxation of vehicle purchases, often in the form of feebates. We estimate a model of demand for automobiles in Cyprus and simulate scenarios under which (i) a feebate scheme is introduced in addition to existing taxes and (ii) the existing consumption tax is completely replaced by an emissions-based tax. The analysis provides a useful quantification of the tradeoffs between government revenue, consumer welfare from vehicle use and environmental harm from emissions.

The European Union's energy and climate policy package, which was legally adopted in early 2009, will induce an increase in energy prices. After formulating and estimating econometrically an innovative production model for the economy of Cyprus, it was found that production costs may grow by up to 3% in the year 2020 in energy intensive sectors as a result of the combined effect of higher electricity prices and higher automotive fuel prices. In absolute terms, manufacturing, trade and the hotels and restaurants sector are projected to incur most of the total cost increases. Per unit of output, cost increases are low, which indicates that these policies should not be expected to adversely affect the competitiveness of the economy. Overall, it is estimated that the energy and climate package will have comparatively low costs to the economy of Cyprus, which however will be higher than those projected ex ante by the European Commission when adopting this policy.