

Dear Readers

This is the second volume of the Armenian Journal of Economics. This 2016 volume consists of five papers that address a variety of topics using varying analytical tools and data sources.

The first paper in this volume, *Public Perception of Water Price and Service Quality: An Empirical Analysis of Household Water Delivery in Armenia*, is authored by Naira Harutyunyan. In this paper, Harutyunyan studies conditions related to water services. She designs a nationally representative household survey that covered the operation areas of all five operating water utilities. Over 60% of all households rate water prices as high. Overall, households are satisfied with the quality of water services, with residents in rural areas showing higher satisfaction. According to the utility ranking based on service quality satisfaction, Shirak records the highest and Nor Akunq has the lowest rank. Despite high satisfaction, 50% to 70% of households experience water services problems and there is a widespread problem of water service related debts in some cases may reaching up to 20 times the minimum salary.

Karolina Matikyan and Mane Harutyunyan authored the second paper, *The Armenian Business Cycle and Trade Shocks from Russia and EU*. In this paper, the authors examine the impact of business cycles in Russia and the European Union (EU28) on the Armenian economy, motivated by the fact that they are the main trading partners for Armenia. They use a three-country model with inventory management decisions to describe the trade co-movements as well as business cycle fluctuations in these countries. Their findings suggest that business cycles in Russia and the EU28 have significant effects on the volatility of Armenian economy.

I have co-authored the third paper, *The Return to Education in Armenia*, with David Joulfaian. This paper attempts to gauge the return to education in Armenia by examining how earnings vary with educational attainment. It employs household survey data where member wages and educational attainment are reported. The findings from Mincerian earning equations suggest that wages rise with years of schooling and educational attainment, albeit not uniformly and mostly for men. They also provide evidence on a large gap in

pay between men and women observed at every educational attainment level.

The fourth paper, *Credit Demand and Supply in the Armenian Banking System*, is coauthored by Hayk Sargsyan and Narek Sargsyan. It examines the extent of financial intermediation in Armenia and the factors shaping it. A panel data on 21 Armenian banks is employed over the period 2004Q1-2015Q3. The empirical findings suggest that credit rates have statistically significant positive effect on credit supply and statistically significant negative effect on credit demand, with the response of supply being much bigger than the response of demand (in absolute value). We find that permanent income has positive influence and transitory income has negative influence on changes of credit demand. Both effects are statistically significant, but with the effect of permanent income being much stronger than the effect of transitory income. Banks do not seem to respond to changes in the Treasury bill rate, which can be a signal of weak monetary policy transmission mechanism. On the other hand, banks seem to respond positively to an increase in income spread up to the optimal point after which the response changes and an increase of income spread decreases credit supply.

The fifth paper is authored by Laura Manukyan and is titled *Rubinstein Bargaining at the Court*. Manukyan presents a game theoretical paper that extends Rubinstein's well known sequential bargaining process to end exogenously after a finite number of stages such as in the case of court deliberations between two opposing parties. The court may allow these two players to bargain. But because the two parties may have different preferences they may not be able to reach an agreement. The presence of a judge, the mediator, may bring about a final decision if the two parties fail to arrive to an agreement.

I congratulate the authors for their contribution to this volume, as well as thank the anonymous reviewers for their constructive comments and guidance. Stay tuned for the third issue of the Journal, and please consider submitting your works.

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