ABSTRACTS OF WORKING PAPERS IN ECONOMICS

This section contains abstracts and complete bibliographic information for current working papers, listed alphabetically by primary author. Brief entries appear for secondary authors, cross-referenced to the primary author. The AWPE Database is available as part of EconLit, the American Economic Association's on-line database and CD-ROM. For more information please contact Cambridge University Press (Call 212/924-3900).

Abel, Andrew B.

PD September 2002. TI The Effects of a Baby Boom on Stock Prices and Capital Accumulation in the Presence of Social Security. AA University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 9210; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E22, J19. KW Stock Market Boom. Baby Boom. Overlapping Generations. Social Security.
AB Is the stock market boom a result of the baby boom? This paper develops an overlapping generations model in which a baby boom is modeled as a high realization of a random birth rate, and the price of capital is determined endogenously by a convex cost of adjustment. A baby boom increases national saving and investment and thus causes an increase in the price of capital. The price of capital is mean- reverting so the initial increase in the price of capital is followed by a decrease. Social Security can potentially affect national saving and investment though, in the long run, it does not affect the price of capital.

Ableidinger, Joseph

TI Orphans in Africa. AU Case, Anne; Paxson, Christina; Ableidinger, Joseph.

Abraham, Jean Marie

PD September 2002. TI Household Demand for Employer-Based Health Insurance. AU Abraham, Jean Marie; Vogt, William B.; Gaynor, Martin. AA Abraham: University of Minnesota. Vogt and Gaynor: Carnegie Mellon University. SR National Bureau of Economic Research Working Paper: 9144; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 22. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D10, I10. KW Health Insurance. Household Demand.
AB We use the 1996 Medical Expenditure Panel Survey to estimate a model of household demand for employer-based health insurance, explicitly investigating differences in behavior between households with two potential sources of coverage and those with one source. Own and cross- price elasticities are estimated for three types of health plans, including exclusive provider organizations, any provider organizations, and mixed provider organizations. We find that the premium, family size, income, and wealth significantly affect demand. Our elasticity estimates reveal an overall, small behavioral response to changes in price with respect to health plan switching and take-up. Finally, we discuss the implications of our findings with respect to employer benefit design.

Abrego, Lisandro

PD April 2002. TI Decomposing Wage Inequality Change Using General Equilibrium Models. AU Abrego, Lisandro; Whalley, John. AA Abrego: International Monetary Fund. Whalley: University of Western Ontario, University of Warwick, and NBER. SR University of Western Ontario, RBC Financial Group EPRI Working Paper: 2002/02; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/. PG 28. PR Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE C68, D63, F14, J11. KW General Equilibrium Models. Wage Inequality. Specific-Factors Model of Trade. Factor-Based Technological Change.
AB This paper presents ex post decomposition analysis of wage inequality change using multi-sector general equilibrium models. The analytical structure used is a specific-factors model of trade, which we calibrate to UK data for two years 1979 and 1995. We first calibrate our general equilibrium trade model to observations on wage inequality, trade, production and consumption spanning these years, capturing the separate influences of trade, technology and demographics on inequality. Between these years wage inequality changed, but multiple changes in exogenous variables occurred (world prices, technology, endowments). We use calibration techniques to determine parameter values consistent with both the equilibria and the changes in exogenous variables contributing to the wage inequality change being decomposed. We then compute counterfactual equilibria in which only some of the changes in exogenous variables are present to allow us to assess what portion of the observed change is attributable to the various contributing factors. Our findings are that the roles of trade and factor-biased technological change are larger than in earlier literature. We also find changes in factor endowments to offset increased inequality generated by trade and skilled-biased technological changes.

PD September 2002. TI Decomposing Wage Inequality Change Using General Equilibrium Models. AU Abrego, Lisandro; Whalley, John. AA Abrego: International Monetary Fund. Whalley: University of Western Ontario, University of Warwick, and NBER. SR National Bureau of Economic Research Working Paper: 9184; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D50, D63, F10, J30. KW Wage Inequality. General Equilibrium Models. Trade. Technology.
AB This paper presents ex-post decomposition analysis of

wage inequality change using multi-sector general equilibrium models. The analytical structure used is a specific- factors model of trade, which we calibrate to UK data for the two years 1979 and 1975. We first calibrate our general equilibrium trade model to observations on wage inequality, trade, production and consumption spanning these years, capturing the separate influences of trade, technology and demographics on inequality. Between these years wage inequality changed, but multiple changes in exogenous variables occurred (world prices, technology, endowments). We use calibration techniques to determine parameter values consistent with both the equilibria and the changes in exogenous variables contributing to the wage inequality change being decomposed. We then compute counterfactual equilibria in which only some of the changes in exogenous variables are present to allow us to assess what portion of the observed change is attributable to the various contributing factors. Our findings are that the roles of trade and factor-biased technological change are relatively larger than in earlier literature. We also find that changes in factor endowments to offset increased inequality generated by trade and skilled-biased technological changes, a feature that seems to have gone relatively unnoticed in earlier literature.

Acemoglu, Daron

AB Botswana has had the highest rate of per capita growth of any country in the world in the last 35 years. This occurred despite adverse initial conditions. Botswana achieved this rapid development by following orthodox economic policies. How Botswana sustained these policies is a puzzle because typically in Africa, "good economics" has proved not to be politically feasible. In this paper we suggest that good policies were chosen in Botswana because good institutions, which we refer to as institutions of private property, were in place. Why did institutions of private property arise in Botswana, but not other African nations? We conjecture that the following factors were important. First, Botswana possessed relatively inclusive pre-colonial institutions, placing constraints on political elites. Second, the effect of British colonialism on Botswana was minimal, and did not destroy these institutions. Third, following independence, maintaining and strengthening institutions of private property were in the economic interests of the elite. Fourth, Botswana is very rich in diamonds, which created enough rents that no group wanted to challenge the status quo at the expense of "rocking the boat". Finally, we emphasize that this situation was reinforced by a number of critical decisions made by the post-independence leaders.

AB Countries that have pursued distortionary macroeconomic policies appear to have suffered more macroeconomic volatility and also grown more slowly during the postwar period. Does this reflect the causal effect of these macroeconomic policies on economic outcomes? One reason to suspect that the answer may be no is that countries pursuing poor macroeconomic policies also have weak "institutions." This paper documents that countries that inherited more "extractive" institutions from their colonial past were more likely to experience high volatility and economic crises during the postwar period. More specifically, societies where European colonists faced high mortality rates more than 100 years ago are much more volatile and prone to crises. Based on our previous work, we interpret this relationship as due to the causal effect of institutions on economic outcomes: Europeans did not settle and were more likely to set up extractive institutions in areas where they faced high mortality. Once we control for the effect of institutions, macroeconomic policies appear to have only a minor impact on volatility and crises. This suggests that distortionary macroeconomic policies are more likely to be symptoms of underlying institutional problems rather than the main causes of economic volatility.

AB We construct a model where the equilibrium organization of firms changes as an economy approaches the world technology frontier. In vertically integrated firms, owners (managers) have to spend time both on production and innovation activities, and this creates managerial overload, and discourages innovation. Outsourcing of some production activities mitigates the managerial overload, but creates a holdup problem, causing some of the rents of the owners to be dissipated to the supplier. Far from the technology frontier, imitation activities are more important, and vertical integration is preferred. Closer to the frontier, the value of innovation increases, encouraging outsourcing.

Adam, Klaus

AB We estimate a forward looking New Keynesian Phillips Curve (NKPC) for the U.S. using data from the Survey of Professional Forecasters as a proxy for expected inflation. We

obtain significant and plausible estimates for the structural parameters of the NKPC (the discount factor and the share of firms adjusting prices) independent from whether output or unit labour costs are used as a measure of marginal costs. Survey expectations suggest that the usual identification of expectations exploiting orthogonality of forecast errors with respect to output is severely distorted, which explains why the NKPC estimated with survey data performs much better than under the assumption of rational expectations. We also find that lagged inflation enters the price equation significantly, even when controlling for its ability to predict expectations. This suggests a role for lagged inflation beyond that of capturing non-rationalities in expectations. This suggests a role for lagged inflation beyond that of capturing non-rationalities in expectations. When estimating a Phillips curve where lagged inflation enters due to price indexation by non-reoptimizing firms, we find that rejection of the coefficient restrictions depends on the measure of marginal costs used.

PD April 2003. **TI** Optimal Monetary Policy with Imperfect Common Knowledge. **AA** University of Frankfurt. **SR** European Central Bank Working Paper: 223; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 38. **PR** no charge. **JE** D82, E31, E52. **KW** Optimal Policy. Information Frictions. Imperfect Common Knowledge. Higher Order Beliefs. Shannon Capacity.
AB We study optimal nominal demand policy in an economy with monopolistic competition and flexible prices when firms have imperfect common knowledge about the shocks hitting the economy. Information imperfections emerge endogenously because firms are assumed to have finite (Shannon) capacity to process information. We then ask how policy that minimizes a quadratic objective in output and prices depends on firms' processing capacity. When price setting decisions are strategic complements, for a large range of capacity values optimal policy nominally accommodates mark-up shocks in the short-run. This holds even if the policy maker observes shocks imperfectly or is uncertain about firms' capacity parameter. With persistent mark-up shocks, accommodation may increase in the medium term, but decreases in the long-run thereby generating a hump-shaped price response and a slow reduction in output.

Adams, Robert M.
PD October 2002. **TI** Scale Economies, Scope Economies, and Technical Change in Federal Reserve Payment Processing. **AU** Adams, Robert M.; Bauer, Paul W.; Sickles, Robin C. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/57; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 26. **PR** no charge. **JE** D20, D24, G20. **KW** Productivity. Scope Economies. Scale Economies. Financial Institutions.
AB In the past decade, the US economy has witnessed a tremendous surge in the usage of electronic payment processing services and an increased importance of the firms that provide these services. The payments industry has also undergone changes in cost structure with the introduction of new technology. Unfortunately, data on the private provision of payment processing services are not available. However, the Federal Reserve provides similar services and collects data on

its own provision of payments processing, offering an opportunity to gain insights into the cost structure of payments processing. In this paper, we estimate the scope and scale economies and the technical change in the Federal Reserve's provision of payments processing from 1990-2000. We find considerable scale economies and evidence of some scope economies for the provision of automated clearinghouse, fedwire, and book-entry services no matter whether we specify a separable quadratic or a translog cost function. In addition, we find that disembodied technical change also contributed to the overall reduction in costs throughout the 1990s.

Adnett, Nick
PD December 2001. **TI** On the Trade-Off Between Work-Related Training and Labor Mobility: The Role of Firing and Exit Costs. **AU** Adnett, Nick; Bougheas, Spiros; Georgellis, Yannis. **AA** Adnett: Staffordshire University. Bougheas: University of Nottingham. Georgellis: Brunel University. **SR** University of Nottingham, GEP Research Paper: 2001/35; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 19. **PR** no charge. **JE** J24, J38, J41, J63. **KW** Work-Related Training. Labor Turnover. Firing Costs. Exit Costs.
AB Within an incomplete contracts theoretic framework, we examine the consequences of contract renegotiation for contract design/enforcement and training market efficiency. Specifically, we show how the imposition of either firing costs or exit costs can bind together employers and employees in longer-lasting employment relationships that allow both agents to amortize their training investment. Nevertheless, the model implies that although firing and exit costs provide institutional solutions to the training under-investment problem, this is achieved at the expense of allocative efficiency (efficient separations). Empirical evidence supports the existence of such a trade-off.

Aghion, Philippe
TI Vertical Integration and Distance to Frontier. **AU** Acemoglu, Daron; Aghion, Philippe; Zilibotti, Fabrizio.

Agrawal, Ajay
PD September 2002. **TI** University Research, Industrial R&D, and the Anchor Tenant Hypothesis. **AU** Agrawal, Ajay; Cockburn, Iain M. **AA** Agrawal: Queen's University. Cockburn: Boston University and NBER. **SR** National Bureau of Economic Research Working Paper: 9212; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** L31, O31, O32, R38. **KW** Academic Research. Research and Development. Agglomeration. Anchor Tenants.
AB We examine geographic concentration, agglomeration, and co-location of university research and industrial R&D in three technological areas: medical imaging, neural networks, and signal processing. Using data on scientific publications and patents as indicators of university research and industrial R&D, we find strong evidence of geographic concentration in both activities at the level of MSAs. We find strong evidence of co-location of upstream and downstream activity. We view such co-located vertically connected activities as constituents of a "local innovation system," and these appear to vary markedly in

their ability to convert local academic research into local commercial innovation. We develop and test the hypothesis that the presence of a large, local, R&D-intensive firm -- an "anchor tenant" -- enhances the productivity of local innovation systems by making local university research more likely to be absorbed by and to stimulate local industrial R&D. While our empirical results are preliminary, they indicate that anchor tenant technology firms may be an economically important aspect of the institutional structure of local economies.

Ahmad, Ehtisham
PD October 2002. TI Recentralization in China? AU Ahmad, Ehtisham; Keping, Li; Richardson, Thomas; Singh, Raju. AA Ahmad, Ehtisham, and Li: IMF. Singh: Systems Reform Commission, State Council, and People's Republic China. SR International Monetary Fund Working Paper: WP/02/168; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 24. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE H77, N45. KW Fiscal Reforms. China. Provinces.
AB The paper assesses the changing nature of the relations between the provinces and the central government in China during the 1990s. It examines the fiscal reforms initiated in 1994 and subsequent developments. The expenditure needs of the central and the richer provinces are juxtaposed against the need for "redistribution" to the more backward regions.

Aizcorbe, Ana
PD February 2003. TI The Stability of Dummy Variable Price Measures Obtained from Hedonic Regressions. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/05; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 13. PR no charge. JE C20, C43. KW Hedonic. Price Index.
AB Although the stability of coefficients from hedonic regressions has received much attention recently, that of dummy variable (DV) price indexes obtained from these regressions has not. In principle, one problem translates into the other only when some prices are not observed in the data. Numerically, however, DV measures obtained from a "typical" specification can be quite unstable even when the number of missing prices is small. To the extent that collinearity is an important source of the problem, functional forms that use (orthogonal) fixed effects to control for quality differences across goods should yield more stable estimates. Data for Intel's microprocessors are used to illustrate these points.

Aizenman, Joshua
PD September 2002. TI International Reserve Holdings with Sovereign Risk and Costly Tax Collection. AU Aizenman, Joshua; Marion, Nancy P. AA Aizenman: UC Santa Cruz and NBER. Marion: Dartmouth College. SR National Bureau of Economic Research Working Paper: 9154; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F15, F32, F34. KW International Reserves. Developing Countries.
AB This paper analyzes the international reserve-holding behavior of developing countries. It shows that political-economy considerations modify the optimal reserve level determined by efficiency criteria. A country characterized by volatile output, inelastic demand for fiscal outlays, high tax collection costs and sovereign risk will want to accumulate international reserves as well as external debt. Efficiency considerations imply that reserves are optimal when the benefits they provide for intertemporal consumption and distortion smoothing equal the costs of acquiring them. However, a greater chance of opportunistic behavior by future policy makers reduces the demand for international reserves and increases external borrowing. Political corruption also reduces optimal reserve holdings. We provide some evidence to support these findings. Consequently, the debt-to-reserves ratio may be less useful as a vulnerability indicator. A version of the Lucas Critique suggests that if a high debt-to-reserves ratio is a symptom of opportunistic behavior, a policy recommendation to increase international reserve holdings may be welfare-reducing.

PD September 2002. TI Sargent-Wallace Meets Krugman-Flood-Garber, or: Why Sovereign Debt Swaps Don't Avert Macroeconomic Crises. AU Aizenman, Joshua; Kletzer, Kenneth M.; Pinto, Brian. AA Aizenman: University of California, Santa Cruz and NBER. Kletzer: University of California, Santa Cruz. Pinto: World Bank. SR National Bureau of Economic Research Working Paper: 9190; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 22. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F34, F36. KW Sovereign Debt Swaps. Crises. Inflation. Exchange Rates.
AB This paper argues that the frequent failure of the debt swaps is not an accident. Instead, it follows from fundamental forces driven by the market's assessment of the scarcity of fiscal revenue relative to the demand for fiscal outlays. It follows from the observation that arbitrage forces systematically impact prices in asset markets. Ignoring these price adjustments would lead to too optimistic an assessment of the gains from swaps or buybacks. A by-product of our paper is to highlight the perils of financial engineering that ignores the intertemporal constraints imposed by fiscal fundamentals. As a country approaches the range of partial default, swaps may not provide the expected breathing room and could even bring the crisis forward. Our methodology combines three independent themes: exchange rate crises as the manifestation of excessive monetary injections [Krugman-Flood- Garber], the fiscal theory of inflation [Sargent-Wallace (1981)], and sovereign debt. The integrated framework derives devaluation and external debt repudiation as part of a public-finance optimizing problem. We show that under conditions similar to those which prevailed in Russia and Argentina prior to their meltdown, swaps are not just neutral, but could actually make the situation worse and even trigger a speculative attack.

Aizer, Anna
PD September 2002. TI Networks or Neighborhoods? Correlations in the Use of Publicly- Funded Maternity Care in California. AU Aizer, Anna; Currie, Janet. AA Aizer: Princeton University. Currie: UCLA. SR National Bureau of Economic Research Working Paper: 9209; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR $10.00 per

copy (plus $10.00 per order for shipping outside U.S.). JE I18, I38. KW Network Effects. Prenatal Care.

AB This study focuses on "network effects" in the utilization of publicly funded prenatal care using Vital Statistics data from California for 1989 to 2000. Networks are defined using 5-digit zip codes and a woman's racial or ethnic group. Like others, we find evidence that the use of public programs is highly correlated within groups defined using race/ethnicity and neighborhoods. These correlations persist even when we control for many unobserved characteristics by including zip code-year fixed effects, and when we focus on the interaction between own group behavior and measures of the potential for contacts with other members of the group ("contact availability"). However, the richness of our data allows us to go further and to conduct several tests of one hypothesis about networks: That the estimated effects represent information sharing within groups. The results cast doubt on the idea that the observed correlations can be interpreted as evidence of information sharing, and point instead to differences in the behavior of the institutions serving different groups of low-income women as the primary explanation for group-level differences in the take-up of this important public program.

Alberini, Anna

AB We examine different market-based mechanisms and other incentives intended to promote the environmental remediation and reuse of brownfields. Policies that encourage cleanup and reuse of brownfields offer real estate developers reductions in regulatory burden, relief from liability for future cleanups once certain mitigation standards are met, and/or financial support for regeneration of brownfields. We use conjoint choice experiments -- a stated preference approach -- to assess the responses of real estate developers to different mixes of these incentives. Conditional and random coefficient logit models of the responses to the choice questions indicate that developers find sites with contamination problems less attractive than others, and that they value liability relief. This confirms our expectation that contaminated sites are less desirable because of the associated cleanup costs, but refutes earlier claims that liability does not matter. Our developers are not deterred by prior contamination, once it has been cleaned up, suggesting that "contamination stigma" is not very important, and appreciate fast-track review of development and remediation plans, direct financial incentives, and flexible (negotiable) cleanup standards. Developers with prior experience with contaminated sites are more responsive to the policies than are inexperienced developers, especially for subsidies.

Altonji, Joseph G.

AB We explore the extent to which the huge race gap in wealth can be explained with properly constructed income and demographic variables. In some instances we explain the entire wealth gap with income and demographics provided that we estimate the wealth model on a sample of whites. However, we typically explain a much smaller fraction when we estimate the wealth model on a black sample. Using sibling comparisons to control for intergenerational transfers and the effects of adverse history, we find that differences in income and demographics are not likely to account for the lower explanatory power of the black wealth models. Our analysis of growth models of wealth suggests that differences in savings behavior and/or rates of return play an important role.

Alvarez, Rosalia Vazquez

AB Household surveys are often plagued by item non-response on economic variables of interest like income, savings or the amount of wealth. Manski (1989, 1994, 1995) shows how, in the presence of such non- response, bounds on conditional quantiles of the variable of interest can be derived, allowing for any type of non-random response behavior. Including follow up categorical questions in the form of unfolding brackets for initial item non-respondents, is an effective way to reduce complete item non-response. Recent evidence, however, suggests that such design is vulnerable to a psychometric bias known as the anchoring effect. In this paper, we extend the approach by Manski to take account of the information provided by the bracket respondents. We derive bounds which do and do not allow for the anchoring effect. These bounds are applied to earnings in the 1996 wave of the Health and Retirement Survey (HRS). The results show that the categorical questions can be useful to increase precision of the bounds, even if anchoring is allowed for.

Alvarez-Rodriguez, Carmelo

hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE D71. KW Voting Correspondence. Candidate Stability. Preferences over Sets.
AB For each set of candidates at stake and each profile of voters' preferences over running candidates a voting correspondence selects a set of candidates. Following Dutta, Jackson and le Breton (Econometrica, 2001) a voting correspondence is candidate stable if a candidate never benefits from withdrawing unilaterally her candidacy. If candidates cannot vote and compare sets of candidates according to their expected utility conditional on some prior probability assessment only dictatorial voting correspondences are candidate stable and unanimous. If the assessments are restricted to be uniform, rules that select the set of vest candidates of tow fixed voters are also allowed. We also analyze other domains of preferences fitting extreme attitudes towards risk in which positive results are obtained.

PD January 2003. TI Candidate Stability and Probabilistic Voting Procedures. AA University of Warwick. SR The Warwick Economics Working Paper Series: 667; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers.
PG 30. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE D71. KW Voting Correspondence. Candidate Stability. Voting Procedures.
AB We extend the analysis of Butta, Jackson and Le Breton (Econometric, 2001) on strategic candidacy to probabilistic environments. For each configuration of the agenda and each profile of voters' preferences over running candidates, a probabilistic voting procedure selects a lottery on the set of running candidates. Assuming that candidates cannot vote, we show that random dictatorships are the only unanimous probabilistic voting procedures that never provide unilateral incentives for the candidates to leave the ballot independently of the composition of the agenda. However, more flexible rules can be devised if we focus on the stability of specific agendas.

Andersen, Torben M.
PD February 2002. TI Fiscal Stabilization Policy in a Monetary Union with Inflation Targeting. AA University of Aarhus and CEPR. SR CEPR Discussion Paper: 3232; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE E52, E58, E61, E62, E63. KW EMU. Policy-Mix. Shocks. Policy Cooperation.
AB The interaction between a common monetary policy targeting inflation and decentralized fiscal policies aiming at output stability is considered in a setting taking into account interdependencies between countries running via trade links and the common monetary policy. The setting is sufficiently general to capture various effects of fiscal policy, and to allow for both demand and supply shocks, which can be either aggregate or idiosyncratic. It is shown that a policy mix problem arises between the common monetary policy and the decentralized fiscal policy, which results in an inappropriate stabilization of shocks. In the case of aggregate shocks the inefficiency in responding to shocks is increasing in the number of member countries, while it is decreasing in the case of idiosyncratic shocks. Numerical illustrations show that the cost of non-cooperative fiscal policies can be large in the case of aggregate shocks, while they are small in the case of idiosyncratic shocks, provided that fiscal policy can be flexibly adjusted to cope with idiosyncratic shocks.

Anderson, Patricia M.
PD February 2002. TI Maternal Employment and Overweight Children. AU Anderson, Patricia M.; Butcher, Kristin F.; Levine, Phillip B. AA Anderson: Dartmouth College and NBER. Butcher: MacArthur Foundation. Levine: Wellesley College and NBER. SR National Bureau of Economic Research Working Paper: 8770; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 25. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I12, J13. KW Maternal Employment. Obesity.
AB This paper investigates whether children are more or less likely to be overweight if their mothers work. The prevalence of both overweight children and working mothers has risen dramatically over the past few decades, although these parallel trends may be coincidental. The goal of this paper is to help determine whether a causal relationship exists between maternal employment and childhood overweight. To accomplish this, we mainly utilize matched mother/child data from the National Longitudinal Survey of Youth and employ three main econometric techniques, probit models, sibling difference models, and instrumental variables models in this analysis. Our results indicate that a child is more likely to be overweight if his/her mother worked more intensively (in the form of greater hours per week) over the child's life. This effect is particularly evident for children of white mothers, of mothers with more education, and of mothers with a high income level. Applying our estimates to the trend towards greater maternal employment indicates that the increased hours worked per week among mothers between 1975 and 1999 led to about a 0.4 to 0.7 percentage point increase in overweight children, which represents a relatively small share of the overall increase.

Anderton, Bob
PD March 2003. TI Extra-Euro Area Manufacturing Import Prices and Exchange Rate Pass-Through. AA European Central Bank and University of Nottingham. SR European Central Bank Working Paper: 219; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 32. PR no charge. JE D40, E31, F12, F31. KW Extra-Euro Area. Import Prices. Exchange Rate Pass Through. Pricing- to-Market.
AB This paper uses a model of import prices whereby exporters to the euro area set export prices partly as a mark-up on their production costs (i.e., the degree of exchange rate pass-through) and partly in line with euro area producer prices (i.e., pricing-to-market). Using both time series and panel estimation techniques, the econometric results suggest that the pass through of changes in the effective exchange rate of the euro to the price of extra-euro area imports of manufacturers is around 50% - 70%, while pricing-to-market has an estimated weight of 30% - 50%. We also find some evidence of differences across import suppliers, with EU member states who are not part of the euro area assigning a relatively larger weight to pricing- to-market, while euro area imports from the United States seem to be characterised by a higher degree of exchange rate pass-through.

Anderton, Robert

PD November 2002. **TI** Inequality, Trade and Defensive Innovation in the USA. **AU** Anderton, Robert; Oscarsson, Eva. **AA** Anderton: European Central Bank. Oscarsson: Swedish Ministry of Finance. **SR** University of Nottingham, GEP Research Paper: 2002/28; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/7ezec/research/dp/. **PG** 25. **PR** no charge. **JE** J31, O33. **KW** Outsourcing. Technological Change. Skilled and Unskilled Workers. Inequality. Defensive Innovation.

AB This paper investigates the reasons behind the rise in inequality in the United States during the early 80's by evaluating the impact of imports and technological change on the wage bill and employment shares of skilled workers in the USA. Using highly disaggregated data, which allow us to distinguish between imports from high- and low-wage countries at a highly detailed industry level, we find that an increase in US imports from low-wage countries seems to explain part of the rise in US inequality in low-skill-intensive sectors, while technological change (proxied by R&D expenditure) explains the rise in inequality in high-skill-intensive sectors. However, we also find that increased trade with high-wage countries had an indirect effect on inequality in the more high-skill-intensive sectors through its positive impact on investment in R&D. Accordingly, it seems that the technology-based explanation for rising inequality in the USA is actually partly a trade-based explanation via the mechanism of "defensive innovation".

PD June 2003. **TI** The Impact of Monetary Union on Trade Prices. **AU** Anderton, Robert; Baldwin, Richard E.; Taglioni, Daria. **AA** Anderton: European Central Bank and University of Nottingham. Baldwin: Graduate Institute for International Studies. Taglioni: Graduate Institute for International Studies and OECD. **SR** European Central Bank Working Paper: 238; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 19. **PR** no charge. **JE** D40, F15, F31. **KW** Exchange Rate Volatility. Monetary Union. Market Segmentation. No- Arbitrage Bands.

AB Two seemingly unconnected empirical results suggest an intriguing mechanism. First, economic integration helps harmonize prices internationally, with trade being the primary channel (Rogoff 1996, Goldberg and Knetter 1997). Second, monetary union may greatly increase the amount of trade among members (Rose 2001). Putting these together, we see that formation of a monetary union may induce changes that help harmonize inflation rates. The effect might be large if the elimination of exchange rate volatility simultaneously leads to a large increase in intra-union trade and a big increase in the speed at which price shocks are transmitted across members' goods markets. This paper investigates part of this mechanism and finds that monetary union may indeed result in faster cross-border transmission of price movements via the import and export price channel which, in turn, would tend to homogenize price movements across the member countries of a monetary union.

Ang, Andrew

PD January 2003. **TI** Do Demographic Changes Affect Risk Premiums? Evidence From International Data. **AU** Ang, Andrew; Maddaloni, Angela. **AA** Ang: Columbia University and NBER. Maddaloni: European Central Bank. **SR** European Central Bank Working Paper: 208; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 58. **PR** no charge. **JE** G12, G15, J19, P46. **KW** Population Aging. Demography. Risk Premiums. Social Security.

AB We examine the link between equity risk premiums and demographic changes using a long sample covering the whole twentieth century for the US, Japan, the UK, Germany, and France, and a shorter sample covering the last third of the twentieth century for fifteen countries. We find that demographic variables significantly predict excess returns internationally. However, the demographic predictability found in the US by past studies for the average age of the population does not extend to other countries. Pooling international data, we find that, on average, faster growth in the fraction of retired persons significantly decreases risk premiums. This demographic predictability of risk premiums is stronger for countries with well-developed social security systems and less-developed financial markets.

Angeloni, Ignazio

PD July 2003. **TI** Monetary Policy Transmission in the Euro Area: Any Changes After EMU? **AU** Angeloni, Ignazio; Ehrmann, Michael. **AA** European Central Bank. **SR** European Central Bank Working Paper: 240; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 22. **PR** no charge. **JE** E52, G21. **KW** Monetary Policy. Euro. Financial Integration.

AB We examine the euro area monetary policy transmission process using post-1999 data, with two main questions in mind: did it change after -- and because of - the EMU and, if so, is it becoming homogeneous across countries? Given the data limitations, we concentrate on three transmission mechanisms: the banking, interest-rate, and asset-market channels. We find evidence that the transmission through banks has become more potent and homogeneous across countries because of the EMU. On the financial-market channels, our evidence is somewhat weaker but suggestive. The interest-rate channel appears to have changed even before the EMU, and to now affect national economies in a broadly similar way. The asset-market channel (proxied by the stock-market effects of monetary policy) also seems to work rather homogeneously across national markets. A positive answer to both questions raised above represents, in our view, the best working hypothesis given current knowledge.

Annett, Anthony

PD September 2002. **TI** Politics, Government Size, and Fiscal Adjustment in Industrial Countries. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/162; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 28. **PR** $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** E62, H60, P16. **KW** Fiscal Policy. Political Economy. Size of Government.

AB It is now well established that political and institutional factors matter for fiscal outcomes. Following a review of the literature, this paper examines the relationship between a variety of political- institutional variables and fiscal aggregates -- encompassing the overall balance as well as expenditure and revenue and their various components -- across 19 industrial

countries over the past two decades. It finds strong effects on fiscal policy from such factors as type of electoral system, degree of legislative or government fragmentation, and stability of government. Some of the strongest results emerge for certain components of expenditure, such as transfers, and for the balance between labor and consumption taxation. There are clear relationships between the type of political system and choice of tax and expenditure system. The paper also examines fiscal adjustment since the late 1980s in light of these political factors, finding some evidence of a reversal in trend, but only when growth has been high or when debt has become problematic.

Antinori, Camille

PD January 2003. TI Does Community Involvement Matter? How Collective Choice Affects Forests in Mexico? AU Antinori, Camille; Rausser, Gordon C. AA UC Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 939; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.cdlib.org/are_ucb/939. PG 36. PR $9.00 domestic; $18.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE O17, Q23. KW Community Development. Forest Management. Mexico. Land Tenure.
AB Current natural resource policy emphasizes devolved control to local levels of government and stake-holder groups. Effective strategies are as yet unclear, given mixed results in devolutionary efforts and few empirical analyses. Using original community-level survey data from Oaxaca, Mexico, a region with 90 percent common property forestland, the study describes how existing community governance structures accommodate an increasing local role in managing forest land. Multidimensional performance indicators for forest condition and group rule conformance are constructed and regressed on measures of democratic involvement and attendance rate at general meetings within the community setting. Empirical results show that community officials and foresters working through broader-reaching forums for disseminating information and seeking management plan approval improves both performance indicators, while attendance rate additionally leads to greater rule conformance. Results imply that the nature and conduit of community involvement matters in encouraging cooperation with management objectives and give a further understanding of how devolution policies can be applied in complex institutional settings.

Aragones, Enriqueta

PD May 2003. TI Spatial Competition Between Two Candidates of Different Quality: The Effects of Candidate Ideology and Private Information. AU Aragones, Enriqueta; Palfrey, Thomas R. AA Aragones: Campus Universitat Autonoma. Palfrey: California Institute of Technology. SR Caltech Social Science Working Paper: 1169; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. PG 17. PR no charge. JE C73, D72, D82. KW Candidate Quality. Spatial Competition. Purification.

AB This paper examines competition in a spatial model of two-candidate elections, where one candidate enjoys a quality advantage over the other candidate. The candidates care about winning and also have policy preferences. There is two-dimensional private information. Candidate ideal points as well as their tradeoffs between policy preferences and winning are private information. The distribution of this two-dimensional type is common knowledge. The location of the median voter's ideal point is uncertain, with a distribution that is commonly known by both candidates. Pure strategy equilibria always exist in this model. We characterize the effects of increased uncertainty about the median voter, the effect of candidate policy preferences, and the effects of changes in the distribution of private information. We prove that the distribution of candidate policies approaches the mixed equilibrium of Aragones and Palfrey (2002s), when both candidates' weights on policy preferences go to zero.

Arnaboldi, Francesca

TI Canadian Retirement Savings Plans and Italian Pension Reform. AU Fried, Joel; Arnaboldi, Francesca.

Aromolaran, Adebayo B.

PD October 2002. TI Private Wage Returns to Schooling in Nigeria: 1996-1999. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 849; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 34. PR $2.00 plus postage. JE I21, I22, I28, J24, O15. KW Schooling Investment. Private Wage Returns. Efficiency. Equity. Nigeria.
AB In the last two decades, primary and secondary school enrollment rates have declined in Nigeria while enrollment rates in post-secondary school have increased. This paper uses General Household Survey for Nigeria to estimate the private returns to schooling associated with levels of educational attainment for wage and self-employed workers. The estimates for both men and women are small at the primary and secondary levels, 2 to 4 percent, but are substantial at the post-secondary education level, 10-15 percent. These schooling return estimates may account for the recent trends in enrollments. Thus, increasing public investment to encourage increased attendance in basic education is not justifiable on grounds of private efficiency, unless investments to increase school quality have higher private returns. With high private returns to post-secondary schooling, students at this level should pay tuition to recoup more of the public costs of schooling, which may then be redistributed to poor families through scholarships.

Auerbach, Alan J.

PD September 2002. TI Optimal Long-Run Fiscal Policy: Constraints, Preferences and the Resolution of Uncertainty. AU Auerbach, Alan J.; Hassett, Kevin A. AA Auerbach: UC Berkeley and NBER. Hassett: American Enterprise Institute. SR National Bureau of Economic Research Working Paper: 9132; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E62, H62. KW Fiscal Policy. Uncertainty. ARCH.
AB We construct a computational dynamic stochastic

overlapping generations general equilibrium model with uncertain lifetimes and explore the impact of policy stickiness (specifically, a major reform will preclude future reforms for a generation) on optimal long-run fiscal policy. Under such circumstances, entitlement reforms exhaust a valuable option to move in the future. We explore the conditions under which the gain to waiting is large enough to induce optimizing policymakers to delay reforming a suboptimal system. We also allow for the uncertainty to have ARCH characteristics and explore the impact of time-varying uncertainty on the optimality of delayed policy action.

Aunon-Nerin, Daniel

TI   A Framework for Collateral Risk Control Determination. AU   Cossin, Didier; Huang, Zhijiang; Aunon-Nerin, Daniel; Gonzales, Fernando.

Aziz, Jahangir

PD   November 2002. TI   Poverty Dynamics in Rural India. AA   IMF. SR   International Monetary Fund Working Paper: WP/02/172; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG   21. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE   C14, I32. KW   Provincial Poverty. Growth. Nonparametric Estimation. India.
AB   India's progress in reducing poverty at the national level masks substantial disparity in the incidence of poverty at the state level. This paper provides a description of the trends in interstate differences in rural poverty for the period 1978-97. Key findings are that poverty generally declined in most states over the last twenty years. However, poverty increased during the early years of the 1990s reform period before decline again in the later years. Relative differences in poverty narrowed during the 1980s but widened somewhat during the next decade. The better success rate of some states in reducing poverty in the 1990s was, in part, due to higher growth and lower inflation.

Babiker, Mustafa H.

PD   September 2002. TI   Tax Distortions and Global Climate Policy. AU   Babiker, Mustafa H.; Metcalf, Gilbert E.; Reilly, John. AA   Babiker and Reilly: MIT. Metcalf: Tufts University and NBER. SR   National Bureau of Economic Research Working Paper: 9136; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   26. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   H20, Q20, Q54. KW   Tax Distortions. Climate Policy.
AB   We consider the efficiency implications of policies to reduce global carbon emissions in a world with pre-existing tax distortions. We first note that the weak double-dividend, the proposition that the welfare improvement from a tax reform where environmental taxes are used to lower distorting taxes must be greater than the welfare improvement from a reform where the environmental taxes are returned in a lump sum fashion, need not hold in a world with multiple distortions. We then present a large-scale computable general equilibrium model of the world economy with distortionary taxation. We use this model to evaluate a number of policies to reduce carbon emissions. We find that the weak double-dividend is not obtained in a number of European countries. Results also demonstrate the point that the interplay between carbon

policies and pre-existing taxes can differ markedly across countries. Thus one must be cautious in extrapolating the results from a country specific analysis to other countries.

Badiane, Ousmane

PD   October 2002. TI   Cotton Sector Strategies in West and Central Africa. AU   Badiane, Ousmane; Ghura, Dhaneshwar; Goreux, Louis; Masson, Paul. AA   Badiane and Goreux: World   Bank.   Ghura   and   Masson: IMF. SR   International   Monetary   Fund   Working   Paper: WP/02/173; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG   20. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE   F13, F14, Q11, Q12, Q13. KW   World Cotton Market. Cotton Subsidies. Cotton Sector Reform. West and Central Africa.
AB   Cotton production in West and Central Africa (WCA) has contributed to growth and poverty reduction. Recently, the objective of poverty alleviation has been adversely affected by the downward pressures on world prices (exacerbated by subsidies to major cotton producers outside Africa). Several countries in WCA are undergoing reforms in the cotton sector to stimulate greater market competition and raise the share of the international price going to farmers. While these efforts will help to improve rural income irrespective of the world market situation, they would be more effective in combination with a reduction in other countries' subsidies in this sector.

Baldwin, Richard E.

TI   The Impact of Monetary Union on Trade Prices. AU   Anderton, Robert; Baldwin, Richard E.; Taglioni, Daria.

Ball, Laurence

PD   February 2002. TI   The Fed and the New Economy. AU   Ball, Laurence; Tchaidze, Robert. AA   Ball: Johns Hopkins University and NBER. Tchaidze: Johns Hopkins University. SR   National Bureau of Economic Research Working   Paper: 8785;   Working   Papers,   NBER,   1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   10. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   E58, E65, N12. KW   Federal Reserve. Taylor rule. NAIRU.
AB   This paper seeks to understand the behavior of Greenspan's Federal Reserve in the late 1990s. Some authors suggest that the Fed followed a simple "Taylor rule," while others argue that it deviated from such a rule because it recognized that the "New Economy" permitted an easing of policy. We find that a Taylor rule based on inflation and unemployment does break down in the late 1990s. However, the Fed's behavior appears stable once one accounts for the falling NAIRU of the period. A rule based on inflation and the deviation of unemployment from the NAIRU captures the Fed's behavior through the entire period from 1987 to 2000.

Banerjee, Sudeshna Ghosh

PD   December 2002. TI   Move to Markets? An Empirical Analysis   of   Privatization   in   Developing   Countries. AU   Banerjee,   Sudeshna   Ghosh;   Munger,   Michael   C. AA   Banerjee: The World Bank. Munger: Duke University. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2002/107; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/

Wpapers/default.htm. **PG** 26. **PR** no charge; available only on website. **JE** L33, O19, O57, P16. **KW** Privatization. Governance. Political Economy. International Organizations.

AB We analyze when, and to a lesser extent how, privatization occurred in a group of developing countries. The theoretical perspective turns on the concept of net political benefits, which in our model is the primary determinant of privatization policies. We proceed under the assumption that policymakers have decided, for whatever reason, that privatization is a desirable goal. The decision to privatize is captured here in three related, but distinct, dependent variables: (1) timing, (2) pace, and (3) intensity. Our notion of the independent variable, "net political benefits," is not measured directly, but is instead proxied by an array of macroeconomic, political, and institutional variables. Our key finding is that, though political benefits turn out to explain the timing, pace, and intensity of privatization, the effects are very different in each case. From the theoretical framework, we hypothesize that net political benefits positively affect the timing, pace, and intensity of privatization. The timing hypothesis is tested using a Cox proportional hazard model. The Pace hypothesis is tested using a random effects negative binomial model. The intensity hypothesis is tested using the random effects model. Analyzing the causal relationships in the three models provides a macro overview of the privatization process between 1982-99.

Banks, James

PD September 2002. **TI** Wealth Portfolios in the UK and the US. **AU** Banks, James; Blundell, Richard; Smith, James P. **AA** Banks and Blundell: Institute for Fiscal Studies and University College London. Smith: RAND. **SR** National Bureau of Economic Research Working Paper: 9128; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D31, R21, R31. **KW** Wealth Distributions. Household Wealth.

AB In this paper, we attempt to explain differences between the US and UK household wealth distributions, with an emphasis on the quite different portfolios held in stock and housing equities in the two countries. As a proportion of their total wealth, British households hold relatively small amounts of financial assets -- including equities in stock -- compared to American households. In contrast, British households appear to move into home ownership at relatively young ages and a large fraction of their household wealth is concentrated in housing. Finally, the age gradient in home equity appears to be much steeper in the UK while US households exhibit a steeper age gradient in stock equity. We show it is important to acknowledge the dual role of housing -- providing both wealth and consumption services -- in understanding wealth accumulation differences between the US and the UK. Institutional differences, particularly in housing markets, that affect the demand and supply of housing services, turn out to be important in generating portfolio differences between the two countries. In particular, the differences in housing price risk imply steeper life-cycle accumulations in housing and less steep accumulation in stock equity over the life-cycle in the UK.

Banks, Jeffrey S.

PD May 2003. **TI** A Social Choice Lemma on Voting Over Lotteries with Applications to a Class of Dynamic Games. **AU** Banks, Jeffrey S.; Duggan, John. **AA** Banks: California Institute of Technology. Duggan: University of Rochester. **SR** Caltech Social Science Working Paper: 1163; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. **PG** 19. **PR** no charge. **JE** C73, D71, D72. **KW** Lotteries. Dynamic Games. Representative Voter. Decisive Voter.

AB We prove a lemma characterizing majority preferences over lotteries on a subset of Euclidean space. Assuming voters have quadratic von Neumann-Morgenstern utility representations, and assuming existence of a majority undominated (or "core") point, the core voter is decisive: one lottery is majority-preferred to another if and only if this is the preference of the core voter. Several applications of this result to dynamic voting games are discussed.

Bansal, Ravi

PD April 2003. **TI** Regime-Shifts, Risk Premiums in the Term Structure, and the Business Cycle. **AU** Bansal, Ravi; Tauchen, George; Zhou, Hao. **AA** Bansal and Tauchen: Duke University. Zhou: Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/21; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 31. **PR** no charge. **JE** C51, C52, E43, G12. **KW** Regime Switching. Term Structure of Interest Rate. Expectation Hypothesis. Business Cycle. Efficient Method of Moments.

AB We examine various dynamic term structure models for monthly US Treasury yields from 1964 to 2001. Of particular interest is the predictability of bond excess returns. Recent evidence indicates that using multiple forward rates can sharply predict future excess returns on bonds; the $R2$ of this predictability regression can be as high as 30%. In addition, the projection coefficients in these predictability regressions exhibit a tent shaped pattern that relates to the maturity of the forward rate. This dimension of the data in conjunction with the transition dynamics of bond yields (i.e., conditional volatility and cross-correlation of bond yields) poses a serious challenge to term structure models. In this paper we present and estimate a regime-shifts term structure model -- our findings show that this model can account for all aspects of the predictability regression and the transition dynamics of yields. Alternative models, such as, affine factor models cannot account for these features of the data. We find that the regimes in the model are related to the NBER business cycle indicator.

Bar-Gill, Oren

PD September 2002. **TI** The Market for Corporate Law. **AU** Bar-Gill, Oren; Barzuza, Michal; Bebchuk, Lucian. **AA** Bar-Gill and Barzuza: Harvard University. Bebchuk: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 9156; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G30, G38, H73, K22. **KW** Competition Between States. Corporate Law.

AB This paper develops a model of the competition between

states in providing corporate law rules. The analysis provides a full characterization of the equilibrium in this market. Competition among states is shown to produce optimal rules with respect to issues that do not have a substantial effect on managers' private benefits but not with respect to issues (such as takeover regulation) that substantially affect these private benefits. We analyze why a dominant state such as Delaware can emerge, the prices that the dominant state will set, and the profits it will make. We also analyze the roles played by legal infrastructure, network externalities, and the rules governing incorporations. The results of the model are consistent with, and can explain, existing empirical evidence; they also indicate that the performance of state competition cannot be evaluated on the basis of how incorporation in Delaware in the prevailing market equilibrium affects shareholder wealth.

Barberis, Nicholas

PD September 2002. TI A Survey of Behavioral Finance. AU Barberis, Nicholas; Thaler, Richard. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 9222; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 61. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G11, G12, G30. KW Behavioral Finance. Survey. Bounded Rationality.
AB Behavioral finance argues that some financial phenomena can plausibly be understood using models in which some agents are not fully rational. The field has two building blocks: limits to arbitrage, which argues that it can be difficult for rational traders to undo the dislocations caused by less rational traders; and psychology, which catalogues the kinds of deviations from full rationality we might expect to see. We discuss these two topics, and then present a number of behavioral finance applications: to the aggregate stock market, to the cross-section of average returns, to individual trading behavior, and to corporate finance. We close by assessing progress in the field and speculating about its future course.

Barnett, Steven

PD October 2002. TI Operational Aspects of Fiscal Policy in Oil-Producing Countries. AU Barnett, Steven; Ossowski, Rolando. AA IMF. SR International Monetary Fund Working Paper: WP/02/177; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 23. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE E62, G13, H61, H62, Q33, Q38. KW Oil. Petroleum. Fiscal Policy. Oil-Producing Countries. Nonrenewable Resources. Fiscal Sustainability.
AB Oil-producing countries face challenges arising from the facts that oil revenue is exhaustible, volatile, and uncertain, and largely originates from abroad. Reflecting these challenges, the paper proposes some important general principles for the formulation and assessment of fiscal policy in these countries. The main findings can be summarized in some key guidelines: the non-oil balance should feature prominently in the formulation of fiscal policy; it should generally be adjusted gradually; the government should strive to accumulate substantial financial assets over the period of oil production; and, where necessary, strategies should aim at halting procyclical fiscal responses to volatile oil prices.

Barrios, Salvador

PD December 2002. TI Multinationals' Location Choice, Agglomeration Economies and Public Incentives. AU Barrios, Salvador; Goerg, Holger; Strobl, Eric. AA Salvador and Strobl: Universite Catholique de Louvain. Goerg: University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/33; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/˜lezec/research/dp/. PG 30. PR no charge. JE F23, R38. KW Multinational Location. Agglomeration Economies. Public Incentives. Regional Policy. Nested Logit.
AB We study the regional location of multinationals in Ireland since the 1970s by focusing on the role played by agglomeration economies and public incentives intent on dispersing industrial activity to the more disadvantaged areas of Ireland. We find that regional policy has only been effective in attracting low-tech firms to the disadvantaged areas during the time when there was a much more laissez-faire approach to regional policy and when the primary industrial policy emphasis was on attracting high-tech firms into Ireland in general. Our results also show that hi-tech firms spread more evenly across the country and that urbanization economies were for these firms a more important locational determinant than public incentives.

Barzuza, Michal

TI The Market for Corporate Law. AU Bar-Gill, Oren; Barzuza, Michal; Bebchuk, Lucian.

Batini, Nicoletta

PD December 2002. TI Euro Area Inflation Persistence. AA Bank of England. SR European Central Bank Working Paper: 201; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 60. PR no charge. JE E31, E42, E52. KW Euro Area. Inflation Persistence. HICP. Monetary Transmission. Aggregation Bias.
AB This paper presents evidence on the lag between monetary policy actions and the response of inflation in the euro area as a whole and in Germany, Italy, and France. In line with findings for the US and the UK, results here show that this lag is longer than one year both in the euro area and in individual countries, and that a lag of this length has existed in Europe at least since the collapse of the Bretton Woods system, despite the numerous changes in European monetary policy regime thereafter. Results based on alternative definitions of inflation persistence support these findings, although, they suggest that a drop in German inflation persistence and a shift in the mean of inflation -- particularly in Italy and France -- are beyond doubt. The paper shows that euro area inflation persistence may be an intrinsic phenomenon rather than a "statistical fluke" due to aggregation.

Bauer, Paul W.

TI Scale Economies, Scope Economies, and Technical Change in Federal Reserve Payment Processing. AU Adams, Robert M.; Bauer, Paul W.; Sickles, Robin C.

Bauwens, Luc

PD March 2003. TI News Announcements, Market Activity and Volatility in the Euro/Dollar Foreign Exchange

Market. AU Bauwens, Luc; Giot, Pierre; Omrane, Walid Ben. AA Bauwens and Omrane: Universite Catholique de Louvain. Giot: University of Namur and Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/29; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 18. PR $5 per paper; $100 per year. JE C13, C22, F31, G14. KW Foreign Exchange Market. Volatility. News Announcements. High Frequency Data.

AB This paper deals with the impact of nine categories of scheduled and unscheduled news announcements on the Euro/Dollar return volatility. We highlight and analyze the pre-announcement, contemporaneous and post- announcement reactions. Using high-frequency intraday data and within the framework of ARCH-type and realized volatility models, we show that volatility increases in the pre-announcement periods, particularly before scheduled events. Market activity also significantly impacts return volatility as expected by the theoretical literature on order flow.

PD April 2003. TI Multivariate GARCH Models: A Survey. AU Bauwens, Luc; Laurent, Sebastien; Rombouts, Jeroen V. K. AA Bauwens and Rombouts: Universite Catholique de Louvain. Laurent: CREST and Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/31; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 40. PR $5 per paper; $100 per year. JE C10, G10. KW Volatility. Multivariate GARCH models. Financial Econometrics.

AB This paper surveys the most important developments in multivariate ARCH-type modeling. It reviews the model specifications, the inference methods, and the main areas of application of these models in financial econometrics.

Bayer, Patrick

PD July 2003. TI What Drives Racial Segregation? New Evidence Using Census Microdata. AU Bayer, Patrick; McMillan, Robert; Rueben, Kim. AA Bayer: Yale University. McMillan: University of Toronto. Rueben: Public Policy Institute of California. SR Yale Economic Growth Center Discussion Paper: 859; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 33. PR $2.00 plus postage. JE J15, J71, R12. KW Residential Segregation. Racial Segregation. Sorting. Housing Markets.

AB This paper sheds new light on the forces that drive residential segregation on the basis of race, assessing the extent to which across- race differences in other household characteristics can explain a significant portion of observed racial segregation. The central contribution of the analysis is to provide a transparent new measurement framework for understanding segregation patterns. This framework allows researchers to characterize patterns of segregation, to decompose them in meaningful ways, and to carry out partial equilibrium counterfactuals that illuminate the contributions of a variety of non-race characteristics in driving segregation. We illustrate our approach using restricted micro-Census data from the San Francisco Bay Area that provide a rich joint distribution of household and neighborhood characteristics not previously available to the research community. In contrast to findings in the previous literature, our analysis indicates that individual household characteristics can explain a considerable fraction of segregation by race, explaining almost 95% of segregation for Hispanic, over 50% for Asian, and 30% for White and Black households.

PD July 2003. TI An Equilibrium Model of Sorting in an Urban Housing Market: The Causes and Consequences of Residential Segregation. AU Bayer, Patrick; McMillan, Robert; Rueben, Kim. AA Bayer: Yale University. McMillan: University of Toronto. Rueben: Public Policy Institute of California. SR Yale Economic Growth Center Discussion Paper: 860; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 88. PR $2.00 plus postage. JE J15, J71, R12. KW Segregation. Sorting. Housing Markets. Locational Equilibrium. Residential Choice. Discrete Choice Models.

AB This paper presents a new equilibrium framework for analyzing economic and policy questions related to the sorting of households within a large metropolitan area. We estimate the model using restricted-access Census data that precisely characterize residential and employment locations for households in the San Francisco Bay Area, yielding accurate measures of preferences for a wide variety of housing and neighborhood attributes across different types of household. We use these estimates to explore the causes and consequences of racial segregation in general equilibrium. Our results indicate that, given the preference structure of households in the Bay Area, the elimination of racial differences in income and wealth would significantly increase the residential segregation of each major racial group, as the equalization of income leads, for example, to the formation of new wealthy, segregated Black and Hispanic neighborhoods. We also provide evidence that sorting on the basis of race itself (whether driven by preferences or discrimination) leads to large reductions in the consumption of housing, public safety, and school quality by Black and Hispanic households.

PD July 2003. TI A Note on the Equilibrium Properties of Locational Sorting Models. AU Bayer, Patrick; Timmins, Christopher. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 861; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 20. PR $2.00 plus postage. JE R12, R30. KW Local Spillovers. Social Interactions. Economic Geography. Natural Advantage. Endogenous Sorting. Discrete Choice Models. Agglomeration. Congestion. Natural Advantage. Random Utility.

AB A central feature of many models of location choice -- whether of firms or households, within or across cities -- is the role of local interactions or spillovers, whereby the payoffs from choosing a location depend in part on the number or attributes of other individuals or firms that choose the same or nearby locations in equilibrium. The main goal of this paper is to develop the equilibrium properties of a broadly applicable and readily estimable class of sorting models that allow the location decision to depend on both fixed local attributes (including unobserved attributes) and such local interactions. In particular, we prove uniqueness in the case of congestion

effects and use a series of simulations to demonstrate that a unique equilibrium is more likely to obtain (i) the smaller are any agglomeration effects, (ii) the larger are the set of choices available to the agents, (iii) the more meaningful variation there is in those choices, and (iv) the more heterogeneous are the agents themselves. These results conveniently coincide with the conditions required for econometric identification of our model.

PD   July 2003. TI   Estimating Equilibrium Models of Sorting Across Locations. AU   Bayer, Patrick; Timmins, Christopher. AA   Yale University. SR   Yale Economic Growth Center Discussion Paper: 862; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html.   PG   31. PR $2.00 plus postage. JE   C13, R12, R30. KW   Local Spillovers. Location Choice. Economic Geography. Natural Advantage. Social Interactions. Network Effects. Endogenous Sorting. Discrete Choice Models. Agglomeration. Congestion.

AB   With the growing recognition of the role played by geography in all sorts of economic problems, there is strong interest in measuring the size and scope of local spillovers (i.e., simple anonymous agglomeration or congestion effects as well as more complicated interactions between individuals or firms of specific types). It is well-understood, however, that such spillovers cannot be distinguished from unobservable local attributes using just the observed location decisions of individuals or firms. We propose an empirical strategy for recovering estimates of spillovers in the presence of unobserved local attributes for a broadly applicable class of equilibrium sorting models. This approach relies on an instrumental variables strategy derived from the internal logic of the sorting model itself. We show practically how the strategy is implemented, provide intuition for our instrumental variables, and discuss the role of effective choice-set variation in identifying the model, and carry-out a series of Monte Carlo experiments to demonstrate the instruments' performance in small samples.

PD   July 2003. TI   The Effectiveness of Juvenile Correctional Facilities: Public Versus Private Management. AU   Bayer, Patrick; Pozen, David E. AA   Bayer: Yale University. Pozen: Oxford University. SR   Yale Economic Growth Center Discussion Paper: 863; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html.   PG   43. PR $2.00 plus postage. JE   H41, H43, J13, K42. KW   Juvenile Crime. Correctional Facilities. Recidivism. Prison Privatization. Provision of Public Goods. Nonprofit. For-profit. Public.

AB   This paper uses data on juvenile offenders released from correctional facilities in Florida to explore the effects of facility management type (private for-profit, private nonprofit, public state- operated, and public county-operated) on recidivism outcomes and costs. The data provide detailed information on individual characteristics, complete criminal and correctional histories, judge-assigned restrictiveness levels, and home zip codes -- allowing us to control for the non-random assignment of individuals to facilities far better than any previous study. Relative to nonprofit and publicly operated facilities, for-profit facilities lead to a statistically significant increase in recidivism, but operate at a lower cost to the state per comparable individual released. Cost-benefit analysis implies that the short-run savings offered by for-profit facilities are certainly reversed in the long run due to increased recidivism rates. This conclusion holds even if one measures the benefits of reducing criminal activity as only the avoided costs of additional confinement.

PD   July 2003. TI   Building Criminal Capital Behind Bars: Social Learning in Juvenile Corrections. AU   Bayer, Patrick; Pintoff, Randi; Pozen, David E. AA   Bayer and Pintoff: Yale University. Pozen: Oxford University. SR   Yale Economic Growth Center Discussion Paper: 864; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html.   PG   54. PR $2.00 plus postage. JE   I21, J13, J24, K42, Z13. KW   Social Learning. Peer Effects. Social Interactions. Recidivism. Juvenile Crime. Human Capital Accumulation.

AB   This paper analyzes the influence that juvenile offenders serving time in the same correctional facility have on each other's subsequent criminal behavior. The analysis is based on data on over 8,000 individuals serving time in 169 juvenile correctional facilities during a two-year period in Florida. These data provide a complete record of past crimes, facility assignments, and arrests and adjudications in the year following release for each individual. To control for the non- random assignment of juveniles to facilities, we include facility fixed effects in the analysis. This ensures that the impact of peers on recidivism is identified using only the variation in the length of time that any two individuals serving a sentence in the same facility happen to overlap. We find strong evidence of peer effects for various categories of theft, burglary, and felony drug and weapon crimes; the influence of peers primarily affects individuals who already have some experience in a particular crime category.

Beaudry, Paul

PD   February 2002. TI   Changes in U.S. Wages 1976-2000: Ongoing Skill Bias or Major Technological Change? AU   Beaudry, Paul; Green, David A. AA   Beaudry: University of British Columbia, Canadian Institute for Advanced Research, and NBER. Green: University of British Columbia. SR   National Bureau of Economic Research Working Paper: 8787; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   25. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   J30, O30. KW   Wages. Skill Bias. Technological Change. Human Capital.

AB   This paper examines the determinants of changes in the US wage structure over the period 1976-2000, with the objective of evaluating whether these changes are best described as the result of ongoing skill-biased technological change, or alternatively, as the outcome of an adjustment process associated with a major discrete change in technological opportunities. The main empirical observation we uncover is that change in both the level of wages and the returns to skill over this period appear to be primarily driven by changes in the ratio of human capital (as measured by effective units of skilled workers) to physical capital. Although at first pass this pattern may appear difficult to interpret, we show that it conforms extremely well to a simple model of technological adoption following a major change in technological opportunities. In contrast, we do not find much empirical support for the view that ongoing (factor-augmenting) skill-

biased technological progress has been an important driving force over this period, nor do we find support for the view that physical capital accumulation has contributed to the increased differential between more and less educated workers (in fact, we find the opposite).

Bebchuk, Lucian
PD   August 2002.   TI   Firms' Decision Where to Incorporate.   AU   Bebchuk, Lucian; Cohen, Alma. AA   Bebchuk: Harvard University and NBER. Cohen: NBER. SR   National Bureau of Economic Research Working Paper: 9107; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G30, G38, H70, K22. KW Anti-takeover Protections. Incorporations. Corporate Governance.
AB   This paper empirically investigates the decisions of publicly traded firms where to incorporate. We study the features of states that make them attractive to incorporating firms and the characteristics of firms that determine whether they incorporate in or out of their state of location. We find that states that offer stronger anti-takeover protections are substantially more successful both in retaining in- state firms and in attracting out-of-state incorporations. We estimate that, compared with adopting no anti-takeover statutes, adopting all standard anti-takeover statutes enabled the states that adopted them to more than double the percentage of local firms that incorporated in- state. Indeed, the incorporation market has not even penalized the three states that passed two extreme anti-takeover statutes that have been widely viewed as detrimental to shareholders. We also find that there is commonly a big difference between a state's ability to attract incorporations from firms located in and out of the state, and we investigate several possible explanations for this home-state advantage. Finally, we find that Delaware's dominance is greater than has been recognized and can be expected to increase further in the future. Our findings have significant implications for corporate governance, regulatory competition, and takeover law.

TI   The Market for Corporate Law. AU   Bar-Gill, Oren; Barzuza, Michal; Bebchuk, Lucian.

Benigno, Gianluca
TI   Implementing Monetary Cooperation Through Inflation Targeting. AU   Benigno, Pierpaolo; Benigno, Gianluca.

Benigno, Pierpaolo
PD   February   2002.   TI   Implementing   Monetary Cooperation Through Inflation Targeting. AU Benigno, Pierpaolo; Benigno, Gianluca. AA   Benigno, P.: New York University and CEPR. Benigno, G.: Bank of England and University of London. SR   CEPR Discussion Paper: 3226; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE F33,. F41, F42. KW International Monetary Cooperation. Monetary Delegation.
AB   This paper presents a two-country dynamic general equilibrium model with imperfect competition and nominal price rigidities in which terms of trade shocks coexist with inefficient supply shocks. We analyze the features of the optimal cooperative solution. While terms of trade shocks

should be offset by movements in the exchange rate, inefficient supply shocks are more likely to make a case for a fixed exchange rate regime. Surprisingly, we show that the optimal cooperative solution can be implemented in a strategic context through inflation-targeting regimes. Under these regimes each monetary authority weighs only domestic targets, namely GDP inflation and output gap. Even if there are gains from cooperation, inward-looking monetary policymakers can achieve the first best.

Berger, Allen N.
PD   December 2002.   TI   The Institutional Memory Hypothesis and the Procyclicality of Bank Lending Behavior. AU Berger, Allen N.; Udell, Gregory F. AA Berger: Federal Reserve Board and Wharton Financial Institutions Center. Udell: Indiana University. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/02; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 38. PR   no charge. JE   E32, E44, G21, G28. KW Banks. Lending. Business Cycles.
AB   Stylized facts suggest that bank lending behavior is highly procyclical. We offer a new hypothesis that may help explain why this occurs. The institutional memory hypothesis is driven by deterioration in the ability of loan officers over the bank's lending cycle that results in an easing of credit standards. This easing of standards may be compounded by simultaneous deterioration in the capacity of bank management to discipline its loan officers and reduction in the capacities of external stakeholders to discipline bank management. We test the empirical implications of this hypothesis using data from individual U.S. banks over the period 1980-2000. We employ over 200,000 observations on commercial loan growth measured at the bank level, over 2,000,000 observations on interest rate premiums on individual loans, and over 2,000 observations on credit standards and bank-level loan spreads from bank management survey responses. The empirical analysis provides support for the hypothesis.

Berger, Helge
PD   October 2002.   TI   The   ECB   and   Euro-Area Enlargement. AA IMF. SR   International Monetary Fund Working Paper: WP/02/175; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 47. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE D72, E58. KW European Central Bank. Euro Area. EMU. Transition Countries. Accession Countries. Monetary Policy.
AB   The likely enlargement of euro-area membership will radically change the environment under which monetary policy will be made in the euro area. Within less than a decade, the number of member countries in the euro area could more than double, with the vast majority of accession countries being relatively small in economic terms compared with current members. Absent reforms, such a significant but asymmetric expansion could impede the effectiveness of the institutional policymaking process of the European Central Bank (ECB) and be seen by some as resulting in the overrepresentation of small member countries in the ECB Council. The paper illustrates these issues, describes the principles on which reforms of the

ECB statute could build, and discusses four specific institutional reform scenarios. The analysis coincides with the ECB Council being scheduled to present suggestions for reform by late 2002.

Berliant, Marcus

PD May 2003. TI Budget Balancedness and Optimal Income Taxation. AU Berliant, Marcus; Page, Frank H., Jr.. AA Berliant: California Institute of Technology and Washington University. Page: University of Alabama. SR Caltech Social Science Working Paper: 1164; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. PG 43. PR no charge. JE C70, D80, H20. KW Income Taxes. Public Goods. Budget Balancing.
AB We make two main contributions to the theory of optimal income taxation. First, assuming conditions sufficient for existence of a Pareto optimal income tax and public goods mechanism, we show that if, in addition, agents' preferences satisfy an extended notion of single crossing called capacity constrained single crossing, then there exists a Pareto optimal income tax and public goods mechanism that is budget balancing. Second, we show that, even without capacity constrained single crossing, existence of a budget balancing, Pareto optimal income tax and public goods mechanism is guaranteed if the set of agent types contains no atoms.

PD May 2003. TI Dynamic Urban Models: Agglomeration and Growth. AU Berliant, Marcus; Wang, Ping. AA Berliant: California Institute of Technology and Washington University. Wang: Vanderbilt University and NBER. SR Caltech Social Science Working Paper: 1167; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. PG 49. PR no charge. JE C78, D51, R12. KW Agglomerative Activity. Marshallian Externalities. Matching. Urban Growth.
AB Theoretical models of urban growth are surveyed in a common framework. Exogenous growth models, where growth in some capital stock as a function of investment is assumed, are examined first. Then endogenous growth models, where use of some factor by a firm increases the productivity of other firms, are studied. These are all models with perfect competition among agents. Next, models with imperfect competition are discussed. There are two varieties: those employing a monopolistic competition approach to product differentiation, and those employing explicit externalities but lacking some markets. Finally, avenues for future research are explored. Correlations between agglomeration and growth in the various models and data are compared.

Bernard, Andrew B.

PD September 2002. TI Survival of the Best Fit: Competition from Low Wage Countries and the (Uneven) Growth of US Manufacturing Plants. AU Bernard, Andrew B.; Jensen, J. Bradford; Schott, Peter K. AA Bernard: Dartmouth College and NBER. Jensen: Bureau of the Census and University of Maryland. Schott: Yale University and NBER. SR National Bureau of Economic Research Working Paper: 9170; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website:

www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F11, F14, L25, L60. KW Low Wage Competition. Industry Restructuring. US Manufacturing.
AB We examine the relationship between import competition from low wage countries and the reallocation of US manufacturing from 1977 to 1997. Both employment and output growth are slower for plants that face higher levels of low wage import competition in their industry. As a result, US manufacturing is reallocated over time towards industries that are more capital and skill intensive. Differential growth is driven by a combination of increased plant failure rates and slower growth of surviving plants. Within industries, low wage import competition has the strongest effects on the least capital and skill intensive plants. Surviving plants that switch industries move into more capital and skill intensive sectors when they face low wage competition.

Bhatia, Ashok Vir

PD October 2002. TI Sovereign Credit Ratings Methodology: An Evaluation. AA IMF. SR International Monetary Fund Working Paper: WP/02/170; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 52. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE E43, E44, F34, G15, H63. KW Credit Ratings. Early Warning. Risk. Sovereign Debt. Vulnerability.
AB This paper describes and evaluates the sovereign credit ratings methodologies of Standard & Poor's, Moody's Investors Service, and Fitch Ratings. A simple definition of ratings failure -- based on ratings stability -- is proposed and tested, pointing to falling failure rates, consistent upside bias, and strong interagency correlation. Possible causes of ratings failure are separated into informational, analytical, revenue bias, and other incentive problems, each of which is discussed. The paper seeks to highlight methodological developments after the Asian crisis, particularly with regard to the estimation of contingent liabilities and the assessment of international reserves adequacy.

Bhavnani, Rikhil

PD October 2002. TI The Missing Globalization Puzzle. AU Bhavnani, Rikhil; Coe, David T.; Subramanian, Arvind; Tamirisa, Natalia T. AA Bhavnani: not available. Coe, Subramanian, and Tamirisa: IMF. SR International Monetary Fund Working Paper: WP/02/171; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 25. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE F02, F15. KW Globalization. Trade. Gravity Model. Distance.
AB The failure of declining trade-related costs to be reflected in estimates of the standard gravity model of bilateral trade might be called the "missing globalization puzzle." This puzzle is most apparent in the estimated distance coefficients found in the literature, which show no evidence of declining in absolute value over time. In contrast, we find evidence of globalization, in both cross-section and panel data, reflected in a variety of measures of geography. Our estimation procedure is consistent with recent theoretical developments that emphasize the importance of relative costs for determining bilateral trade patterns. However, the main reason our findings differ from

previous studies is our nonlinear specification, which has a number of advantages over the standard log-linear specification.

Bhundia, Ashok

PD September 2002. TI An Empirical Investigation of Exchange Rate Pass-Through in South Africa. AA IMF. SR International Monetary Fund Working Paper: WP/02/165; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 17. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE E31, E37. KW Pass-Through. Exchange Rate. Producer Prices. Structural VAR.

AB This paper analyzes the degree to which fluctuations in the nominal exchange rate pass through to consumer prices in South Africa. While the average pass-through is found to be low, evidence from a structural vector autoregression suggests it is much higher for nominal than for real shocks. Historical decompositions suggest that the nominal exchange rate depreciation up to November 2001 is attributable primarily to negative real shocks, which explains why CPIX (consumer price index excluding interest on mortgage bonds) inflation did not increase significantly until December 2001, when positive nominal shocks began to contribute to the depreciation.

Bitler, Marianne P.

PD February 2002. TI The Impact of Welfare Reform on Living Arrangements. AU Bitler, Marianne P.; Gelbach, Jonah B.; Hoynes, Hilary W. AA Bitler: RAND. Gelbach: University of Maryland and University of California, Berkeley. Hoynes: University of California, Davis and NBER. SR National Bureau of Economic Research Working Paper: 8784; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I38, J10. KW Welfare Reform. Living Arrangements.

AB Labor market outcomes of welfare reform have been the subject of extensive research by economists, but there has been relatively little work on living arrangements, which was an important focus of reformers. Our research fills that gap by examining the impacts of 1990s welfare waivers and the 1996 Federal welfare reform on living arrangements in samples of both children and women. Our findings suggest three main conclusions. First, welfare reform has had large effects on some important measures of living arrangements, including household size, parental co-residence among children, and marital status among women. Second, those effects are neither entirely aligned with the stated goals of reform nor entirely in spite of these goals. Third, there is a great deal of treatment heterogeneity both with respect to racial and ethnic groups, and with respect to whether reforms were waivers, TANF in states that had waivers, or TANF in states that did not. Standard approaches-using only data on adult women, pooling the data across racial and ethnic groups, focusing only on high school dropouts, and/or assuming that TANF effects are the same in waiver and non-waiver states-would generally not uncover these important changes in living arrangements.

Bitusikova, Alexandra

PD January 2003. TI Post-Communist City on its Way From Grey to Colorful: The Case Study From Slovakia.

AA Matej Bel University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/16; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 13. PR no charge; available only online. JE P20. KW Urban Diversity. Post-Communist City. Democracy. Slovakia.

AB The paper is a case study of the city of Banska Bystrica in Slovakia in the light of political, socio-economic and cultural changes. It discusses urban diversity and integrity from an anthropological qualitative perspective. On the example of three different historical periods (1918-1948: the democratic Czechoslovakia; 1948-1989: the communist Czechoslovakia; 1989 up to the present: building new democracy in a new state) the study shows transformations of the city and urban life. The research results show how political systems influence conditions, in which urban diversity and heterogeneity develop. During the period 1918-1948 with the exception of the World War II, Banska Bystrica was a multicultural city with a rich ethnic, religious and social differentiation of the inhabitants. After the communist coup in 1948, the situation dramatically changed. Totalitarian regime was systematically suppressing any diversity or pluralism in public spaces for fear of a mass protest against the regime. After the "velvet revolution" in 1989 and the "velvet divorce" in 1993, dramatic political, economic, social and cultural changes transformed the face of the city. Reconstruction of the city centre opened the door to diversity.

Black, Sandra E.

PD August 2002. TI Importing Equality? The Impact of Globalization on Gender Discrimination. AU Black, Sandra E.; Brainerd, Elizabeth. AA Black: UCLA and NBER. Brainerd: Williams College and CEPR. SR National Bureau of Economic Research Working Paper: 9110; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 25. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F16, J16, J31, J70. KW Imports. Globalization. Gender Discrimination. Wage Gap.

AB While researchers have long held that discrimination cannot endure in an increasingly competitive environment, there has been little work testing this dynamic process. This paper tests the hypothesis (based on Becker 1957) that increased competition resulting from globalization in the 1980s forced employers to reduce costly discrimination against women. The empirical strategy exploits differences in market structure across industries to identify the impact of trade on the gender wage gap: because concentrated industries face little competitive pressure to reduce discrimination, an increase in competition from increased trade should lead to a reduction in the gender wage gap. We compare the change in the residual gender wage gap between 1976 and 1993 in concentrated versus competitive manufacturing industries, using the latter as a control for changes in the gender wage gap that are unrelated to competitive pressures. We find that increased competition through trade did contribute to the relative improvement in female wages in concentrated relative to competitive industries, suggesting that, at least in this sense, trade may benefit women by reducing firms' ability to discriminate.

Blundell, Richard

TI Wealth Portfolios in the UK and the US. AU Banks, James; Blundell, Richard; Smith, James P.

Boadway, Robin

PD March 2003. **TI** An Optimal Contract Approach to Hospital Financing. **AU** Boadway, Robin; Marchand, Maurice; Sato, Motohiro. **AA** Boadway: Queen's University. Marchand: Universite Catholique de Louvain. Sato: Hitotsubashi University. **SR** CORE Discussion Paper: 2003/21; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 28. **PR** $5 per paper; $100 per year. **JE** D82, I18. **KW** Hospital Financing. Contracts. Agency Problem. Information.

AB This paper develops a model in which managers and doctors are responsible for different decisions within the hospital. In this model, public authorities who provide the financing, hospital managers who allocate resources within the hospital, and doctors who assign patients to either a low-tech or a high-tech therapy have information of increasing quality on the casemix of patients. The public authorities sign with hospital managers contracts specifying some lump-sum financing and some size of a high-tech equipment. In turn, managers, who know the broad mix of patients in the hospital, sign with hospital doctors contracts that specify the non-medical resources allocated to this facility as well as some remuneration. Doctors, who know each patient's illness severity, select the patients to be treated by the high-tech facility, and receive from public authorities some fee-for-service payment that is differentiated according to the low- or high- tech treatment used for curing their patients. What emerges is a two- stage agency problem in which contracts are designed to elicit information in the most efficient way.

Bodskov Andersen, Allan

PD December 2002. **TI** Extracting Risk Neutral Probability Densities by Fitting Implied Volatility Smiles: Some Methodological Points and an Application to the 3M Euribor Futures Options Prices. **AU** Bodskov Andersen, Allan; · Wagener, Tom. **AA** Danmarks Nationalbank. **SR** European Central Bank Working Paper: 198; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 48. **PR** no charge. **JE** C14, F33, G15. **KW** Implied Volatility. Risk Neutral Density. Interest Rate Expectations.

AB Following Shimko (1993), a large amount of research has evolved around the problem of extracting risk neutral densities from options prices by interpolating the Black-Scholes implied volatility smile. Some of the methods recently proposed use variants of the cubic spline. These methods have the property of producing non-differentiable probability densities. We argue that this is an undesirable feature and suggest circumventing the problem by fitting a smoothing spline of higher order polynomials with a relatively low number of knot points. In the estimations we opt for a measure of roughness penalty, which is more appropriate than the plain second partial derivative often used. We apply this technique to the LIFFE three-month Euribor futures option prices. Constant horizon risk neutral densities are calculated and summary statistics from these densities are used to assess market uncertainty on a day-by-day basis. Finally, we analyze the impact of the September 11th attacks on the expectation of future Euribor interest rates.

Boero, Gianna

PD January 2003. **TI** The Performance of SETAR Models: A Regime Conditional Evaluation of Point, Interval and Density Forecasts. **AU** Boero, Gianna; Marrocu, Emanuela. **AA** Boero: University of Cagliari, CRENoS and University of Warwick. Marrocu: University of Cagliari and CRENoS. **SR** The Warwick Economics Working Paper Series: 663; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. **PG** 18. **PR** no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. **JE** C22, C51, C53, E17. **KW** SETAR Models. Forecasting Accuracy. Point Forecasts. MSFE's.

AB The aim of this paper is to analyze the out-of-sample performance of SETAR models relative to a linear AR and a GARCH model using daily data for the Euro effective exchange rate. The evaluation is conducted on point, interval and density forecasts, unconditionally, over the whole forecast period, and conditional on specific regimes. The results show that overall the GARCH model is better able to capture the distributional features of the series and to predict higher-order moments than the SETAR models. However, from the results there is also a clear indication that the performance of the SETAR models improves significantly conditional on being on specific regimes.

Bogetoft, Peter

PD November 2002. **TI** DEA Based Yardstick Competition in Natural Resource Management. **AU** Bogetoft, Peter; Nielsen, Kurt. **AA** Royal Veterinary and Agricultural University. **SR** University of Copenhagen, CIE Discussion Paper: 2002/04; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. **PG** 24. **PR** no charge. **JE** C72, H57, Q20. **KW** Regulation. Performance Evaluation. Auctions. Yardstick Competition. Data Envelopment Analysis (DEA).

AB In this paper, we discuss the pros and cons of using Data Envelopment Analysis (DEA) to evaluate and enhance the efficiency of natural resource management. The need for a multi-dimensional production frontier approach is sketched, along with examples from other regulated multi-output industries. Also, reviews of the basic properties of DEA and DEA based yardstick competition are provided. Finally, we discuss the use of DEA based yardstick to evaluate bids in multi-dimensional procurement auctions.

PD November 2002. **TI** Influence Costs in Heterogeneous Cooperatives: A Formal Model of Sales Distortion. **AU** Bogetoft, Peter; Olesen, Henrik B. **AA** Royal Veterinary and Agricultural University. **SR** University of Copenhagen, CIE Discussion Paper: 2002/05; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. **PG** 14. **PR** no charge. **JE** D23, L23, Q13. **KW** Cooperatives. Influence Costs. Market Innovation.

AB Modern agricultural marketing cooperatives must implement farm-level differentiation to meet requirements from high-quality market segments, e.g. consumers focusing on animal welfare. This makes the cooperatives internally heterogeneous and increases the influence costs. In particular, the marketing of special high-quality products is a controversial issue for cooperatives, because different producer groups have different interests. The standard producers, who normally hold

the majority vote in the cooperatives, are reluctant to promote the sale of specialty products and hereby increase the bargaining power of the specialty producers. We explore these arguments in a formal model.

Bomfim, Antulio N.

PD January 2002. **TI** Monetary Policy and the Yield Curve. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/15; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 34. **PR** no charge. **JE** E43, G12. **KW** Affine Models. Expectations Hypothesis. Latent Factors. Eurodollar Futures.
AB This paper examines the empirical properties of a two-factor affine model of the term structure of interest rates, estimated with LIBOR and interest rate swap data from 1989 through 2001. Despite its relative simplicity, the model fits the interest rate data remarkably well, both across time and maturity, and identifies changes in the current and expected stance of monetary policy as primary movers of the yield curve.

PD January 2003. **TI** Counterparty Credit Risk in Interest Rate Swaps During Times of Market Stress. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/09; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 52. **PR** no charge. **JE** G12, G13. **KW** Convexity Adjustment. Futures and Forward Rates. Affine Models. Calibration.
AB This paper examines whether empirical and theoretical results suggesting a relatively small role for counterparty credit risk in the determination of interest rate swap rates hold during periods of stress in the financial markets, such as the chain of events that followed the Russian default crisis of 1998. The analysis sheds light on the robustness of netting and credit enhancement mechanisms, which are common in interest rate swaps, to widespread turmoil in the financial markets.

Bortolotti, Bernardo

PD November 2002. **TI** Privatization and Stock Market Liquidity. **AU** Bortolotti, Bernardo; De Jong, Frank; Nicodano, Giovanna; Schindele, Ibolya. **AA** Bortolotti: University of Turin and FEEM. De Jong and Schindele: Universiteit van Amsterdam. Nicodano: University of Turin. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/105; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. **PG** 27. **PR** no charge; available only on website. **JE** G14, L33. **KW** Privatization. Financial Market Development.
AB Share issue privatization -- i.e. privatization on public equity markets -- is often claimed to foster stock market development. In this paper, we provide an empirical assessment of this claim, testing the role of privatization on two market liquidity measures in a panel with monthly data of 19 developed economies. Privatization is shown to be key in improving domestic stock market liquidity, controlling for other economic, financial and institutional determinants. Results do not appear to be driven by reverse causality or non-stationarity of the data.

Bossone, Biagio

PD October 2002. **TI** A New Financial System for Poverty Reduction and Growth. **AU** Bossone, Biagio; Sarr, Abdourahmane. **AA** Bossone: IMF and Bank of Italy. Sarr: IMF. **SR** International Monetary Fund Working Paper: WP/02/178; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 32. **PR** $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** E41, E44, E52, G21, G33. **KW** Banks. Credit. Deposits. Finance. Growth. Inside Money. Poverty Reduction.
AB Our proposal draws on the premise that the availability of stable demand deposits for bank lending, in the process of which inside money is created, does not require intentional saving. The mechanism allowing banks to lend deposits does not function well in low-income countries, owing to a number of structural constraints. We argue that separating inside money creation from lending, and distributing it on a non- lending basis to depositors through specialized payment service institutions, could broaden access to financial resources, fuel non- inflationary, demand-led growth, as well as foster financial deepening, diversification, and stability. We also argue that the proposed reform is consistent with market incentives and sound economic management.

Bottasso, Anna

PD November 2002. **TI** Does Ownership Affect Firms' Efficiency? Panel Data Evidence on Italy. **AU** Bottasso, Anna; Sembenelli, Alessandro. **AA** Bottasso: Universita di Genova. Sembenelli: Universita di Torino and Ceris-Cnr. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/104; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. **PG** 17. **PR** no charge; available only on website. **JE** C33, D23, D24. **KW** Efficiency. Type of Ownership. Panel Data.
AB This paper provides empirical evidence on the relation between the identity of ultimate owners and technical (in)efficiency by estimating stochastic production frontiers on Italian firm level panel data for twelve manufacturing industries over the 1978-93 period. Privately- owned independent firms are used as reference group and their efficiency is assessed against three alternative forms of ownership: subsidiaries of (privately owned) national business groups, subsidiaries of foreign multinationals, and state owned firms. Even if cross-industry differences obviously exist a common pattern can however be identified. Overall, subsidiaries of foreign multinationals (state owned firms) are found to be more (less) efficient than the reference group. On the contrary, no systematic difference is found between independent firms and subsidiaries of national business groups.

Bougheas, Spiros

TI On the Trade-Off Between Work-Related Training and Labor Mobility: The Role of Firing and Exit Costs. **AU** Adnett, Nick; Bougheas, Spiros; Georgellis, Yannis.

Bound, John

PD September 2002. **TI** The Welfare Implications of Increasing Disability Insurance Benefit Generosity. **AU** Bound, John; Cullen, Julie Berry; Nichols, Austin; Schmidt, Lucie. **AA** Bound and Cullen: University of

Michigan and NBER. Nichols: University of Michigan. Schmidt: Williams College. **SR** National Bureau of Economic Research Working Paper: 9155; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H21, H22, H31. **KW** Disability Insurance. Welfare. Efficiency.

AB The focus on efficiency costs in the empirical literature on Disability Insurance (DI) provides a misleading view of the adequacy of payment levels. In order to evaluate whether workers are over- or under-insured through the social insurance program, we develop a framework that allows us to simulate the benefits as well as the costs associated with marginal changes in payment generosity from a representative cross-sectional sample of the population. Under the assumption that individuals are reasonably risk averse, our simulations suggest the typical worker would value increased benefits somewhat above the average costs of providing them. However, we find that benefit increases tend to lower average utility when we average across all individuals in our sample, particularly at high levels of risk aversion. This counterintuitive finding arises because some lower income DI-insured workers face replacement rates that are near or above one. For such individuals, a benefit increase would represent transfers from an even lower income state of the world in which they are not on DI to one in which they are, a transfer that would not be beneficial even if there were no behavioral distortions associated with the provision of DI benefits.

Brainerd, Elizabeth
TI Importing Equality? The Impact of Globalization on Gender Discrimination. **AU** Black, Sandra E.; Brainerd, Elizabeth.

Brown, John C.
PD September 2003. **TI** Two Statistical Problems in the Princeton Project on the European Fertility Transition. **AU** Brown, John C.; Guinnane, Timothy W. **AA** Brown: Clark University. Guinnane: Yale University. **SR** Yale Economic Growth Center Discussion Paper: 869; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 35. **PR** $2.00 plus postage. **JE** J13, N33, O15. **KW** Fertility Transition. Princeton Project. Decline of Fertility.

AB The Princeton Project on the Decline of Fertility in Europe (or European Fertility Project, hereafter EFP) was carried out at Princeton University's Office of Population Research in the 1960s and 1970s. This project aimed to characterize the decline of fertility that took place in Europe during the nineteenth and early twentieth centuries. The project's summary statements argued that social and economic forces played little role in bringing about the fertility transition. The statement stresses instead a process of innovation and diffusion. A central feature of the EFP argument is a series of statistical exercises that purport to show that changes in economic and social conditions exerted little influence on fertility. Two recent papers on Germany for this period have used similar data and methods to draw different conclusions. These findings echo those of researchers working in other contexts, who increasingly find that economic and social factors play a strong role in fertility. We show that one reason for the new findings is some general statistical problems in the Princeton methodology. These are reason to temper acceptance of the Princeton project's larger message.

Bruelhart, Marius
PD April 2003. **TI** An Account of Geographic Concentration Patterns in Europe. **AU** Bruelhart, Marius; Traeger, Rolf. **AA** Bruelhart: University of Lausanne. Traeger: United Nations Economic Commission for Europe, Geneva. **SR** University of Nottingham, GEP Research Paper: 2003/11; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 40. **PR** no charge. **JE** F15, R12, R14. **KW** Geographic Concentration. EU Regions. Centre-Periphery Gradients. Entropy Indices. Bootstrap Inference.

AB Using entropy indices and associated bootstrap tests, we describe the distribution of economic sectors across Western European regions over the 1975-2000 period. We decompose geographic concentration into its within-country and between-country components. In addition, we estimate centre-periphery gradients in sectoral location patterns and the impact of EU membership on countries' internal geography. It is found that manufacturing has become gradually more concentrated, although the locational bias towards central regions has become weaker. Conversely, market services have been relocating towards centrally located regions. EU integration appears to have strengthened countries' internal concentration trends.

Brunello, Giorgio
PD January 2003. **TI** School Quality and Family Background in Italy. **AU** Brunello, Giorgio; Checchi, Daniele. **AA** Brunello: University of Padua, CESifo, and IZA. Checchi: University of Milan. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/10; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 15. **PR** no charge; available only on website. **JE** I21, I28, J30. **KW** School Quality. Italy. Labor Market Returns. Parental Education.

AB We study whether the combined significant reduction in the pupil-teacher ratio and increase in parental education observed in Italy between the end of World War II and the end of the 1980s have had a significant impact on the educational attainment and the labor market returns of a representative sample of Italians born between 1941 and 1970. We find that the lower pupil-teacher ratio is positively correlated with higher educational attainment, but that the overall improvement of parental education has had an even stronger impact on attainment. We also find that the positive impact of better school quality on educational attainment and returns to education has been particularly significant for the individuals born in regions and cohorts with poorer family background. Parental education has had asymmetric effects, positive on attainment and negative on school returns. Better school quality has also had asymmetric effects on the returns to education, positive for individuals with poor family background and negative for individuals born in regions and cohorts with relatively high parental education. Our evidence suggests that better school quality, measured by a lower pupil-teacher ratio, is a technical substitute to parental education in the production

of individual human capital. When school quality and family background are substitutes, an increase of public resources invested in education can be used to reduce the differences induced by parental education.

Buchner, Barbara

PD March 2002. TI On the Consequences of the U.S. Withdrawal from the Kyoto/Bonn Protocol. AU Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor. AA Buchner and Cersosimo: Fondazione Eni Enrico Mattei. Carraro: University of Venice, Fondazione Eni Enrico Mattei, CEPR, CESifo, and Centre for European Policy Studies, Brussels. SR CEPR Discussion Paper: 3239; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE H10, Q54, Q58. KW Agreements. Climate Policy. Incentives. Negotiations.
AB The US decision not to ratify the Kyoto Protocol and the recent outcomes of the Bonn and Marrakech Conferences of the Parties has important implications for both the effectiveness and the efficiency of future climate policies. Among these implications, those related with technical change and with the functioning of the international market for carbon emissions are particularly relevant, because these variables have the largest impact on the overall abatement cost to be born by Annex B countries in the short and in the long run. This paper analyzes the consequences of the US decision to withdraw from the Kyoto/Bonn Protocol both on technological innovation and on the price of emission permits. A first goal is to assess the impact of the US defection on the price of permits and compliance costs when technological innovation and diffusion is taken into account. A second goal is to understand for what reasons in the presence of endogenous and induced technical change the reduction of the price of permits is lower than in most empirical analyses recently circulated. A third goal is to assess the role of Russia in climate negotiations, its increased bargaining power and its eventual incentives to follow the US defections.

Bulavsky, Vladimir A.

PD November 1999. TI Equilibrium in Generalized Cournot and Stackelberg Models. AU Bulavsky, Vladimir A.; Kalashnikov, Vyacheslav V. AA Bulavsky: not available. Kalashnikov: CEMI of the Russian Academy of Sciences. SR Tilburg CentER Discussion Paper: 99116; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: http://center.uvt.nl or http://greywww.kub.nl:2080/greyfiles/. PG 27. PR no charge. JE D20, D43. KW Oligopolistic Market. Conjectural Variations. Equilibrium. Leaders and Followers.
AB A model of an oligopolistic market with a homogeneous product is examined. Each subject of the model uses a conjecture about the market response to variations of its production volume. The conjecture value depends upon both the current total volume of production at the market and the subject's contribution into it. Under general enough assumptions, the equilibrium existence and uniqueness theorems are proven. Furthermore, a particular assumption -- namely, constant elasticity, -- is considered, and the generalized Stackelberg model comprising several leaders is investigated.

Burkart, Mike

PD February 2002. TI Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei. AA Burkart: Stockholm School of Economics and CEPR. Panunzi: Universita di Bologna and CEPR. Shleifer: Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8776; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 37. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G34, K22, M13. KW Family Firms. Management.
AB We present a model of succession in a firm controlled and managed by its founder. The founder decides between hiring a professional manager and leaving management to his heir, as well as on how much, if any, of the shares to float on the stock exchange. We assume that a professional is a better manager than the heir, and describe how the founder's decision is shaped by the legal environment. Specifically, we show that, in legal regimes that successfully limit the expropriation of minority shareholders, the widely held professionally managed corporation emerges as the equilibrium outcome. In legal regimes with intermediate protection, management is delegated to a professional, but the family stays on as large shareholders to monitor the manager. In legal regimes with the weakest protection, the founder designates his heir to manage and ownership remains inside the family. This theory of separation of ownership from management includes the Anglo-Saxon and the Continental European patterns of corporate governance as special cases, and generates additional empirical predictions consistent with cross-country evidence.

PD February 2002. TI Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei. AA Burkart: Stockholm School of Economics and CEPR. Panunzi: Universita degli Studi di Bologna, CEPR, Bocconi University, and European Corporate Governance Institute. Shleifer: Harvard University, NBER, and European Corporate Governance Institute. SR CEPR Discussion Paper: 3234; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE G34. KW Corporate Governance. Law and Finance. Family Firms. Management.
AB We present a model of succession in a firm controlled and managed by its founder. The founder decides between hiring a professional manager and leaving management to his heir, as well as on how much, if any, of the shares to float on the stock exchange. We assume that a professional is a better manager than the heir, and describe how the founder's decision is shaped by the legal environment. Specifically, we show that, in legal regimes that successfully limit the expropriation of minority shareholders, the widely held professionally managed corporation emerges as the equilibrium outcome. In legal regimes with intermediate protection, management is delegated to a professional, but the family stays on as large shareholders to monitor the manager. In legal regimes with the weakest protection, the founder designates his heir to manage and ownership remains inside the family. This theory of separation of ownership from management includes the Anglo-Saxon and the Continental European patterns of corporate governance as special cases, and generates additional empirical predictions consistent with cross-country evidence.

Burnside, Craig

PD May 2003. **TI** Government Finance in the Wake of Currency Crises. **AU** Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio. **AA** Burnside: University of Virginia. Eichenbaum: Northwestern University, NBER and Federal Reserve Bank of Chicago. Rebelo: Northwestern University, NBER and CEPR. **SR** Rochester Center for Economic Research Working Paper: 501; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: http://rcer.econ.rochester.edu. **PG** 64. **PR** 3 papers free per year; $5 each additional. **JE** F31. **KW** Currency Crisis. Banking Crisis. Speculative Attacks. Seigniorage. Fiscal Reform.
AB This paper addresses two questions: (i) how do governments actually pay for the fiscal costs associated with currency crises; and (ii) what are the implications of different financing methods for post-crisis rates of inflation and depreciation? We study these questions using a general equilibrium model in which a currency crisis is triggered by prospective government deficits. We then use our model in conjunction with fiscal data to interpret government financing in the wake of three recent currency crises: Korea (1997), Mexico (1994) and Turkey (2001).

Bustos, Alvaro

PD July 2003. **TI** Could Higher Taxes Increase the Long-Run Demand for Capital? Theory and Evidence for Chile. **AU** Bustos, Alvaro; Engel, Eduardo; Galetovic, Alexander. **AA** Bustos: Princeton University. Engel: Yale University. Galetovic: University of Chile. **SR** Yale Economic Growth Center Discussion Paper: 858; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 28. **PR** $2.00 plus postage. **JE** D21, H32. **KW** Adjustment Costs. Corporate Veil. Demand for Capital. Depreciation Allowances. User Cost of Capital.
AB On theoretical grounds alone, there is not an a priori reason why higher taxes should reduce the desired capital stock, since a tax increase reduces marginal returns but also increases depreciation and interest payment allowances. Using a panel of Chilean corporations, this paper estimates a long-run demand for capital valid for a general adjustment-cost structure. Changes in the corporate tax rate are found to have no effect on the long run demand for capital. Furthermore, when making investment decisions, firms ignore the marginal rates paid by their stockholders, suggesting the presence of a corporate veil.

Butcher, Kristin F.

TI Maternal Employment and Overweight Children. **AU** Anderson, Patricia M.; Butcher, Kristin F.; Levine, Phillip B.

Ca'Zorzi, Michele

PD February 2003. **TI** The Admission of Accession Countries to an Enlarged Monetary Union: A Tentative Assessment. **AU** Ca'Zorzi, Michele; De Santis, Roberto A. **AA** European Central Bank. **SR** European Central Bank Working Paper: 216; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 48. **PR** no charge.

JE E52, E58, F33, F41. **KW** Accession Countries. Balassa-Samuelson Effect. European Monetary Union. Exchange Rate Regimes. Monetary Policy.
AB The enlargement of the European monetary union to include the accession countries (ACs) will not lead to higher average inflation in the enlarged euro area, but only to inflation redistribution across countries if continuity of the monetary policy framework is preserved. In the short term, unanticipated shocks to the real exchange rate may instead affect aggregate inflation if member countries' economic structure differs. The theoretical model is then applied to ten ACs. The numerical results indicate that the implications for the euro area are significant only if we assume a strong real exchange rate appreciation and if ACs are weighted in terms of purchasing power parity standards. In the event of real exchange rate or country-specific supply shocks in ACs, the consequences would be limited for both the current and the enlarged euro area, but sizeable for ACs themselves.

Caballero, Ricardo

PD July 2003. **TI** Adjustment is Much Slower Than You Think. **AU** Caballero, Ricardo; Engel, Eduardo. **AA** Caballero: Massachusetts Institute of Technology. Engel: Yale University. **SR** Yale Economic Growth Center Discussion Paper: 865; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 30. **PR** $2.00 plus postage. **JE** C22, C43, E27, E59. **KW** Speed of Adjustment. Discrete Adjustment. Lumpy Adjustment. Aggregation. Calvo Model. ARMA Process. Partial Adjustment. Expected Response Time. Monetary Policy. Investment. Labor Demand. Sticky Prices. Idiosyncratic Shocks. Impulse Response Function. Wold Representation. Time-to-Build.
AB In most instances, the dynamic response of monetary and other policies to shocks is infrequent and lumpy. The same holds for the microeconomic response of some of the most important economic variables, such as investment, labor demand, and prices. We show that the standard practice of estimating the speed of adjustment of such variables with partial-adjustment ARMA procedures substantially over-estimates this speed. For example, for the target federal funds rate, we find that the actual response to shocks is less than half as fast as the estimated response. For investment, labor demand and prices, the speed of adjustment inferred from aggregates of a small number of agents is likely to be close to instantaneous. While aggregating across microeconomic units reduces the bias (the limit of which is illustrated by Rotemberg's widely used linear aggregate characterization of Calvo's model of sticky prices), in some instances convergence is extremely slow. Because the bias rises with disaggregation, findings of microeconomic adjustment that is substantially faster than aggregate adjustment are generally suspect.

Calza, Alessandro

PD January 2003. **TI** Aggregate Loans to the Euro Area Private Sector. **AU** Calza, Alessandro; Manrique, Marta; Sousa, Joao. **AA** Calza: European Central Bank. Manrique: Banco de Espana. Sousa: European Central Bank. **SR** European Central Bank Working Paper: 202; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 44.

PR no charge. **JE** E21, E22. **KW** Credit. Loans. Euro Area. Cointegration.

AB This paper provides new evidence on the behavior of euro area aggregate loans to the private sector. Using a sample covering the last twenty years, a cointegrating vector linking the real stock of loans to a small set of domestic macroeconomic variables is found. Besides real GDP and prices, this set includes a new measure of the cost of loans obtained as a weighted average of bank lending rates. The results are overall encouraging, though the recursive estimates of the long-run parameters suggest that in the year 2000 some disturbances, probably of a temporary nature, affected the system. The study then addresses the issue of the leading indicator properties of loans. It finds that the deviations of the real stock of loans from the equilibrium level implied by the model seem to contain information on future changes in inflation, though not on its level.

Calzolari, Giacomo

PD March 2003. **TI** Monopoly With Resale. **AU** Calzolari, Giacomo; Pavan, Alessandro. **AA** Calzolari: University of Bologna. Pavan: Northwestern University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/20; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 29. **PR** no charge; available only online. **JE** D44, D82. **KW** Monopoly. Primary and Secondary Markets. Optimal Auction with Resale. Resale-Augmented Virtual Valuations.

AB This paper studies revenue-maximizing mechanisms for a monopolist who expects her buyers to resell in a secondary market. We consider two modes of resale: the first is to a third party who does not participate in the primary market; the second is inter-bidders resale, where the winner in the primary market resells to the losers. We show that resale to third parties is revenue-enhancing for the initial monopolist, whereas inter-bidders resale is revenue-decreasing compared to the case where resale is prohibited. The revenue-maximizing mechanisms in the primary market are obtained by investigating the optimal informational linkage with the secondary market. The results show that to sustain higher resale prices the monopolist may find it optimal (a) to induce stochastic allocations in the primary market, and (b) to design a disclosure policy that optimally controls for the information revealed to the participants in the secondary market. The optimal allocation rule and disclosure policy maximize the expected sum of the bidders' resale-augmented virtual valuations, taking into account the effect of information disclosure on the price formation process in the secondary market.

Campbell, Jeffrey R.

PD August 2002. **TI** Market Size Matters. **AU** Campbell, Jeffrey R.; Hopenhayn, Hugo A. **AA** Campbell: Federal Reserve Bank of Chicago and NBER. Hopenhayn: University of Rochester and Univesidad Torcuato Di Tella. **SR** National Bureau of Economic Research Working Paper: 9113; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** L11, L16, L81. **KW** Market Size. Retail Trade. Competition. **AB** This paper characterizes the effects of market size on the size distribution of establishments for thirteen retail trade industries across 225 U.S. cities. In nearly every industry we examine, establishments are larger in larger cities, and in four industries the dispersion of establishment sizes depends on market size. Models of competition in which individual producers' markups do not depend on the number of producers are inconsistent with these observations. Models in which competition is tougher in larger markets can reproduce the positive effect of market size on establishments' average size.

Caparros, A.

PD January 2003. **TI** North-South Climate Change Negotiations: A Sequential Game With Asymmetric Information. **AU** Caparros, A.; Pereau, J. C.; Tazdait, T. **AA** Caparros and Tazdait: CNRS-EHESS-CIRED. Pereau: University of Marne-la-Vallee. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/09; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 20. **PR** no charge; available only on website. **JE** C78, D74, H77. **KW** Bargaining Theory. Asymmetric Information. Climate Change. International Cooperation. **AB** This article determines the conditions under which the Southern countries should act together, or separately, while negotiating with the North about climate change policy and about the conditions for future Southern engagement. The paper models the international negotiations with complete and with asymmetric information in a dynamic framework. Results show that, depending on their characteristics, different players can obtain benefits delaying the moment of the agreement.

Cappelli, Peter

PD September 2002. **TI** Why Do Employers Pay For College? **AA** University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 9225; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 33. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I22, J24, J32. **KW** Tuition. Employers. Post-Secondary Education. **AB** Employers routinely provide financial support for their employees who pursue post-secondary education despite the fact that it represents perhaps the classic example of a "general skill" that costs the employer money and raises the market wages of employees who possess it. The analysis below examines why employers provide such support, and the results suggest that employees do not pay for tuition assistance through below market or training wages, the typical arrangement for funding general skills training. Instead, tuition assistance appears to select better quality employees who stay on the job longer, at least in part to keep making use of that benefit.

Cappiello, Lorenzo

PD January 2003. **TI** Asymmetric Dynamics in the Correlations of Global Equity and Bond Returns. **AU** Cappiello, Lorenzo; Engle, Robert F.; Sheppard, Kevin. **AA** Cappiello: European Central Bank. Engle: NYU Stern School of Business and University of California at San Diego. Sheppard: University of California at San Diego. **SR** European Central Bank Working Paper: 204; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 66.

PR no charge. JE F32, G11, G12, G15. KW International Finance. Correlation. Variance Targeting. Multivariate GARCH.
AB This paper investigates the presence of asymmetric conditional second moments in international equity and bond returns. The analysis is carried out through an asymmetric version of the Dynamic Conditional Correlation model of Engle (2002). Widespread evidence is found that national equity index return series show strong asymmetries in conditional volatility, while little evidence is seen that bond index returns exhibit this behaviour. However, both bonds and equities exhibit asymmetry in conditional correlation. Worldwide linkages in the dynamics of volatility and correlation are examined. It is also found that beginning in January 1999, with the introduction of the Euro, there is significant evidence of a structural break in correlation, although not in volatility. The introduction of a fixed exchange rate regime leads to near perfect correlation among bond returns within EMU countries. However, equity return correlation both within and outside the EMU also increases after January 1999.

Card, David
PD February 2002. TI Skill Biased Technological Change and Rising Wage Inequality: Some Problems and Puzzles. AU Card, David; DiNardo, John E. AA Card: University of California, Berkeley and NBER. DiNardo: University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 8769; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 39. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE J31, O33. KW Wage Inequality. Skill Biased Technological Change.
AB The rise in wage inequality in the U.S. labor market during the 1980s is usually attributed to skill-biased technical change (SBTC), associated with the development of personal computers and related information technologies. We review the evidence in favor of this hypothesis, focusing on the implications of SBTC for economy-wide trends in wage inequality, and for the evolution of wage differentials between various groups. A fundamental problem for the SBTC hypothesis is that wage inequality stabilized in the 1990s, despite continuing advances in computer technology SBTC also fails to explain the closing of the gender gap, the stability of the racial wage gap, and the dramatic rise in education-related wage gaps for younger versus older workers. We conclude that the SBTC hypothesis is not very helpful in understanding the myriad shills in the structure of wages that have occurred over the past three decades.

Carey, Kathleen
PD September 2002. TI Does Managerial "Outsourcing" Reduce Expense Preference Behavior? A Comparison of Adopters and Non-Adopters of Contract-Management in US Hospitals. AU Carey, Kathleen; Dor, Avi. AA Carey: Boston University. Dor: Weatherhead School of Management and NBER. SR National Bureau of Economic Research Working Paper: 9157; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 17. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D21, I11, L24. KW Health Care Management. Contract Management. Hospitals.

AB This paper explores potential realization of gains by hospitals that are managed on a day-to-day basis by external organizations under formal contracts. It draws on the incentives literature, which postulates that managers of firms where ownership is separated from control will employ an input mix that deviates from cost minimization. While this status applies to hospitals generally, we hypothesize that specialized managerial expertise, coupled with the threat of non- renewal, will improve efficiency in hospitals that opt for contracting. Secondary data obtained from the AHA Annual Surveys (1991-1998) are applied to examine the distribution of "expense preference" parameters for all contract management adopters both pre- and post-adoption. These are contrasted with two control groups of hospitals drawn from the same years using propensity score methods. Results reveal allocative inefficiency among both adoption and control groups but a significantly lower change in the expense preference parameter pre- and post-adoption associated with a staffing. This suggests that changes in incentive contracts are one important strategy hospitals are using to cope with competitive pressures.

Carpenter, Seth
PD January 2003. TI Money Demand and Equity Markets. AU Carpenter, Seth; Lange, Joe. AA Federal Reserve Board and Cornerstone Research. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/03; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 22. PR no charge. JE E41, E50. KW Money Demand. Equity Markets.
AB Money demand in part reflects a portfolio decision. As equities have become a significant store of household wealth, it seems plausible that variations in equity markets could affect money demand. We re-specify a standard money demand equation to include stock market volatility and revisions to analyst earnings projections. We find that these equity market variables are statistically significant and reduce the errors from money demand models.

Carraro, Carlo
TI On the Consequences of the U.S. Withdrawal from the Kyoto/Bonn Protocol. AU Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor.

Cartwright, Edward
PD January 2003. TI Social Conformity and Bounded Rationality in Arbitrary Games with Incomplete Information: Some First Results. AU Cartwright, Edward; Wooders, Myrna H. AA University of Warwick. SR The Warwick Economics Working Paper Series: 672; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 27. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE C70. KW Arbitrary Games. Society. Incomplete Information.
AB Interpret a set of players all playing the same pure strategy and all with similar attributes as a society. Is it consistent with self interested behavior for a population to organize itself into a relatively small number of societies? By introducing the concept of approximate substitute players in

non-cooperative games, we are able to put a bound on the rationality of such social conformity for an arbitrary game and arbitrary number of societies.

PD March 2003. **TI** Learning to Play Approximate Nash Equilibria in Games with Many Players. **AA** University of Warwick. **SR** The Warwick Economics Working Paper Series: 671; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers.
PG 42. **PR** no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. **JE** C70.
KW Imitation. Best Reply. Convergence. Nash Equilibrium.
AB We illustrate one way in which a population of boundedly rational individuals can learn to play an approximate Nash equilibrium. Players are assumed to make strategy choices using a combination of imitation and innovation. We begin by looking at an imitation dynamic and provide conditions under which play evolves to an imitation equilibrium; convergence is conditional on the network of social interaction. We then illustrate, through example, how imitation and innovation can complement each other; in particular, we demonstrate how imitation can "help" a population learn to play a Nash equilibrium where more rational methods do not. This leads to our main result in which we provide a general class of large games for which the imitation with innovation dynamic almost surely converges to an approximate Nash, imitation equilibrium.

Case, Anne
PD September 2002. **TI** Orphans in Africa. **AU** Case, Anne; Paxson, Christina; Ableidinger, Joseph. **AA** Case and Paxson: Princeton University and NBER. Ableidinger: Princeton University. **SR** National Bureau of Economic Research Working Paper: 9213; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D1, I1.
KW Orphans. Sub-Saharan Africa. Hamilton's Rule. School Enrollment.
AB We examine the impact of orphanage on the living arrangements and school enrollment of children in Sub-Saharan Africa, using data from 19 Demographic and Health Surveys (DHS) conducted in 10 countries between 1992 and 2000. We find that orphans in Africa on average live in poorer households than non-orphans, and are significantly less likely than non-orphans to be enrolled in school. However, orphans' lower school enrollment is not explained by their poverty: orphans are equally less likely to be enrolled in school relative both to non-orphans as a group and to the non-orphans with whom they live. Consistent with the predictions of Hamilton's Rule, we find that outcomes for orphans depend largely on the degree of relatedness of the orphan to the household head. Children living in households headed by non-parental relatives fare systematically worse than those living with parental heads, and those living in households headed by non-relatives fare worse still. Much of the gap between the schooling of orphans and non-orphans is explained by the greater tendency of orphans to live with more distant relatives or unrelated caregivers.

Casella, Alessandra
PD September 2002. **TI** Storable Votes. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 9189; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 29. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D72, F15.
KW European Union. Voting Scheme.
AB Motivated by the need for more flexible decision-making mechanisms in the European Union, the paper proposes a simple but novel voting scheme for binary decisions taken by committees that meet regularly over time. At each meeting, committee members are allowed to store their vote for future use; the decision is then taken according to the majority of votes cast. The possibility of shifting votes intertemporally allows agents to concentrate their votes when preferences are more intense, and although the scheme will not in general achieve full efficiency, making votes storable typically leads to ex ante welfare gains. The analysis in the paper suggests that the result will hold if one of the following conditions is satisfied: (i) the number of voters is above a minimum threshold; (ii) preferences are not too polarized; (iii) the horizon is long enough.

Cason, Timothy N.
PD May 2003. **TI** Secure Implementation Experiments: Do Strategy-Proof Mechanisms Really Work? **AU** Cason, Timothy N.; Saijo, Tatsuyoshi; Sjostrom, Tomas; Yamato, Takehiho. **AA** Cason: Purdue University. Saijo: Osaka University and California Institute of Technology. Sjostrom: Pennsylvania State University. Yamato: Tokyo Institute of Technology. **SR** Caltech Social Science Working Paper: 1165; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. **PG** 31.
PR no charge. **JE** C92, D71, D78, H41. **KW** Strategy-Proofness. Pivotal Mechanism. Clarke-Groves Mechanism. Nash Equilibrium. Dominant Equilibrium.
AB Strategy-proofness, requiring that truth-telling is a dominant strategy, is a standard concept used in social choice theory. Saijo, et al., (2003) argue that this concept has serious drawbacks. In particular, announcing one's true preference may not be a unique dominant strategy, and almost all strategy-proof mechanisms have a continuum of Nash equilibria. For only a subset of strategy-proof mechanisms do the set of Nash equilibria and the set of dominant strategy equilibria coincide. For example, this double coincidence occurs in the Groves mechanism when preferences are single-peaked. We report experiments using two strategy-proof mechanisms where one of them has a large number of Nash equilibria, but the other has a unique Nash equilibrium. We found clear differences in the rate of dominant strategy play between the two.

Cassola, Nuno
PD June 2003. **TI** Volatility of Interest Rates in the Euro Area: Evidence From High Frequency Data. **AU** Cassola, Nuno; Morana, Claudio. **AA** Cassola: European Central Bank. Morana: University of Piemonte Orientale. **SR** European Central Bank Working Paper: 235; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 32.
PR no charge. **JE** C32, E43, G12. **KW** Market Microstructure. Money Market. Interest Rates. Liquidity Effect. Stochastic Volatility. Fractional Integration.
AB This paper estimates the factors underlying the volatility of the euro overnight interest rate and its transmission along the

euro area money market yield curve. A new multivariate unobserved components model is proposed allowing for both long-memory and stationary cyclical dynamics. Using hourly data the estimates show repetitive intra-daily and monthly patterns that can be explained by the microstructure of the money market and the institutional features of the Eurosystem's operational framework for monetary policy implementation. Strong persistence is detected in all log-volatility processes and two common long-memory dynamics of the shortest maturity. The second factor explains the transmission of volatility along the money market yield curve. We find evidence that most liquidity effects are cyclical, confined to the end of reserve maintenance periods, and are not transmitted along the money market yield curve.

Castelnuovo, Efrem
PD January 2003. TI Squeezing the Interest Rate Smoothing Weight With a Hybrid Expectations Model. AA Bocconi University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/06; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 23. PR no charge; available only on website. JE C51, E52. KW Central Banker. Interest Rate Smoothing. Rational Expectations. Hybrid Phillips Curve. Hybrid IS Curve.
AB Successful descriptions of short-term nominal interest rates inertial behavior have frequently been obtained with small scale macro models in which a Central Banker minimizes a loss function embedding an argument labeled as interest rate smoothing. The rationale for this argument is not straightforward. Indeed, there has been a lively debate about it in the literature. In this paper, we perform an empirical exercise to evaluate the relationship existing between private sector's rational expectations and interest rate gradualism. Our findings strongly support rational expectations as an element capable to remarkably reduce the importance of the interest rate smoothing weight in replicating the observed path of the federal funds rate. However, we find a predominance of adaptive expectations in shaping the paths of inflation and output gap. Our results also suggest that the Fed has followed a "Strict Inflation Targeting" strategy under Greenspan's regime.

PD January 2003. TI Learning by Doing vs Learning by Researching in a Model of Climate Change of Policy Analysis. AU Castelnuovo, Efrem; Galeotti, Marzio; Gambarelli, Gretel; Vergalli, Sergio. AA Castelnuovo: Universita Bocconi and FEEM. Galeotti: Universita di Milano and FEEM. Gambarelli: FEEM. Vergalli: Universita di Padova and FEEM. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/11; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 34. PR no charge; available only on website. JE H20, H30, O30, Q54. KW Climate Policy. Environmental Modeling. Integrated Assessment. Technical Change.
AB Many predictions and conclusions in the climate change literature have been made and drawn on the basis of theoretical analyses and quantitative models that assume exogenous technological change. One is naturally led to wonder whether those conclusions and policy prescriptions hold in the more realistic case of endogenously evolving technologies. In previous work we took a popular integrated assessment model

and modified it so as to allow for an explicit role of the stock of knowledge which accumulates through R&D investment. In our formulation knowledge affects both the output production technology and the emission-output ratio. In this paper we make further progress in our efforts aimed to model the process of technological change. In keeping with recent theories of endogenous growth, we specify two ways in which knowledge accumulates: via a deliberate, optimally selected R&D decision or via experience, giving rise to Learning by Doing. As an illustration, we simulate the model under the two versions of endogenous technical change and look at the dynamics of a selected number of relevant variables, including growth rates of GDP and physical capital, as well as total emissions and rate of domestic abatement.

PD May 2003. TI Describing the Fed's Conduct with Taylor Rules: Is Interest Rate Smoothing Important? AA Bocconi University. SR European Central Bank Working Paper: 232; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 50. PR no charge. JE E52, E58. KW Taylor Rules. Omitted Variables. Serial Correlation. Interest Rate Smoothing.
AB In this paper we estimate simple Taylor rules paying particular attention to interest rate smoothing. Following English, Nelson, and Sack (2002), we employ a model in first differences to gain some insights into the presence and significance of the degree of partial adjustment as opposed to a serially correlated policy shock. Moreover, we estimate a nested model to take into account both interest rate smoothing and serially correlated deviations from various Taylor rates prescriptions. Our findings suggest that the lagged interest rate enters the Taylor rule in its own right, and may well coexist with (usually omitted) variables that relate to asymmetric preferences on the output gap, or financial market indicators. Therefore, while we cannot rule out the possibility that serially correlated policy shocks may play a role in describing the federal funds rate path, our results strongly support the importance of the lagged interest rate in Taylor- type models.

Castren, Olli
PD June 2003. TI Growth Expectations, Capital Flows and International Risk Sharing. AU Castren, Olli; Miller, Marcus; Stiegert, Roger. AA Castren and Stiegert: European Central Bank. Miller: Warwick University, CSGR and CEPR. SR European Central Bank Working Paper: 237; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 34. PR no charge. JE F32, F41, G15. KW Capital Flows. Consumption Smoothing. Risk Aversion. International Risk-Sharing. Business Cycles.
AB Over the past decades, cross-border financial flows have increased in importance and have in many occasions exceeded the underlying current account positions. This phenomenon has been accompanied by an increase in the volume of international equity transactions that accentuate the role of international risk sharing as a factor for the macroeconomic response to shocks. We use a stylized two-bloc, two- period model of the global economy, with a simple stochastic productivity shock affecting only one country. Efficient global risk- sharing implies that expected productivity gains in one country will attract equity inflows in excess of those needed to finance the current account. Upward-biased expectations about prospects for the productivity gains can further increase the risk exposure of

foreign shareholders. The model is calibrated to show how ex post market losses -- whether due to "normal" stock market downturns or ex ante over- optimism -- are distributed and how they affect global consumption and current account positions. The results suggest that international spillover effects of stock market bubbles can contribute to business cycle synchronization across economic areas.

Ceci, Vladimiro
TI   Sensitivity Analysis of Volatility: a New Tool for Risk Management. AU   Manganelli, Simone; Ceci, Vladimiro; Vecchiato, Walter.

Cerra, Valerie
PD   September 2002. TI   How Competitive is Irish Manufacturing? AU   Cerra, Valerie; Soikkeli, Jarkko. AA   IMF. SR   International Monetary Fund Working Paper: WP/02/160; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG   9. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE   E24, F14, F16, O40, O52. KW   Ireland. Competitiveness. Unit Labor Costs. Real Exchange Rate. Employment.
AB   Ireland has seen significant competitiveness gains in the 1990s on the basis of the standard manufacturing unit labor cost-based measure of the real effective exchange rate. A handful of sectors mostly dominated by multinational companies have accounted for the bulk of value added in production. Their productivity gains have greatly contributed to Ireland's exceptional growth performance in the 1990s, which has earned it the nickname of "Celtic Tiger." However, these sectors represent a disproportionately smaller share of manufacturing employment, and competitiveness in employment-intensive sectors has been much weaker. This paper thus explores Irish competitiveness from the viewpoint of risks to employment.

Cersosimo, Igor
TI   On the Consequences of the U.S. Withdrawal from the Kyoto/Bonn Protocol. AU   Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor.

Chakrabarti, Subhadip
TI   An Analysis of Advertising Wars. AU   Haller, Hans; Chakrabarti, Subhadip.

Chan, Sewin
PD   February 2002. TI   How Does Job Loss Affect the Timing of Retirement? AU   Chan, Sewin; Stevens, Ann Huff. AA   Chan: New York University. Stevens: Yale University and NBER. SR   National Bureau of Economic Research Working Paper: 8780; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   J26, J63. KW   Job Loss. Retirement. Pensions.
AB   We use the Health and Retirement Study to examine the effects of job loss on factors affecting retirement incentives, including earnings, assets and pensions. We then estimate models of the retirement decision, which take into account the incentive to retire and any additional effects of displacement that are not captured by retirement incentives. There are substantial effects of displacement on retirement incentives as the result of changes to both earnings and pensions. Displacement significantly increases the probability of retirement, but only a small fraction of the displacement-induced changes in retirement behavior and labor force participation are the result of workers responding to these altered retirement incentives.

Chang, Yoonhee Tina
PD   January 2003. TI   Dynamics of Banking Technology Adoption: An Application to Internet Banking. AA   University of Warwick. SR   The Warwick Economics Working Paper Series: 664; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG   26. PR   no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE   D80, G21, L86, O33. KW   Internet Banking. Technology Adoption. First-Mover Advantage. Pre- emption. Social Norm.
AB   This paper is concerned with examining behavior of firms (banks) and consumers (banks' customers) in the event of a new technology (internet banking) introduction. The determinants of consumer adoption of internet banking are characterized using survey data from Korea in both static and dynamic framework. The paper finds evidence that adoption of internet banking is influenced by sex, age, martial status, degree of exposure to internet banking, and the characteristics of the banks. A duration analysis shows no evidence of first mover advantage (order effects) in internet banking whilst the largest bank (rank effects) in commercial banking remains dominant in internet banking. The results imply that the internet banking adoption is dominated by social norm effects.

Charles, Kerwin Kofi
PD   September 2002. TI   Abortion Legalization and Adolescent Substance Use. AU   Charles, Kerwin Kofi; Stephens, Melvin, Jr.. AA   Charles: University of Michigan and NBER. Stephens: Carnegie Mellon University and NBER. SR   National Bureau of Economic Research Working Paper: 9193; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   28. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   I12, J13. KW   Abortion. Substance Use.
AB   We assess whether in utero exposure to legalized abortion in the early 1970's affected individuals' propensities to use controlled substances as adolescents. We exploit the fact that some states legalized abortion before national legalization in 1973 to compare differences in substance use for adolescents across birth cohorts in different states. We find that persons exposed to early legalization were, on average, much less likely to use controlled substances. We also assess how substance use varies with state level birth rates and abortion ratios. Overall, our results suggest that legalization lowered substance use because of the selective use of abortion by relatively disadvantaged women.

Checchi, Daniele
TI   School Quality and Family Background in Italy. AU   Brunello, Giorgio; Checchi, Daniele.

Chen, Kong-Pin
PD   August 2002. TI   The Value of Multilateral Trade

Liberalization and the Need for Third-Party Sanction. **AU** Chen, Kong-Pin; Qin, Cheng-Zhong; Qiu, Larry D. **AA** Chen: Institute for Social Sciences and Philosophy, Academia Sinica, Taipei, Taiwan. Qin: UCSB. Qiu: Hong Kong University of Science and Technology. **SR** University of California, Santa Barbara, Working Paper in Economics: 2002/14; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. **PG** 16. **PR** no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". **JE** F12, F13. **KW** Multilateral Trade Liberalization. WTO.
AB Trade policies such as tariffs are often featured by the prisoner's dilemma. One country's trade liberalization is vulnerable to the opportunism of another country. This problem is more serious in cases where a country behaving opportunistically can only be punished by the victims. In a trade model with three countries, we show that "circular concessions" are the only way to have any Pareto-improving trade liberalization. The circular nature of the concessions implies that if punishment can be carried out only by the victim of opportunistic behavior, multilateral trade liberalization cannot be sustained. Our results have implications for rule design in multilateral trade systems such as the WTO.

Chiesa, Gabriella
PD January 2003. **TI** Privatization and Financial Market Development: Theoretical Issues. **AU** Chiesa, Gabriella; Nicodano, Giovanna. **AA** Chiesa: University of Bologna. Nicodano: University of Torino. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/01; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 18. **PR** no charge; available only on website. **JE** G14, L33. **KW** Privatization. Financial Market Development.
AB Stock market capitalization in developed countries grew while massive privatization plans were in progress. It is however possible that stock market development would have occurred anyway. Below we identify features that are specific to share issue privatizations (SIPs) and should a priori impact on market liquidity and market size. A positive correlation between such features and market development in a cross section of countries would support the claim that certain types of SIPs contribute to stock market development.

Cho, Wendy K.
TI An Information Theoretic Approach to Ecological Estimation and Inference. **AU** Judge, George G.; Miller, Douglas; Cho, Wendy K.

PD 2003. **TI** Some Empirical Evidence on the Impact of Measurement Errors in Making Ecological Inferences. **AU** Cho, Wendy K.; Judge, George G. **AA** Cho: University of Illinois. Judge: UC Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 947; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/947. **PG** 23. **PR** $5.75 domestic; $11.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C10. **KW** Ecological

Inference. Maximum Entropy. Voting Rights.
AB We seek to identify the impact of data measurement error problems in the context of ecological inference applications. We explore the statistical and substantive implications of using inaccurate proxy variables in the estimation and inference process. The focus of our analysis is on applications of ecological inference in cases involving the Voting Rights Act. We demonstrate our findings with a unique data set on racial registration and turnout in Louisiana and South Carolina.

Chong, Alberto
PD December 2002. **TI** Privatization and Labor Force Restructuring Around the World. **AU** Chong, Alberto; Lopez-De-Silanes, Florencio. **AA** Chong: Inter-American Development Bank. Lopez-De-Silanes: Yale University and NBER. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/109; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 33. **PR** no charge; available only on website. **JE** G32, H10, J45, O10. **KW** Privatization. Downsizing. Adverse Selection. Corporate Governance.
AB Critics of privatization argue that poor labor force restructuring is a key concern and that governments should establish better retrenchment programs. Using new data from a random sample of 400 companies in the world, we test competing theories about the wisdom of retrenchment programs and their effect on prices paid by buyers and rehiring policies by private owners after privatization. Our results show that adverse selection plagues retrenchment programs carried out by governments before privatization. Controlling for endogeneity, several labor retrenchment policies yield a negative impact on net privatization prices. In confirmation of the adverse selection argument, various types of voluntary downsizing lead to a higher probability of rehiring the same workers by the new private owners. Compulsory skill-based programs are the only type of program that is marginally associated with higher prices and lower rehiring rates after privatization, but the political and economic costs of this policy may make it somewhat unpractical. A qualified "do not intervene" appears to be the safest bet in labor retrenchment before privatization.

Christiano, Lawrence J.
PD June 2003. **TI** What Happens After a Technology Shock? **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Vigfusson, Robert. **AA** Christiano and Eichenbaum: Northwestern University. Vigfusson: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 768; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 52. **PR** no charge. **JE** E24, E32. **KW** Productivity. Long-Run Restriction. Hours Worked. Weak Instruments.
AB We provide empirical evidence that a positive shock to technology drives up per capita hours worked, consumption, investment, average productivity and output. This evidence contrasts sharply with the results reported in a large and growing literature that argues, on the basis of aggregate data, that per capita hours worked fall after a positive technology shock. We argue that the difference in results primarily reflects specification error in the way that the literature models the

low-frequency component of hours worked.

PD September 2003. TI   How do Canadian Hours Worked Respond to a Technology Shock? AU   Christiano, Lawrence J.; Eichenbaum, Martin; Vigfusson, Robert. AA   Christiano and Eichenbaum: Northwestern University. Vigfusson: Board of Governors of the Federal Reserve System. SR   Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 774; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp.   PG   20. PR   no charge. JE   J22, O30, O51. KW Productivity. Long-run Restriction. Hours Worked. Weak Instruments.
AB   This paper investigates the response of hours worked to a permanent technology shock. Based on annual data from Canada, we argue that hours worked rise after a positive technology shock. We obtain a similar result using annual data from the United States. These results contradict a large literature that claims that a positive technology shock causes hours worked to fall. We find that the different results are due to the literature making a specification error in the statistical model of per capital hours worked. Finally, we present results that Canadian monetary policy has accommodated technology shocks.

Clemens, Michael A.
PD   September 2002. TI   Why Did the Tariff-Growth Correlation Reverse After 1950? AU   Clemens, Michael A.; Williamson, Jeffrey G. AA   Clemens: Center for Global Development. Williamson: Harvard University, NBER and Center for International Development. SR   National Bureau of Economic Research Working Paper: 9181; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   26. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F13, N71, N72, O10. KW   Tariffs. Growth. Protection.
AB   This paper uses a new database to establish a key finding: high tariffs were associated with fast growth before World War II, while associated with slow growth thereafter. The paper offers some explanations for the sign switch by controlling for novel measures of the changing world economic environment. Rejecting alternative explanations based on changing export market growth or transportation cost declines, it shows how the oft-quoted Sachs-Warner result might be turned on its head in a world environment characterized by a moderately higher level of generalized tariff protection. We confirm the spirit of recent findings by Rodrik and Rodriguez that postwar tariffs need not be negatively correlated with growth in an unconditional fashion. Just a 4% increase in average tariff rates among trading partners might suffice to reverse any negative relationship between an average country's tariffs and its growth. An increase in own tariffs after 1970 hurt or at least didn't help growth, but it would have helped growth in a world where average trading partners' tariffs were moderately higher. The world environment matters. Leader-country reaction to big world events matters.

Cochrane, John H.
PD   September   2002.   TI   Bond   Risk   Premia. AU   Cochrane, John H.; Piazzesi, Monika. AA   Cochrane: University of Chicago and NBER. Piazzesi: UCLA and NBER. SR   National Bureau of Economic Research Working Paper: 9178; Working Papers, NBER, 1050 Massachusetts Avenue,

Cambridge,   MA   02138-5398.   Website: www.nber.org. PG   37. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   E44, G12. KW Forward Rates. Predicting Risk Premia. Bonds.
AB   This paper studies time variation in expected excess bond returns. We run regressions of annual excess returns on forward rates. We find that a single factor predicts 1-year excess returns on 1-5 year maturity bonds with an R2 of up to 43%. The single factor is a tent- shaped linear function of forward rates. The return forecasting factor has a clear business cycle correlation: Expected returns are high in bad times, and low in good times, and the return-forecasting factor forecasts long-run output growth. The return-forecasting factor also forecasts stock returns, suggesting a common time-varying premium for real interest rate risk. The return forecasting factor is poorly related to level, slope, and curvature movements in bond yields. Therefore, it represents a source of yield curve movement not captured by most term structure models. Though the return-forecasting factor accounts for more than 99% of the time-variation in expected excess bond returns, we find additional, very small factors that forecast equally small differences between long-term bond returns, and hence statistically reject a one-factor model for expected returns.

Cockburn, Iain M.
TI   University Research, Industrial R&D, and the Anchor Tenant Hypothesis. AU   Agrawal, Ajay; Cockburn, Iain M.

Coe, David T.
TI   The Missing Globalization Puzzle. AU   Bhavnani, Rikhil; Coe, David T.; Subramanian, Arvind; Tamirisa, Natalia T.

Coenen, Guenter
PD   March 2003. TI   The Zero-Interest-Rate Bound and the Role of the Exchange Rate for Monetary Policy in Japan. AU   Coenen, Guenter; Wieland, Volker. AA   Coenen: European Central Bank. Wieland: Johann-Wolfgang-Goethe University. SR   European Central Bank Working Paper: 218; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG   52.   PR   no   charge.   JE   E31,   E52,   E58. KW   Monetary Policy Rules. Zero Interest Rate Bound. Liquidity Trap. Nominal Rigidities. Exchange Rates.
AB   In this paper we study the role of the exchange rate in conducting monetary policy in an economy with near-zero nominal interest rates as experienced in Japan since the mid-1990's. Our analysis is based on an estimated model of Japan, the United States, and the euro area with rational expectations and nominal rigidities. First, we provide a quantitative analysis of the impact of the zero bound on the effectiveness of interest rate policy in Japan in terms of stabilizing output and inflation. Then we evaluate three concrete proposals that focus on depreciation of the currency as a way to ameliorate the effect of the zero bound and evade a potential liquidity trap. Finally, we investigate the international consequences of these proposals.

PD   May 2003. TI   Price Stability and Monetary Policy Effectiveness When Nominal Interest Rates are Bounded at Zero. AU   Coenen, Guenter; Orphanides, Athanasios; Wieland, Volker. AA   Coenen: European Central Bank. Orphanides: Board of Governors of the Federal Reserve System. Wieland: Goethe University of Frankfurt and CEPR. SR   European Central Bank Working Paper: 231; European

Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 38. **PR** no charge. **JE** E31, E52, E58. **KW** Inflation Targeting. Price Stability. Monetary Policy Rules. Liquidity Trap.

AB This paper employs stochastic simulations of a small structural rational expectations model to investigate the consequences of the zero bound on nominal interest rates. We find that if the economy is subject to stochastic shocks similar in magnitude to those experienced in the U.S. over the 1980s and 1990s, the consequences of the zero bound are negligible for target inflation rates as low as 2 percent. However, the effects of the constraint are non-linear with respect to the inflation target and produce a quantitatively significant deterioration of the performance of the economy with targets between 0 and 1 percent. The variability of output increases significantly and that of inflation also rises somewhat. Also, we show that the asymmetry of the policy ineffectiveness induced by the zero bound generates a non-vertical long-run Phillips curve. Output falls increasingly short of potential with lower inflation targets.

Cogan, John F.

AB Recently we were asked to serve on the President's Commission to Strengthen Social Security (CSSS) along with 14 other members drawn equally from both major political parties. The Commission's charge was to provide recommendations to modernize the Social Security system, restore its fiscal soundness, and develop a workable system of Personal Retirement Accounts. This paper explains how the Commission arrived at some of its recommendations and the role that economics played in contributing to these recommendations. We describe the key institutional constraints confronting efforts to reform Social Security and how these constraints influenced Commission decisions. We also illustrate how economics research influenced the Commission's analysis of how to structure personal accounts, ways to enhance traditional Social Security program finances, and means of measuring the extent of financial progress achieved through reform.

Cohen, Alma

Cohen, Randolph B.

AB A large body of literature suggests that firm-level stock prices "underreact" to news about future cash flows, i.e., shocks to a firm's expected cash flows are positively correlated with shocks to expected returns on its stock. We estimate a vector autoregression to examine the joint behavior of returns, cash-flow news, and trading between individuals and institutions. Our main finding is that institutions buy shares from individuals in response to good cash-flow news, thus exploiting the underreaction phenomenon. Institutions are not simply following price momentum strategies: When pricing goes up in the absence of positive cash-flow news, institutions sell shares to individuals. Although institutions are trading in the "right" direction, institutions as a group outperform individuals by only 1.44 percent per annum before transaction and other costs, because they are extremely conservative in deviating from the value-weighted market index.

Coimbra, Rui

AB We discuss the effects of unions in the labor market on steady-state multiplicity and welfare, and on the occurrence of local indeterminacy, local bifurcations and (stochastic and deterministic) endogenous fluctuations driven by self-fulfilling expectations. We consider an overlapping generations economy with capital externalities and we focus on underemployment equilibria. We find that for wide regions in the parameter space, including an arbitrarily small degree of externalities and a Cobb-Douglas technology, unions increase steady-state employment and welfare, and local indeterminacy (sunspots) emerges. Our results show that the role of unions in shaping local dynamics depends on technology (externalities and factor's substitutability). Indeed, if capital externalities take intermediate values, local indeterminacy requires implausible low degrees of factor substitutability when unions are sufficiently strong. We also find that Hopf bifurcations and local deterministic endogenous fluctuations generically occur, with an elasticity of factor substitution the closest to 1 the lower the unions' bargaining power. Moreover, transcritical bifurcations generically occur for lower levels of the elasticity of factor substitution, implying the existence of two close steady states, one being a saddle and the other being indeterminate. With a CES, however, technology multiplicity of steady states is only possible in the presence of unions.

Collins, Kirk A.

Ontario, RBC Financial Group EPRI Working Paper: 2002/05; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/. **PG** 45. **PR** Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. **JE** H24, I22, J24. **KW** Effective Tax Rates (ETRs). Human Capital. Canada.
AB This paper analyzes the impacts of a wide range of tax provisions on the incentive to invest in human capital, and shows how these effects can be quantified using effective tax rates, or ETRs. The approach is illustrated using data for Canada. For individuals with median earnings, ETRs on the human capital formed in first-degree university study are sizeable, although not as large as for physical capital in Canada. When the expenditure side and its direct subsidies are also taken into account, the net effective tax rate on human capital becomes negative. The taxation of human capital is far from uniform. ETRs vary by income level, gender, part-time vs. full-time study, whether students have loans, number of dependents, and use of sheltered savings plans. Workers at higher percentile levels of the earnings distribution throughout life may face ETRs substantially higher than those for low-income workers, as a result of progressive income taxation.

Contreras, Dante
PD June 2002. **TI** Vouchers, School Choice and the Access to Higher Education. **AA** Universidad de Chile. **SR** Yale Economic Growth Center Discussion Paper: 845; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 24. **PR** $2.00 plus postage. **JE** I21, I22, I28. **KW** Education. Vouchers. Gender. Chile.
AB For over twenty years, a voucher system has been used in Chile to promote competition in the educational system between public and private schools. Attending a private subsidized school is associated with increased standardized test scores, but the apparent impact is relatively small. Controlling for school choice using a supply-side instrument (school availability at community level) implies substantially larger impacts of the voucher system. The effect of parents' education on academic performance is smaller than that implied by simple OLS estimates that do not control for school choice. Finally, the results also show that family school choice is gender biased, females are sent more often to voucher schools while males are sent more often to private (non-voucher) schools. In addition, the TSLS estimates show that females gain less than males from going to voucher schools.

Copeland, Adam
PD December 2002. **TI** The Welfare Effects of Incentive Schemes. **AU** Copeland, Adam; Monnet, Cyril. **AA** Copeland: Federal Reserve Board. Monnet: European Central Bank. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/08; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 33. **PR** no charge. **JE** D61, J30, L20. **KW** Principal-Agent Theory.

Personnel Economics.
AB This paper computes the change in welfare associated with the introduction of incentives. Specifically, we calculate by how much the welfare gains of increased output due to incentives outweigh workers' disutility from increased effort. We accomplish this by studying the use of incentives by a firm in the check-clearing industry. Using this firm's production records, we model and estimate the worker's dynamic effort decision problem. We find that the firm's incentive scheme has a large effect on productivity, raising it by 14% over the sample period. Using our parameter estimates, we show that the cost of increased effort due to incentives is equal to the dollar value of a 9% rise in productivity. Welfare is measured as the output produced minus the cost of effort, hence the net increase in welfare due to the introduction of the firm's bonus plan is 5%. Under a first-best scheme, we find that the net increase in welfare is 6%.

Corcoran, Sean P.
PD September 2002. **TI** Changing Labor Market Opportunities for Women and the Quality of Teachers 1957-1992. **AU** Corcoran, Sean P.; Evans, William N.; Schwab, Robert S. **AA** Corcoran and Schwab: University of Maryland. Evans: University of Maryland and NBER. **SR** National Bureau of Economic Research Working Paper: 9180; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I20, J24, N32. **KW** Education. Gender.
AB School officials and policy makers have grown increasingly concerned about their ability to attract and retain talented teachers. A number of authors have shown that in recent years the brightest students are less likely to enter teaching. In addition, it is frequently claimed that the ability of schools to attract these top students has been steadily declining for years. There is, however, surprisingly little evidence measuring the extent to which this popular proposition is true. We have good reason to suspect that the quality of those entering teaching has fallen over time. Teaching has remained a predominately female profession for years; at the same time, the employment opportunities for talented women outside of teaching have soared. In this paper, we combine data from four longitudinal surveys of high school graduates spanning the years 1957-1992 to examine how the propensity for talented women to enter teaching has changed over time. We find that while the quality of the average new female teacher has fallen only slightly over this period, the likelihood that a female from the top of her high school class will eventually enter teaching has fallen dramatically from 1964 to 1992 -- by our estimation, from almost 20% to under 4%.

Coronado, Julia Lynn
PD April 2003. **TI** Wealth Effects and the Consumption of Leisure: Retirement Decisions During the Stock Market Boom of the 1990s. **AU** Coronado, Julia Lynn; Perozek, Maria. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/20; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 39. **PR** no charge. **JE** D91, J26. **KW** Wealth Effect.

Retirement.

AB It is well accepted that households increase consumption of goods and services in response to an unexpected increase in wealth. Consensus estimates of this wealth effect are in the range of 3 to 5 cents of additional consumption spending in the long run for each additional dollar of wealth. Economic theory also suggests that consumption of leisure, like consumption of goods and services, should increase with positive shocks to wealth. In this paper, we ask whether the run-up in equity prices during the 1990s led older workers to retire earlier than they had previously planned. We identify the effect by exploiting unique data on retirement expectations from the Health and Retirement Survey. Our econometric results suggest that respondents who held corporate equity immediately prior to the bull market of the 1990s retired, on average, 7 months earlier than other respondents.

PD July 2003. **TI** Did Pension Plan Accounting Contribute to a Stock Market Bubble? **AU** Coronado, Julia Lynn; Sharpe, Steven A. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/38; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 45. **PR** no charge. **JE** G14, G23, M41. **KW** Pension. Accounting. Firm Valuation. Bubble. Stock Market.

AB During the 1990s, the asset portfolios of defined benefit (DB) pension plans ballooned with the booming stock market. Due to current accounting guidelines, the robust growth in pension assets resulted in a stealthy but substantial boost to the profits of sponsoring corporations. This study assesses the extent to which equity investors were fooled by pension accounting. First, we test whether stock prices reflected the fair market value of sponsoring firms' net pension assets reported in footnotes to the 10-K or, instead, some capitalization rate on the pension cost accruals embedded in the income statement. The results strongly favor the latter view. Additional tests indicate that the market does not value a firm's "pension earnings" differently from its "core earnings", suggesting that pension earnings are often overvalued. Simulations show that a failure to differentiate between core and pension earnings induces large valuation errors for many firms, although this pension effect did not materially contribute to aggregate overvaluation before 2000. However, overvaluation from pension earnings reached 5 percent in the aggregate in 2001 when the steep stock price decline and the drop in interest rates had slashed pension net asset values but not pension earnings.

Corsetti, Giancarlo

PD February 2002. **TI** Self-Validating Optimum Currency Areas. **AU** Corsetti, Giancarlo; Pesenti, Paolo. **AA** Corsetti: University of Rome III. Pesenti: IMF and NBER. **SR** National Bureau of Economic Research Working Paper: 8783; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E50, F40. **KW** Currency Area. Monetary Unification. Exchange Rate Pass-Through.

AB In this paper we show that a currency area can be a self-validating optimal policy regime, even when monetary unification does not foster real economic integration and intra-

industry trade. In our model exporters choose the degree of exchange rate pass-through onto export prices given monetary policy rules, and monetary authorities choose optimal policy rules taking firms' pass-through as given. We show that there exist two equilibria, which define two self-validating currency regimes. In the first, firms preset prices in domestic currency only, and let foreign-currency prices to be determined by the law of one price. Optimal policy rules then target the domestic output gap and floating exchange rates support the flex-price allocation. In the second, equilibrium firms optimally preset prices in local currency, and a monetary union is the optimal policy choice for all countries. Although business cycles are more synchronized with a common currency, flexible exchange rates are superior in terms of welfare.

PD February 2002. **TI** Self-Validating Optimum Currency Areas. **AU** Corsetti, Giancarlo; Pesenti, Paolo. **AA** Corsetti: Universita di Roma III, Yale University, and CEPR. Pesenti: IMF and NBER. **SR** CEPR Discussion Paper: 3220; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** E50, F40. **KW** Optimum Currency Areas. Monetary Union. Optimal Cyclical Monetary Policy. Nominal Rigidities. Exchange Rate Pass-Through.

AB In this paper we show that a currency area can be a self-validating optimal policy regime, even when monetary unification does not foster real economic integration and intra-industry trade. This is because profit-maximizing producers in a currency area adopt endogenous pricing strategies that make exchange rate fluctuations highly costly in welfare terms. In our model exporters choose the degree of exchange rate pass-through onto export prices given monetary policy rules, and monetary authorities choose optimal policy rules taking firms' pass-through as given. We show that there exist two equilibria, which define two self-validating currency regimes. In the first, firms preset prices in domestic currency only, and let foreign-currency prices to be determined by the law of one price. Optimal policy rules then target the domestic output gap and floating exchange rates support the flex-price allocation. In the second equilibrium firms optimally preset prices in local currency and a monetary union is the optimal policy choice for all countries. Although business cycles are more synchronized with a common currency, flexible exchange rates are superior in terms of welfare.

Cossin, Didier

PD January 2003. **TI** A Framework for Collateral Risk Control Determination. **AU** Cossin, Didier; Huang, Zhijiang; Aunon-Nerin, Daniel; Gonzales, Fernando. **AA** Cossin: HEC, University of Lausanne, Fame and IMD. Huang and Aunon-Nerin: Fame and HEC, University of Lausanne. Gonzalez: European Central Bank. **SR** European Central Bank Working Paper: 209; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 48. **PR** no charge. **JE** G10, G21. **KW** Collateral. Repurchase Transactions. Default Risk. Central Banks. Monetary Policy Operations.

AB This paper derives a general framework for collateral risk control determination in repurchase transactions. The objective is to treat consistently heterogeneous collateral so that the collateral taker has a similar risk exposure whatever the collateral pledged. The framework measures the level of risk

with the probability of incurring a loss higher than a pre-specified level given two well known parameters used to manage the intrinsic risk of collateral: marking to market and haircuts. It allows for the analysis in a closed form of the way in which different relevant factors interact in the risk control of collateral (e.g., marking to market frequency, level of interest rate volatility, time to capture and liquidity risk, counterparty default probability). The framework, which combines the recent theoretical literature on credit and interest risk, provides an alternative quantifiable and objective approach to the existing more ad-hoc rule- based methods used in haircut determination.

Coughlin, Cletus C.
TI   Pass-Through Estimates and the Choice of an Exchange Rate Index. AU   Pollard, Patricia S.; Coughlin, Cletus C.

Covitz, Daniel M.
PD   June 2003. TI   Do Banks Strategically Time Public Bond Issuance Because of Accompanying Disclosure, Due Diligence, and Investor Scrutiny? AU Covitz, Daniel M.; Harrison, Paul. AA   Federal Reserve Board. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/37; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG   56. PR   no charge. JE   G21, G28, G31, G32. KW Bond Issuance. Disclosure. Due Diligence. Financial Institutions.
AB   This paper tests a new hypothesis that bank managers issue bonds, at least in part, to convey positive, private information and refrain from issuance to hide negative, private information. We find evidence for this hypothesis, using rating migrations, equity returns, bond issuance, and balance sheet data for US bank holding companies. The results add to our understanding of the role of "market discipline" in monitoring bank holding companies and also inform upon how proposed regulatory requirements that banking organizations frequently issue public bonds might augment "market discipline.".

Cremer, Helmuth
PD   April 2003. TI   Intergenerational Transfer of Human Capital and Optimal Education Policy. AU Cremer, Helmuth; Pestieau, Pierre. AA   Cremer: University of Toulouse. Pestieau: University de Liege, Universite de Catholique de Louvain, and DELTA. SR   CORE Discussion Paper: 2003/30; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html.   PG   17. PR $5 per paper; $100 per year. JE   I20, I30, J24. KW   Human Capital. Education Policy. Intergenerational Transfers. Welfare.
AB   This paper studies the design of education policies in a setting of successive generations with heterogeneous individuals (high and low earning ability). Parents' investment in education is motivated by warm glow altruism and determines the probability that a child has high ability. Education policies consist of a subsidy on private educational investments and possibly of public education. We show that when an income tax is available, the subsidy on education should not depend on redistributive considerations. Instead, it is determined by two terms. First, a Pigouvian term which arises

because under warm glow altruism parents' utility does not properly account for the impact of education on future generations. The second term captures a "merit good" effect, which arises when the warm glow term is not fully included in social welfare (possibility of laundering out). The two terms are of opposite sign and the optimal subsidy may be positive or negative. Finally, we derive conditions under which public education is welfare improving and show that total crowding out of private expenditure (for one of the types) may be desirable.

Cudmore, Edgar
PD   December 2002. TI   Border Delays and Trade Liberalization.   AU Cudmore, Edgar; Whalley, John. AA   University of Western Ontario. SR   University of Western Ontario, RBC Financial Group EPRI Working Paper: 2002/06; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/.   PG   14. PR   Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE   D50, F10, P30. KW   Border Delays. Trade. Queuing. General Equilibrium.
AB   Delays at the border for customs clearance are seemingly a central feature of the trade regime in the CIS states. Here, we argue with queuing costs being endogenously determined in such circumstances, tariff liberalization (even in small economy cases) can be welfare worsening since tariff revenues are replaced by resource using queuing costs. On the other hand, corruption can be welfare improving if queuing costs are replaced by resource transferring bribes. We also show how added distortions between perishable and non-perishable, or between light and heavy goods can also arise. We show these outcomes using a simple general equilibrium model, and explore the numerical implications using Russian data. The orders of magnitude are both significant and opposite in sign to conventional analyses.

Cullen, Julie Berry
TI   The Welfare Implications of Increasing Disability Insurance Benefit Generosity. AU   Bound, John; Cullen, Julie Berry; Nichols, Austin; Schmidt, Lucie.

Currarini, Sergio
PD   March 2003. TI   On the Stability of Hierarchies in Games With Externalities. AA   University of Venezia. SR   Fondazione Eni Enrico Mattei Note di Lavoro: 2003/19; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG   18. PR   no charge; available only online. JE   D70. KW   Hierarchies. Externalities. Decision Making.
AB   We study the group stability of collective decision making when society is organized according to a non directed graph, and groups' payoff possibilities are given by a partition function. We focus on the stability properties of hierarchical organizations, formally described by minimally connected graphs (or trees). Building on previous works by Greenberg and Weber (1986, 1993) and by Demange (1994, 2001), we restrict the ability of raising objections to proposed payoff imputations to coalitions that are connected in the organization. We show that the stability properties of hierarchical organizations,

proved in Demange (1994, 2002), extend to partition function games with negative externalities. Under positive externalities, although not ensuring social stability, hierarchies are the "most stable" organizational forms for society.

Currie, Janet
TI Networks or Neighborhoods? Correlations in the Use of Publicly- Funded Maternity Care in California. AU Aizer, Anna; Currie, Janet.

Das, Udaibir S.
PD September 2002. TI Crisis Prevention and Crisis Management: The Role of Regulatory Governance. AU Das, Udaibir S.; Quintyn, Marc. AA IMF. SR International Monetary Fund Working Paper: WP/02/163; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 50. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE G18, G28, K23, L50. KW Regulatory Governance. Agency Independence. Accountability. Transparency. Integrity. Financial Sector. Crisis Management.
AB Good regulatory governance in the financial system is a critical component of financial stability. Research on the topic has not been very systematic or rigorous. This paper first defines four key components of regulatory governance -- independence, accountability, transparency, and integrity. It explores the quality of regulatory governance based on the financial system evaluations under the Financial Sector Assessment Programs (FSAPs), which are the first and most comprehensive effort to analyze regulatory governance issues. In terms of independence, banking supervisors are ahead of the others, while securities regulators perform better on transparency. Insurance regulators are weak in all the regulatory governance components. On the whole, regulators still have a long way to go in terms of practicing good governance. The paper also discusses governance issues specific to crisis management and concludes with an agenda for further research.

Davidson, Carl
PD September 2002. TI Trade Liberalization and Compensation. AU Davidson, Carl; Matusz, Steve. AA University of Nottingham and Michigan State University. SR University of Nottingham, GEP Research Paper: 2002/10; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/ˆlezec/ research/dp/. PG 50. PR no charge. JE F15, F16, J65. KW Trade Liberalization. Subsidies. Unemployment Insurance.
AB Trade liberalization harms some groups while generating aggregate net benefits. In this paper we investigate the best way to compensate those who lose from freer trade. We consider four labor market policies: wage subsidies, employment subsidies, trade adjustment assistance (i.e., unemployment insurance) and training subsidies. Our goal is to find the policy that fully compensates each group of losers at the lowest cost to the economy (in terms of deadweight loss). We argue that the best way to compensate those who bear the adjustment costs triggered by liberalization is with a temporary targeted wage subsidy while the best way to compensate those who remain trapped in the previously protected sector is with temporary

targeted employment subsidies. Our analysis also indicates that the cost of achieving full compensation is relatively low.

Davies, James B.
TI Measuring Effective Tax Rates on Human Capital: The Canadian Case. AU Collins, Kirk A.; Davies, James B.

De Jong, Frank
TI Privatization and Stock Market Liquidity. AU Bortolotti, Bernardo; De Jong, Frank; Nicodano, Giovanna; Schindele, Ibolya.

de Ruijter, Arie
PD January 2003. TI Managing Diversity in a Glocalizing World. AU de Ruijter, Arie; van Londen, Selma. AA de Ruijter: University of Tilburg. van Londen: Utrecht University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/18; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 9. PR no charge; available only online. JE F02. KW Diversity. Globalization. Localization. Glocalization. Compatibility.
AB Our daily lives are governed by products and images originating from all over the world, through the process of globalization. At the same time, however, globalization creates favorable conditions for all sorts of forms of particularization, localization and even fragmentation. While individuals and groups acquire multiple identities, the resulting plurality gives rise to conflicts, controversies and variations, but also to attempts to live peacefully together, to co-ordinate activities, and to balance interests. In short, present-day society embodies the ongoing dialectical processes of globalization and localization, and a review and reassessment of our reality is thus required. A necessary precondition for this review, however, is to promote dialogue between groups with different identities, without asking these groups to develop a shared system of basic values or a common worldview, i.e. commonality. The paper thus suggests (1) a plea for compatibility -- instead of commonality -- with regard to cultural values and (2) a strong emphasis on the interaction model in decision making, i.e. a model which does not advocate uniformity, but the compatibility of views, and in particular, practices.

De Santis, Roberto A.
TI The Admission of Accession Countries to an Enlarged Monetary Union: A Tentative Assessment. AU Ca'Zorzi, Michele; De Santis, Roberto A.

de Vries, Frans P.
TI Location Choice by Households and Polluting Firms: An Evolutionary Approach. AU Dijkstra, Bouwe R.; de Vries, Frans P.

Decressin, Anja
PD September 2002. TI On Sand and the Role of Grease in Labor Markets: How Does Germany Compare? AU Decressin, Anja; Decressin, Joerg. AA Decressin: U.S. Census Bureau. Decressin: IMF. SR International Monetary Fund Working Paper: WP/02/164; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 30.

PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** E24, E31, E52, J30. **KW** Wage Setting. Wage Rigidities. Inflation Targets.
AB This paper investigates wage setting in (West) Germany using the German Socioeconomic Panel dataset on individuals and compares the findings with those available for the United Kingdom and the United States. The fraction of job stayers in (West) Germany who suffer unchanged wages or wage cuts compares with that in similar data for the Anglo-American countries, even after various adjustments for potential reporting errors. While nominal wages of job stayers are rigid downward, real wages are not. Nevertheless, the macroeconomic effects of the nominal rigidity are limited and cannot be weakened substantially by raising inflation.

Decressin, Joerg
TI On Sand and the Role of Grease in Labor Markets: How Does Germany Compare? **AU** Decressin, Anja; Decressin, Joerg.

Degeorge, Francois
PD December 2002. **TI** Selling Company Shares to Reluctant Employees: France Telecom's Experience. **AU** Degeorge, Francois; Jenter, Dirk; Moel, Alberto; Tufano, Peter. **AA** Degeorge: HEC School of Management and CEPR. Jenter: Harvard University. Moel: Monitor Group. Tufano: Harvard Business School and NBER. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/111; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 28. **PR** no charge; available only on website. **JE** G11, G30, L33. **KW** Employee Stock Ownership. Privatization. Portfolio Choice.
AB In 1997, France Telecom, the state-owned French telephone company, went through a partial privatization. We adapt a standard neoclassical model to predict how employees might respond to the firm's offer to sell them various classes of shares. Using a database that tracks over 200,000 eligible participants, we analyze employees' decisions whether to participate; how much to invest; and what form of stock alternatives they selected. The results are broadly consistent with the neoclassical model. However, we report four anomalous findings: (1) The firm specificity of human capital has a negligible effect on employees' investment decisions; (2) the amount of funds invested in the stock plans seems driven by a different set of forces than the decision to participate, which we suspect reflects a "threshold effect" that we attempt to measure; (3) employees "left on the table" benefits equal to one to two month's salary by failing to participate; and (4) most participants underweighted the most valuable asset.

Del Boca, Alessandra
PD April 2003. **TI** Non-Convexities in the Adjustment of Different Capital Inputs: A Firm-Level Investigation. **AU** Del Boca, Alessandra; Galeotti, Marzio; Rota, Paola. **AA** Del Boca and Rota: University of Brescia. Galeotti: University of Milan. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/35; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 26. **PR** no charge; available only online. **JE** C33, C34, D24, G31. **KW** Investment. Heterogenous Capital.

Non-Convexities. Fundamental Q. Panel Data.
AB Recent developments in investment research have highlighted the importance of non-convexities and irreversibilities in the firms' adjustment of quasi-fixed inputs. However, aggregation across capital goods may smooth out the discontinuities associated with the adjustment of individual assets. The lack of suitable data is one of the reasons why empirical work has strongly relied on the assumption of capital homogeneity. In this paper we exploit a new data set of 1539 Italian firms which allows us to disaggregate capital and consider separately purchases and sales of assets. We disaggregate between equipment and structures and construct measures of fundamental Q to capture investment opportunities associated with each asset. To uncover the pattern of dynamic adjustment we use non-parametric techniques to relate each individual investment to own fundamental Q.

Dell'Ariccia, Giovanni
PD October 2002. **TI** Moral Hazard and International Crisis Lending: A Test. **AU** Dell'Ariccia, Giovanni; Schnabel, Isabel; Zettelmeyer, Jeromin. **AA** Dell'Ariccia and Zettelmeyer: IMF. Schnabel: University of Mannheim. **SR** International Monetary Fund Working Paper: WP/02/181; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 31. **PR** $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** E43, F34. **KW** Moral Hazard. International Lending. Financial Crises. Sovereign Debt.
AB We test for the existence of a moral hazard effect attributable to official crisis lending by analyzing the evolution of sovereign bond spreads in emerging markets before and after the Russian crisis. The refusal to bail out Russia in August 1998 is interpreted as an event that decreased the perceived probability of a future crisis lending to emerging markets. In the presence of moral hazard, such an event should raise not just the level of spreads, but the sensitivity with which spreads reflect fundamentals as well as their cross-country dispersion. We find strong evidence for all three effects.

Dembo, Amir
PD September 2002. **TI** Large Portfolio Losses. **AU** Dembo, Amir; Deuschel, Jean-Dominique; Duffie, Darrell. **AA** Dembo: Stanford University. Deuschel: Berlin Technical University. Duffie: Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 9177; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G11, G12. **KW** Portfolio Losses. Approximation.
AB This paper provides a large-deviations approximation of the tail distribution of total financial losses on a portfolio consisting of many positions. Applications include the total default losses on a bank portfolio, or the total claims against an insurer. The results may be useful in allocating exposure limits, and in allocating risk capital across different lines of business. Assuming that, for a given total loss, the distress caused by the loss is larger if the loss occurs within a smaller time period, we provide a large-deviations estimate of the likelihood that there will exist a sub-period of the future planning period during which a total loss of the critical severity occurs. Under certain conditions, this calculation is reduced to the calculation of the

likelihood of the same sized loss over a fixed initial time interval whose length is a property of the portfolio and the critical loss level.

Demiralp, Selva

AB The standard view of the monetary transmission mechanism rests on the central bank's ability to manipulate the overnight interest rate by controlling reserve supply. In the 1990s, there was a significant decline in level of reserve balances in the U.S. accompanied at first by an increase in the funds rate volatility. However, following this initial rise, volatility declined. In this paper, we find evidence of a structural break in volatility. We then estimate a tobit model of the major types of temporary open market operations and conclude that there have been changes in the Desk's reaction function that played a major role in controlling volatility.

den Haan, Wouter J.

AB This paper develops a model with multiple steady states (low tax and unemployment rate versus high tax and unemployment rate) in which equilibrium selection is not conditioned on a sunspot variable. Instead, large enough shocks initiate unavoidable transitions from one regime to the other. The predictions of this paper are consistent with the persistent increase in European unemployment rates observed during the seventies. The explanation given is that even if the unemployment rate decreases, it can only do so gradually because of matching frictions which in turn implies that the tax burden remains high and job creation remains low, making the return to a low unemployment rate impossible. The paper shows that in some cases transition to the low- unemployment regime is not possible when tax rates are adjusted each period to balance the budget even though this would be possible under an alternative policy with lower tax rates and (temporary) budget deficits.

Desai, Mihir A.

AB This paper analyzes the determinants of partial ownership of the foreign affiliates of U.S. multinational firms and, in particular, why partial ownership has declined markedly over the last 20 years. The evidence indicates that whole ownership is most common when firms coordinate integrated production activities across different locations, transfer technology, and benefit from worldwide tax planning. Since operations and ownership levels are jointly determined, it is necessary to use the liberalization of ownership restrictions by host countries and the imposition of joint venture tax penalties in the U.S. Tax Reform Act of 1986 as instruments for ownership levels in order to identify these effects. Firms responded to these regulatory and tax changes by expanding the volume of their intrafirm trade as well as the extent of whole ownership. The implied complementarity of whole ownership and intrafirm trade suggests that reduced costs of coordinating global operations, together with regulatory and tax changes, gave rise to the sharply declining propensity of American firms to organize their foreign operations as joint ventures over the last two decades. The forces of globalization appear to have increased the desire of multinationals to structure many transactions inside firms rather than through exchanges involving other parties.

AB This paper considers the effect of taxation on the location of foreign direct investment (FDI) and taxable income reported by multinational firms with particular attention to the regional dynamics of tax competition and the role of chains of ownership. Confidential affiliate-level data are used to compare the investment and income- reporting behavior of American-owned foreign affiliates across ownership forms and regions. Ten percent higher tax rates are associated with 5.0 percent lower FDI, controlling for parent company and observable aspects of local economies, and 0.9 percent lower returns on assets, controlling for parent company and level of FDI. Tax effects are particularly strong within Europe and for indirectly owned foreign affiliates. American firms finance a growing fraction of their foreign operations indirectly through chains of ownership, which now account for more than 30 percent of aggregate foreign assets and sales. Ownership chains are particularly concentrated among European affiliates. Since multinational firms from countries other than the United States face tax environments similar to those faced by indirectly owned affiliates of American companies, these results suggest a greater sensitivity of FDI to taxes for non-American firms. The results also suggest that European economic integration may intensify tax competition between European jurisdictions.

Deuschel, Jean-Dominique
TI Large Portfolio Losses. AU Dembo, Amir; Deuschel, Jean-Dominique; Duffie, Darrell.

Dewit, Gerda
PD February 2003. TI Employment Protection and Globalization in Dynamic Oligopoly. AU Dewit, Gerda; Leahy, Dermot; Montagna, Catia. AA Dewit: National University of Ireland Maynooth. Leahy: University College Dublin. Montagna: University of Dundee. SR University of Nottingham, GEP Research Paper: 2003/05; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. PG 25. PR no charge. JE D80, F23, L13. KW Uncertainty. Flexibility. Oligopoly. Employment Protection. Foreign Direct Investment.
AB We construct a model in which oligopolistic firms decide where to locate. Firms choose to locate either in a country where employment protection implies costly output adjustments or in one without adjustment costs. Using a two-period three-stage game with uncertainty it is demonstrated that location is influenced by both flexibility and strategic concerns. We show that the strategic effects under Cournot work towards domestic anchorage in the country with adjustment costs while those under Bertrand do not. Strategic agglomeration can occur in the inflexible country under Cournot and even under Bertrand provided uncertainty and foreign direct investment costs are low.

Di Tella, Rafael
PD September 2002. TI Are Politicians Really Paid Like Bureaucrats? AU Di Tella, Rafael; Fisman, Raymond. AA Di Tella: Harvard Business School. Fisman: Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 9165; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 27. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H71, H71, H73, J31, J45. KW Gubernatorial Pay. Taxes. Income Per Capita.
AB We provide the first empirical analysis of gubernatorial pay. Using US data for 1950-90 we document, contrary to widespread assumptions, substantial variation in the wages of politicians, both across states and over time. Gubernatorial wages respond to changes in state income per capita and taxes, after controlling for state and time fixed effects. The economic effects seem large: governors receive a 1 percent pay cut for each ten percent increase in per capita tax payments and a 4.5 percent increase in pay for each ten percent increase in income per capita in their states. There is strong evidence that the tax elasticity reflects a form of "reward-for-performance." The evidence on the income elasticity of pay is less conclusive, but is suggestive of "rent extraction" motives. Lastly, we find that democratic institutions seem to play an important role in shaping pay. For example, voter- initiatives and the presence of significant political opposition lead to large reductions in the income elasticity of pay, and to large increases (at least double) in the tax elasticities of pay, relative to the elasticities that are observed when these democratic institutions are weaker.

Dick, Astrid A.
PD November 2002. TI Demand Estimation and Consumer Welfare in the Banking Industry. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/58; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 54. PR no charge. JE C25, G21, L11, L89. KW Discrete Choice. Consumer Welfare. Product Differentiation. Market Power. Banking.
AB This paper estimates a structural demand model for commercial bank deposit services. Following the discrete choice literature, consumer decisions are based on prices and bank characteristics. The results, based on the US for 1993-1999, indicate that, with respect to prices, consumers respond to deposit rates, and to a lesser extent, to account fees, in choosing a depository institution. Moreover, consumers respond favorably to the branch staffing and geographic density, as well as to the bank's age, size, and geographic diversification. In light of the banks' responses to regulatory changes throughout the period, most markets experience a slight increase in welfare.

PD November 2002. TI Market Structure and Quality: An Application to the Banking Industry. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/14; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 40. PR no charge. JE G21, L10. KW Market Structure. Firm Strategy. Banking.
AB This paper presents empirical evidence consistent with the predictions of the endogenous sunk cost model of Sutton (1991), with an application to banks. In particular, banking markets remain concentrated regardless of market size. Given an asymmetric oligopoly where dominant and fringe firms coexist, the number of dominant banks remains unchanged with market size, with only the number of fringe banks varying across markets. Such structure is sustained by competitive investments in quality, with the level of quality increasing with market size and dominant banks providing higher quality than fringe banks. The analysis has implications for antitrust policy.

PD June 2003. TI Nationwide Branching and Its Impact on Market Structure, Quality and Bank Performance. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/35; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 42. PR no charge. JE G21, L10, L50. KW Market Structure. Firm Strategy. Banking. Regulation.
AB Based on a sample for 1993-1999, this paper examines the effects of nationwide branching, following the Riegle-Neal Act, on various aspects of banking markets and bank service and performance. While concentration at the regional level has increased dramatically, deregulation has left almost intact the market structure of urban markets, which have between two to three dominant firms -- controlling over half of a market's deposits -- in 1999 just as they did in 1993. A significant portion of the observed increase in bank quality can be traced to the implementation of nationwide branching. By allowing banks to open branches in any state, the new regime has

permitted consumers to enjoy greater networks, free of fees, throughout large geographic regions. Consistent with an increase in service quality, costs and service fees increase. Credit risk increases as greater geographic diversification might provide a hedge against greater risk-return choices. Coherent with these findings and an increase in lending competition and profit efficiency, spreads fall and profits are unaffected.

Dijkstra, Bouwe R.

PD November 2002. **TI** Location Choice by Households and Polluting Firms: An Evolutionary Approach. **AU** Dijkstra, Bouwe R.; de Vries, Frans P. **AA** Dijkstra: University of Nottingham. de Vries: Tilburg University. **SR** University of Nottingham, GEP Research Paper: 2002/27; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 32. **PR** no charge. **JE** Q28, R20, R30. **KW** Environmental Policy. Location Choice. Evolutionary Game Theory.
AB This paper examines several policy regimes to deal with the problem that households suffer from environmental damage by firms in the same region. Taxation gives firms and households an incentive to stay away from each other. Laissez faire (compensation) only gives households (firms) an incentive to stay away from firms (households). We employ an evolutionary framework to analyze migration movements in the course of time, since firms and households will not relocate immediately in response to payoff differentials. We find that taxation creates the right incentives to reach a local welfare maximum. However, compensation may lead to a better outcome than taxation.

Dilling-Hansen, Mogens

TI Are Ownership Structures Risk- & Wealth-Constrained? **AU** Madsen, Erik Strojer; Smith, Valdemar; Dilling-Hansen, Mogens.

TI Do R&D Investments Affect Export Performance? **AU** Smith, Valdemar; Madsen, Erik Strojer; Dilling-Hansen, Mogens.

PD December 2002. **TI** Does the New Economy Create Higher Productivity? **AU** Dilling-Hansen, Mogens; Madsen, Erik Strojer; Smith, Valdemar. **AA** University of Copenhagen and Aarhus University. **SR** University of Copenhagen, CIE Discussion Paper: 2002/10; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. **PG** 9. **PR** no charge. **JE** D24, L11, L80. **KW** Productivity. New Economy.
AB The rapid and continuous growth in the US in the 1990s and the simultaneous boom in the IT industry created the concept "The New Economy". What connects the two phenomena is that the IT industry alone is considered productive and increased productivity in other industries, as a result of increased IT use, has brought focus on the IT industry as a catalyst for growth. The Danish Ministry of Finance (2001) points out general increased productivity in Denmark at macro level and this increase is said to be a result of increased IT use. The question is, however, if the influence of IT investments really can be verified. The strongest evidence would be to show that this relationship exists at micro level. The purpose of this article is to investigate whether it is possible to detect increased productivity in the late 1990s, using data from Danish industries for the first time. The result of this analysis shows increased productivity in the IT industry starting in 1993. IT in production counts for increased but stagnated growth, whereas IT in the service industries has seen rapidly increasing productivity.

DiNardo, John E.

TI Skill Biased Technological Change and Rising Wage Inequality: Some Problems and Puzzles. **AU** Card, David; DiNardo, John E.

Dobson, Paul W.

PD April 2003. **TI** Chain-Store Pricing for Strategic Accommodation. **AU** Dobson, Paul W.; Waterson, Michael. **AA** Dobson: Loughborough University. Waterson: University of Warwick. **SR** The Warwick Economics Working Paper Series: 677; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. **PG** 15. **PR** no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. **JE** L10, L11, L40, L66, L81. **KW** Chain-Store. Pricing Policy. Price Discrimination. Local Markets.
AB Chain-stores now dominate most areas of retailing. While retailers may operate nationally or even internationally, the markets they compete in are largely local. How should they best operate pricing policy in respect of the different markets served -- price uniformly across the local markets or on a local basis according to market conditions? We model this by allowing local market differences, with entry being inevitable in certain markets while being naturally or institutionally blockaded in others. We show that practicing price discrimination is not always best for the chain-store. Competitive conditions exist under which uniform pricing can raise profits.

Dobson, Steve

PD March 2003. **TI** Why do Rates of Convergence Differ? A Meta-Regression Analysis. **AU** Dobson, Steve; Ramlogan, Carlyn; Strobl, Eric. **AA** Dobson and Ramlogan: University of Otago. Strobl: Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/20; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 20. **PR** $5 per paper; $100 per year. **JE** O40. **KW** B-Convergence. Convergence Hypothesis. Meta-Regression Analysis. Neo-Classical Growth Theory.
AB There have been many tests of the convergence hypothesis yielding many different estimates of b (the speed of convergence). Narrative reviews of the convergence literature hint at possible reasons for the study-to-study variation in the value of b, but such reviews are selective and informal. In contrast, meta-regression analysis provides a more formal and objective review of the literature. It is shown that study design and methodology are important determinants of the reported convergence rate, especially in cross-national studies. There is also evidence of general misspecification in the literature.

Dolinskaya, Irina

PD October 2002. **TI** Transition and Regional Inequality

in Russia: Reorganization or Procrastination? **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/169; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 27. **PR** $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** O40, P29, R12. **KW** Growth. Transition. Inequality.

AB This paper analyzes the evolution of interregional income inequality during transition in Russia. The transition matrix approach reveals that between 1991 and 1997 income mobility tended toward a highly uneven long-term distribution with the majority of regions at low income levels and a minority of higher-income regions, in sharp contrast to pre-transition times. The ordered logit analysis suggests that the more successful regions prospered on account of their natural resources, while continuing to resist economic reorganization by supporting traditional enterprises. The less-successful regions appeared trapped at low income levels due to uncompetitive industries and a lack of resources needed for restructuring.

Donaghue, Brian

PD October 2002. **TI** Statistical Treatment of "Build-Own-Operate-Transfer" Schemes. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/167; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 16. **PR** $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** E62, H54, H61. **KW** Build-Own-Operate-Transfer. BOOT. Public Infrastructure. National Accounts.

AB The paper argues that assets produced under build-own-operate- transfer (BOOT) schemes -- under which public infrastructure assets are legally owned and operated for a defined period by the private corporation that constructs them, before being transferred to the government -- should be treated in macroeconomic statistics as owned by the government from the outset. The paper considers three approaches to the treatment of the economic stocks and flows entailed in these arrangements. While the preferred approach conceptually is to impute the creation and extinguishing of financial assets and liabilities, this approach is not consistent with the System of National Accounts 1993, and therefore an operating lease approach to BOOT schemes is recommended.

Dor, Arik Ben

PD August 2002. **TI** Understanding Mutual Fund and Hedge Fund Styles Using Return Based Style Analysis. **AU** Dor, Arik Ben; Jagannathan, Ravi. **AA** Dor: Northwestern University. Jagannathan: Northwestern University and NBER. **SR** National Bureau of Economic Research Working Paper: 9111; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G10, G14, G20, G23. **KW** Mutual Fund. Hedge Fund. Return Based Style Analysis.

AB We provide an introduction to the use of return based style analysis of Sharpe (1992) in practice. We demonstrate the importance of selecting the right style benchmarks and how the use of inappropriate style benchmarks may lead to wrong conclusions. When style analysis is applied to sector oriented funds such as healthcare, precious metals, energy, technology, etc., the set of benchmarks should include sector or industry indexes. Following Glosten and Jagannathan (1994), Fung and Hsieh (2001), and Agarwal and Naik (2001), we show how to analyze the investment style of hedge fund managers by including the returns on selected option based strategies as style benchmarks. In the examples we consider, return based style analysis provides insights not available through commonly used "peer" evaluation alone.

Dor, Avi

TI Does Managerial "Outsourcing" Reduce Expense Preference Behavior? A Comparison of Adopters and Non-Adopters of Contract-Management in US Hospitals. **AU** Carey, Kathleen; Dor, Avi.

Doraszelski, Ulrich

TI The Role of Permanent Income and Demographics in Black/White Differences in Wealth. **AU** Altonji, Joseph G.; Doraszelski, Ulrich.

Driffield, Nigel

PD June 2002. **TI** Regional Foreign Direct Investment and Wage Spillovers: Plant Level Evidence From the Electronics Industry. **AU** Driffield, Nigel; Girma, Sourafel. **AA** Driffield: University of Birmingham. Girma: University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/04; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 12. **PR** no charge. **JE** F21, J30. **KW** Foreign Direct Investment. Wage Spillovers. Electronics Sector.

AB This paper examines the extent to which foreign investment in the UK contributes to wage spillovers in the domestic sector of the economy. The paper focuses on the electronics sector, possibly the most "globalized" sector of UK manufacturing. We find evidence that the higher wages paid by foreign firms, causes wages in the domestic sector to be bid up. This phenomenon is however largely confined to skilled rather than unskilled workers. Reasons for this with reference to the wage determination, and labor market segmentation literature, are discussed, as are the prospects for those groups most likely to benefit from FDI.

Driscoll, John C.

PD September 2002. **TI** Coordination, Fair Treatment and Inflation Persistence. **AU** Driscoll, John C.; Holden, Steinar. **AA** Driscoll: Brown University and NBER. Holden: University of Oslo and Norges Bank. **SR** National Bureau of Economic Research Working Paper: 9174; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E24, E31. **KW** Inflation Persistence. Wage-Contracting. Coordination.

AB Most wage-contracting models with rational expectations fail to replicate the persistence in inflation observed in the data. We argue that coordination problems and multiple equilibria are the keys to explaining inflation persistence. We develop a wage-contracting model in which workers are concerned about being treated fairly. This model generates a continuum of

equilibria (consistent with a range for the rate of unemployment), where workers want to match the wage set by other workers. If workers' expectations are based on the past behavior of wage growth, these beliefs will be self-fulfilling and thus rational. Based on quarterly U.S. data over the period 1955-2000, we find evidence that inflation is more persistent between unemployment rates of 4.7 and 6.5 percent than it is outside these bounds, as predicted by our model.

TI Inflation Persistence and Relative Contracting. AU Holden, Steinar; Driscoll, John C.

PD May 2003. TI Sticky Prices, Coordination and Enforcement. AU Driscoll, John C.; Ito, Harumi. AA Driscoll: Federal Reserve Board. Ito: Brown University and NBER. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/30; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 21. PR no charge. JE D42, E12, E30, L13. KW Coordination Failure. Menu Costs. Monopolistic Competition.
AB Price-setting models with monopolistic competition and costs of changing prices exhibit coordination failure: in response to a monetary policy shock, individual agents lack incentives to change prices even when it would be Pareto-improving if all agents did so. The potential welfare gains are in part evaluated relative to a benchmark equilibrium of perfect, costless coordination; in practice, since agents will still have incentives to deviate from the benchmark equilibrium, coordination is likely to require enforcement. We consider an alternative benchmark equilibrium in which coordination is enforced by punishing deviators. This is formally equivalent to modeling agents as a cartel playing a punishment game. We show that this new benchmark implies that the welfare losses from coordination failure are smaller. Moreover, at the new benchmark equilibrium, prices are upwards-flexible but downwards-sticky. These last results suggest that the dynamic behavior of sticky-price models may more generally depend on the kind of imperfect competition assumed.

PD May 2003. TI Does Bank Lending Affect Output? Evidence from the U.S. States. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/31; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 29. PR no charge. JE E32, E41, E51. KW Bank Lending. U. S. States. Money Demand. Credit Search. (ERN) Networks.
AB This paper uses a panel of state-level data to test whether changes in bank loan supply affect output. Since the U.S. states are small open economies with fixed exchange rates, state-specific shocks to money demand are automatically accommodated, leading to changes in lending if banks rely on deposits as a source of funding. Using these shocks as an instrumental variable, this paper finds that shocks to money demand have large and statistically significant effects on the supply of bank loans, but loans have small, often negative and statistically insignificant effects on output.

PD May 2003. TI Coordination, Fair Treatment and Inflation Persistence. AU Driscoll, John C.; Holden, Steinar. AA Driscoll: Federal Reserve Board. Holden: University of

Oslo and Norges Bank. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/34; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 37. PR no charge. JE E31, E50. KW Inflation Persistence. Coordination Problems. Adaptive Expectations.
AB Most wage-contracting models with rational expectations fail to replicate the persistence in inflation observed in the data. We argue that coordination problems and multiple equilibria are the keys to explaining inflation persistence. We develop a wage-contracting model in which workers are concerned about being treated fairly. This model generates a continuum of equilibria (consistent with a range for the rate of unemployment), where workers want to match the wage set by other workers. If workers' expectations are based on the past behavior of wage growth, these beliefs will be self-fulfilling and thus rational. Based on quarterly U.S. data over the period 1955-2000, we find evidence that inflation is more persistent between unemployment rates of 4.7 and 6.5 percent, than outside these bounds, as predicted by our model.

Duchesne, Erick
TI (Mis)Selection Effects and Sovereignty Costs: An Alternative Measure of the Costs of Sanctions. AU Guthrie, Denise; Duchesne, Erick.

Duffie, Darrell
TI Large Portfolio Losses. AU Dembo, Amir; Deuschel, Jean-Dominique; Duffie, Darrell.

Duflo, Esther
PD June 2003. TI Intrahousehold Resource Allocation in Cote D'Ivoire: Social Norms, Separate Accounts and Consumption Choices. AU Duflo, Esther; Udry, Christopher. AA Duflo: MIT and NBER. Udry: Yale University. SR Yale Economic Growth Center Discussion Paper: 857; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 51. PR $2.00 plus postage. JE D13, O12. KW Intra-household Allocation. Insurance. Social Norms. Mental Accounts.
AB In Cote d'Ivoire, as in much of Africa, husbands and wives farm different crops on separate plots. These different crops are differentially sensitive to particular kinds of rainfall shocks. We find that conditional on overall household expenditure, the composition of expenditure is sensitive to the gender of the recipient of a rainfall shock. For example, rainfall shocks associated with high women's income shift expenditure towards food. Social norms constrain the use of profits from yam cultivation, which is carried out by men. Correspondingly, we find that rainfall-induced fluctuations in income from yams are transmitted to expenditures on education and food, not to expenditures on private goods. We reject the hypothesis of complete insurance within households, even with respect to publicly observable weather shocks. Different sources of income are allocated to different uses depending upon both the identity of the income earner and upon the origin of the income.

Duggan, John
TI A Social Choice Lemma on Voting Over Lotteries with

Applications to a Class of Dynamic Games. AU Banks, Jeffrey S.; Duggan, John.

Duranton, Gilles

PD August 2002. TI From Sectoral to Functional Urban Specialization. AU Duranton, Gilles; Puga, Diego. AA Duranton: London School of Economics. Puga: University of Toronto and NBER. SR National Bureau of Economic Research Working Paper: 9112; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE L23, R12, R30. KW Urban Economics. Production.
AB Striking evidence is presented of a previously unremarked transformation of urban structure from mainly sectoral to mainly functional specialization. We offer an explanation showing that this transformation is inextricably interrelated with changes in firms' organization. A greater variety of business services for headquarters and of sector-specific intermediates for production plants within a city reduces costs, while congestion increases with city size. A fall in the costs of remote management leads to a transformation of the equilibrium urban and industrial structure. Cities shift from specializing by sector -- with integrated headquarters and plants -- to specializing mainly by function -- with headquarters and business services clustered in larger cities, and plants clustered in smaller cities.

Durham, J. Benson

PD February 2003. TI Does Monetary Policy Affect Stock Prices and Treasury Yields? An Error Correction and Simultaneous Equation Approach. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/10; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 31. PR no charge. JE E52, G12, G14. KW Monetary Policy. Asset Pricing. Stock Returns. Bond Yields.
AB This study pursues two addenda to the practitioner and academic on the effect of monetary policy on asset prices. First, this paper applies cointegration theory, and, second, relaxes the stringent assumption in the literature that changes in 10-year Treasury yields, stock returns, and changes in the stance of monetary policy are exogenous. Given quarterly data from 1978:Q4 to 2002:Q3, two-stage least squares (2SLS) regressions suggest that changes in the exogenous component of the federal funds rate affect changes in Treasury yields but not stock returns, ceteris paribus. However, this result is sensitive to alternative proxies for the stance of monetary policy. Also, little evidence suggests that monetary policy responds to the exogenous components of changes in financial asset prices.

PD April 2003. TI Estimates of the Term Premium on Near-Dated Federal Funds Futures Contracts. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/19; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 44. PR no charge. JE E43, E52, G13. KW Federal Funds Futures.

Term Premium. Expectations Hypothesis.
AB This paper examines estimates of the term premium on federal funds futures rates, with a focus on near-dated contracts and therefore the more immediate policy horizon. The first set of methods assumes that the term premium is constant over time. Under this framework, calculations that use survey data to proxy for forecast errors produce more intuitive results than estimates based on the restrictive assumption that forecast errors average to zero over the sample. The second set of methods allows the term premium to vary over time, but the results based on the term structure of near-dated federal funds futures contracts are highly volatile, which perhaps reflects numerous technical factors in the underlying federal funds market. Finally, under an asset-pricing approach, the CAPM suggests that the risk premium on federal funds futures is either less than or equal to zero, while APT indicates that it can be positive.

Durre, Alain

PD April 2003. TI Estimating Risk Premia in Money Market Rates. AU Durre, Alain; Evjen, Snorre; Pilegaard, Rasmus. AA Durre: Universite Catholique de Louvain, Catholic University of Lille, CNRS, and National Bank of Belgium. Evjen: Norges Bank. Pilegaard: European Central Bank. SR European Central Bank Working Paper: 221; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 64. PR no charge. JE C32, E43. KW Term Structure. Expectations Hypothesis. Cointegrated VAR Models.
AB This paper empirically tests the expectations hypothesis on both daily EONIA swap rates and monthly EURIBOR rates extended backwards with German LIBOR rates. In addition, we quantify the size of the risk premia in the money market at maturities of one, three, six and nine months. Using implied forward and spot rates in a cointegrated VAR model, we find that the data support the expectations hypothesis in the euro area and in Germany prior to 1999. We find that risk premia are relatively limited at the shorter maturities but more significant at maturities of six and nine months. Furthermore, the results on LIBOR/EURIBOR rates tentatively indicate a downward shift in the structure of the risk premia after the introduction of the euro.

Easterly, William

PD August 2002. TI Tropics, Germs, and Crops: How Endowments Influence Economic Development. AU Easterly, William; Levine, Ross. AA Easterly: Institute for International Economics and New York University. Levine: University of Minnesota and NBER. SR National Bureau of Economic Research Working Paper: 9106; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F43, N10, O13. KW Economic Development. Institutions. Policies.
AB Does economic development depend on geographic endowments like temperate instead of tropical location, the ecological conditions shaping diseases, or an environment good for grains or certain cash crops? Or do these endowments of tropics, germs, and crops affect economic development only through institutions or policies? We test the endowment, institution, and policy views against each other using cross country evidence. We find evidence that tropics, germs, and

crops affect development through institutions. We find no evidence that tropics, germs, and crops affect country incomes directly other than through institutions, nor do we find any effect of policies on development once we control for institutions.

Eckbo, B. Espen

PD March 2002. **TI** Overbidding versus Fire-Sales in Bankruptcy Auctions. **AU** Eckbo, B. Espen; Thorburn, Karin S. **AA** Dartmouth College and CEPR. **SR** CEPR Discussion Paper: 3240; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D44, G33, G34. **KW** Fire-Sales. Overbidding. Auctions. Bankruptcy.

AB We analyze bidding incentives of the main creditors (banks) in Swedish bankruptcy auctions. Lacking a direct mechanism for enforcing its seller reservation price, the bank offers financing to a potential bidder in return for a bid strategy that maximizes the expected profits of the bank-bidder coalition. The coalition overbids (in excess of the coalition's private valuation) by an amount that decreases during the bank's "liquidation recovery". This is the recovery amount if the bank were to receive the piecemeal liquidation value announced by the auctioneer at the start of the auction. Since both the liquidation recovery and the final going-concern auction premium are observable, the overbidding theory is testable. We perform a large-sample, cross-sectional analysis where overbidding is pitched against asset fire-sale arguments. The latter hold that auctions tend to produce lower going-concern premiums when taking place during industry-wide financial distress, or when the firm is sold back to old owners or to industry outsiders. The evidence is strongly consistent with overbidding but provides little support for asset fire-sale arguments.

Edison, Hali J.

PD September 2002. **TI** International Financial Integration and Economic Growth. **AU** Edison, Hali J.; Levine, Ross; Ricci, Luca; Slok, Torsten. **AA** Edison, Ricci, and Slok: International Monetary Fund. Levine: University of Minnesota. **SR** National Bureau of Economic Research Working Paper: 9164; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F02, O16, O40. **KW** International. Financial Integration. Economic Growth.

AB This paper uses new data and new econometric techniques to investigate the impact of international financial integration on economic growth and also to assess whether this relationship depends on the level of economic development, financial development, legal system development, government corruption, and macroeconomic policies. Using a wide array of measures of international financial integration on 57 countries and an assortment of statistical methodologies, we are unable to reject the null hypothesis that international financial integration does not accelerate economic growth even when controlling for particular economic, financial, institutional, and policy characteristics.

PD July 2003. **TI** Cross-Border Listings, Capital Controls, and Equity Flows to Emerging Markets. **AU** Edison, Hali J.; Warnock, Francis E. **AA** Edison: IMF. Warnock: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 770; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 43. **PR** no charge. **JE** F36, G11, G15. **KW** Portfolio Equity Flows. Capital Flows. Emerging Markets. ADRs.

AB We analyze capital flows to emerging markets in a framework that incorporates two quantitative measures of financial integration, the intensity of capital controls and the extent of cross-border listings, while controlling for traditional global (push) and country-specific (pull) factors. Two important results emerge. First, the cross-listing of an emerging market firm on a U.S. exchange is an important but short-lived capital flows event, suggesting that the cross-listed stock is in effect a new security that U.S. investors quickly bring into their portfolios. Second, the effect of financial liberalization on capital flows is more nuanced than is suggested by event studies: A reduction in capital controls results in increased inflows only when the controls were binding. Among the standard push and pull factors, global factors are important -- slack U.S. economic activity is associated with increased flows to emerging markets -- and U.S. investors appear to chase expected, but not past, returns.

PD July 2003. **TI** U.S. Investors' Emerging Market Equity Portfolios: A Security-Level Analysis. **AU** Edison, Hali J.; Warnock, Francis E. **AA** Edison: IMF. Warnock: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 771; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 32. **PR** no charge. **JE** F36, G15. **KW** Portfolio Choice. Home Bias. Emerging Markets. International Risk Sharing.

AB We analyze a unique data set and uncover a remarkable result that casts a new light on the home bias phenomenon. The data are comprehensive, security-level holdings of emerging market equities by U.S. investors. We document, as expected, that at a point in time U.S. portfolios are tilted towards firms that are large, have fewer restrictions on foreign ownership, or are cross-listed on a U.S. exchange. The size of the cross-listing effect is striking. In contrast to the well-documented underweighting of foreign stocks, emerging market equities that are cross-listed on a U.S. exchange are incorporated into U.S. portfolios at full international CAPM weights. Our results suggest that information asymmetries play an important role in equity home bias and that the benefits of international risk sharing are limited to select firms.

Ehrenberg, Ronald G.

PD February 2002. **TI** Within State Transitions from 2-Year to 4-Year Public Institutions. **AU** Ehrenberg, Ronald G.; Smith, Christopher L. **AA** Ehrenberg: Cornell University and NBER. Smith: Cornell University. **SR** National Bureau of Economic Research Working Paper: 8792; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I20. **KW** Public Institutions. Transfers.

AB Within many large states there are multiple 2-year and 4-year public institutions. Our paper develops a methodology

that can be used to help evaluate how well each 2-year public institution in a state is doing in preparing those of its students who transfer to 4-year public institutions to successfully complete their 4-year programs. Similarly, the methodology can be used to help evaluate how well each 4-year public institution is doing in graduating those students from 2-year institutions who transfer to it. The methodology is illustrated using data provided by the Office of Institutional Research and Analysis of the State University of New York.

Ehrmann, Michael

PD December 2002. TI Interdependence Between the Euro Area and the US: What Role for EMU? AU Ehrmann, Michael; Fratzscher, Marcel. AA European Central Bank. SR European Central Bank Working Paper: 200; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 54. PR no charge. JE E43, E52, F42. KW Interdependence. Announcements. Money Markets. Real-Time Data. Euro Area. AB This paper investigates whether the degree and nature of interdependence between the US and the euro area have changed with the advent of EMU. Using real-time data, it addresses this issue from the perspective of financial markets by analyzing the effects of monetary policy announcements and macroeconomic news on daily interest rates in the US and the euro area. The paper finds that the interdependence of money markets has steadily increased over time, with the spillover effects from the US to the euro area being somewhat stronger than in the opposite direction. Moreover, we find evidence that the markets were going through a learning process about the ECB monetary policy. Towards the end of our sample period, the importance attached to euro area consumer prices and M3 has reached levels that are remarkably similar to the role of German consumer prices and M3 for German interest rates prior to EMU.

TI Monetary Policy Transmission in the Euro Area: Any Changes After EMU? AU Angeloni, Ignazio; Ehrmann, Michael.

Eichenbaum, Martin

TI Government Finance in the Wake of Currency Crises. AU Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio.

TI What Happens After a Technology Shock? AU Christiano, Lawrence J.; Eichenbaum, Martin; Vigfusson, Robert.

TI How do Canadian Hours Worked Respond to a Technology Shock? AU Christiano, Lawrence J.; Eichenbaum, Martin; Vigfusson, Robert.

Elliott, Robert

PD December 2001. TI Intra-Sectoral Labor Mobility and Adjustment Costs. AU Elliott, Robert; Lindley, Joanne. AA Elliott: University of Manchester. Lindley: University of Nottingham. SR University of Nottingham, GEP Research Paper: 2001/38; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 31. PR no charge. JE F10, J60. KW Labor Mobility. Adjustment Costs. Trade. AB This paper examines recent sectoral and industrial adjustment in the UK between 1995 and 2000 using data from the Quarterly Labor Force Survey. We explore the nature of adjustment within the manufacturing sector and examine the consequences of "within" and "between" industry adjustment on individual wages and the transition into and out of unemployment. Skill specificity, mobility costs and higher ex-ante returns are shown to significantly affect "within" and "between" industry adjustment in different ways. Industry skill specificity is thought to be an important determinant of earnings since there are wage losses to "between" industry movers and wage gains to "within" industry movers. In addition intra-industry trade contributes to "within" industry mobility although there is little evidence that openness to trade makes any significant contribution to the displacement of workers.

Engel, Eduardo

TI Could Higher Taxes Increase the Long-Run Demand for Capital? Theory and Evidence for Chile. AU Bustos, Alvaro; Engel, Eduardo; Galetovic, Alexander.

TI Adjustment is Much Slower Than You Think. AU Caballero, Ricardo; Engel, Eduardo.

PD July 2003. TI Privatizing Highways in Latin America: Is It Possible to Fix What Went Wrong? AU Engel, Eduardo; Galetovic, Alexander. AA Engel: Yale University. Fischer and Galetovic: University of Chile. SR Yale Economic Growth Center Discussion Paper: 866; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 25. PR $2.00 plus postage. JE H41, L51, L91. KW Concessions, Cost-of-Funds. Flexibility. Franchising. Government Subsidies. Regulation. Renegotiation. AB This paper reviews the Latin American experience with highway privatization during the last decade. Based on evidence from Argentina, Colombia, and Chile, we find that private financing of new highways freed up fewer public resources than expected because public funds were often diverted to bail out franchise holders. Furthermore, many of the standard benefits of privatization did not materialize because of pervasive contract renegotiations. We argue that the disappointing performance of highway privatization in Latin America was due to two fundamental design flaws. First, countries followed a "privatize now, regulate later" approach. Second, most concessions were awarded as a fixed-term franchise, thereby creating a demand for guarantees and contract renegotiations. This paper also extends our previous work on formal models of highway privatization. We relax the self-financing constraint which ruled out the public provision of highways by assumption and show that, if government transfers are optimal, it is always the case that the full public provision of the highway should be preferred over privatization. We also model the role of flexibility and opportunistic behavior in highway concession contracts, and show that, by contrast with its fixed term counterpart, a flexible term franchise provides flexibility without inducing opportunistic behavior.

Engle, Robert F.

TI Asymmetric Dynamics in the Correlations of Global Equity and Bond Returns. AU Cappiello, Lorenzo; Engle, Robert F.; Sheppard, Kevin.

Epstein, Gil S.

PD February 2002. TI Perceived Income, Promotion and

Incentives Effects. **AU** Epstein, Gil S.; Ward, Melanie. **AA** Epstein: Bar-Ilan University and CEPR. Ward: European Central Bank. **SR** CEPR Discussion Paper: 3217; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** J30. **KW** Perceived Income. Underpayment. Productivity. Promotion.

AB This paper examines the disincentive effects of perceived underpayment on individuals' exerted effort and promotion. To this end we develop a theoretical framework and obtain empirical evidence by analyzing British academia data. We find that, tenured academics will tend to invest less effort in publishing as the difference between their perceived deserved income and actual income increases. On the other hand, for non-tenured academics this relationship is ambiguous. Our model predicts that if, however, tenured staff also derives utility directly from publication, over and above that associated with income and promotion, the difference between perceived and actual income has a smaller negative effect on the actual effort invested in research.

Epstein, Larry

PD October 2002. **TI** IID: Independently and Indistinguishably Distributed. **AU** Epstein, Larry; Schneider, Martin. **AA** Epstein: University of Rochester. Schneider: UCLA. **SR** Rochester Center for Economic Research Working Paper: 496; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: http://rcer.econ.rochester.edu. **PG** 17. **PR** 3 papers free per year; $5 each additional. **JE** D81, D83, D90. **KW** Ambiguity. Multiple-Priors. Ellsberg Paradox. Law of Large Numbers. Independent Experiments.

AB This paper studies the special case of recursive multiple-priors utility for which successive experiments are viewed by the agent as being independent and indistinguishable, though not necessarily identical. A strong LLN is proven. In addition, the notion of regularity of a probability measure is extended to a set of priors.

PD October 2002. **TI** Learning Under Ambiguity. **AU** Epstein, Larry; Schneider, Martin. **AA** Epstein: University of Rochester. Schneider: UCLA. **SR** Rochester Center for Economic Research Working Paper: 497; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: http://rcer.econ.rochester.edu. **PG** 40. **PR** 3 papers free per year; $5 each additional. **JE** D81, D83, D90, G11, G12. **KW** Ambiguity. Learning. Quality of Information. Portfolio Choice. Ellsberg Paradox.

AB This paper considers learning when the distinction between risk and ambiguity (Knightian uncertainty) matters. Working within the framework of recursive multiple-priors utility, the paper formulates a counterpart of the Bayesian model of learning about an uncertain parameter from conditionally i.i.d. signals. Ambiguous signals capture differences in information quality that cannot be captured by noisy signals. They may increase the volatility of conditional actions and they prevent ambiguity from vanishing in the limit. Properties of the model are illustrated with two applications. First, in a dynamic portfolio choice model, stock market participation costs arise endogenously from preferences and depend on past market performance. Second, ambiguous news

induce negative skewness of asset returns and may increase price volatility. Shocks that trigger a period of ambiguous news induce a price discount on impact and are likely to be followed by further negative price changes.

PD October 2002. **TI** An Axiomatic Model of Non-Bayesian Updating. **AA** University of Rochester. **SR** Rochester Center for Economic Research Working Paper: 498; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: http://rcer.econ.rochester.edu. **PG** 30. **PR** 3 papers free per year; $5 each additional. **JE** D81, D83, D90. **KW** Non-Bayesian Updating. No-Trade Theorems. Temptation. Conservatism. Representativeness.

AB Several systematic deviations from Bayesian updating have been discussed in the psychology literature and some of these have been incorporated into modeling exercises in behavioral finance. This paper presents a unifying axiomatic framework for a broad range of updating behavior including some of these disparate specifications. The key is to study preference on (contingent) menus of acts. Given suitable axioms, the functional form for utility features two measures, where one is the "usual prior" p and the other determines how updating deviates from Bayesian updating of p. A dynamic version of the Anscombe-Aumann model is obtained as the special case where the two measures coincide. Two illustrative applications are provided. The first examines the effects of non-Bayesian updating on the interest rate and the sensitivity of equilibrium asset prices to news. The second describes a 2-agent setting with asymmetric information where non-Bayesian updating leads to (common knowledge) agreement to bet.

Erickson, Merle

PD August 2002. **TI** How Prevalent is Tax Arbitrage? Evidence from the Market for Municipal Bonds. **AU** Erickson, Merle; Goolsbee, Austan; Maydew, Edward. **AA** Erickson: University of Chicago. Goolsbee: University of Chicago and NBER. Maydew: University of North Carolina. **SR** National Bureau of Economic Research Working Paper: 9105; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 15. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H20. **KW** Tax Arbitrage. Municipal Bonds.

AB Although tax arbitrage is central to the literatures on tax capitalization, implicit taxes, and even capital structure, there is little empirical evidence of the extent to which firms actually engage in tax arbitrage. This paper provides some evidence on the topic by focusing on a simple and observable corporate arbitrage strategy in the market for municipal bonds. It poses a puzzle for the literature, however, in that we find little evidence of municipal bond tax arbitrage by non-financial corporations. The overwhelming majority of firms are not engaging in the arbitrage at all and even among those engaged in arbitrage, many firms do less than a safe-harbor amount allowed by the tax authorities. Such a pattern is consistent with the presence of both fixed and marginal (i.e., that depend on size of the position) costs of arbitrage, though we cannot observe what those costs are.

Eschenbach, Felix

PD November 2002. **TI** The Fiscal Costs of Financial Instability Revisited. **AU** Eschenbach, Felix; Schuknecht,

Ludger. AA Eschenbach: Tinbergen Institute Rotterdam. Schuknecht: European Central Bank. SR European Central Bank Working Paper: 191; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 46. PR no charge. JE E44, E62. KW Fiscal Policies. Deficits. Asset Prices. Financial Stability. Financial Crisis.

AB This paper conducts a comprehensive analysis of the fiscal costs of financial instability (defined as major asset price changes and including, as extreme cases, financial crises). The study identifies three channels to fiscal accounts: 1) revenue effects on capital gains, asset turnover, and consumption taxes, 2) bailout costs as asset price declines undermine balance sheets of companies/banks, and 3) second- round effects from asset prices changes via the real economy and via debt service costs. A panel analysis and case studies show that episodes of financial instability increase the variability of fiscal balances. Moreover, fiscal costs are often very large and much larger than assumed in the literature so far with public debt rising by up to 50% of GDP during episodes. These fiscal effects can also serve as a rationale for the deficit and debt targets in the EU's Maastricht Treaty and Stability and Growth Pact.

Esposito, Domenico

PD October 2002. TI "You Get What You Copay For" The Influence of Patient Copayments on the Demand for Drugs within a Therapeutic Class: The Case of the Statins. AA UCSB. SR University of California, Santa Barbara, Working Paper in Economics: 2002/16; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. PG 94. PR no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". JE C25, D40, I10, L65. KW Pharmaceutical Industry. Statins. Copayments. Multinomial Logit. Prescription Drugs.

AB This paper examines the influence of insurers' prescription drug benefit structures on the choice of drugs within a therapeutic class. Using a retrospective medical claims dataset, the choice of a statin by patients with evidence of coronary artery disease is modeled with a multinomial logit regression. The paper also offers results that account for managed care insurer types. Unlike other related research, results here are able to differentiate between health maintenance organizations (HMOs), preferred provider organization and point-of- service plans.

Ettinger, David

PD March 2003. TI Bidding Among Friends and Enemies. AA CERAS-ENPC and CNRS. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/23; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 21. PR no charge; available only online. JE D44, D62, G32. KW Auctions. Revenue. Allocation. Externalities. Budget-Constraints.

AB We consider an auction setting in which potential buyers, even if they fail to obtain the good, care about the price paid by the winner. We study the impact of these price-externalities on the first-price auction and the second-price auction in a symmetric information framework. First, we consider situations in which bidders care about the price paid independently from the identity of the winner. We prove that the first-price auction is not affected by this kind of price- externalities while the second-price auction is. In broader specifications, we observe though that the first-price auction can be affected by the presence of such price-externalities. In any case, in comparison with the first-price auction, the second-price auction exacerbates the effects of price-externalities whatever their types. Therefore, there is no revenue equivalence between the two auction formats.

Evans, Carolyn

PD May 2003. TI Distance, Time, and Specialization. AU Evans, Carolyn; Harrigan, James. AA Evans: Board of Governors of the Federal Reserve System. Harrigan: Federal Reserve Bank of New York. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 766; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 42. PR no charge. JE F10. KW Trade. Transportation Costs. Apparel.

AB Time is money, and distance matters. We model the interaction of these truisms, and show the implications for global specialization and trade: products where timely delivery is important will be produced near the source of final demand, where wages will be higher as a result. In the model, timely delivery is important because it allows retailers to respond to fluctuating final demand without holding costly inventories, and timely delivery is only possible from nearby locations. Using a unique dataset that allows us to measure the retail demand for timely delivery, we show that the sources of US apparel imports have shifted in the way predicted by the model, with products where timeliness matters increasingly imported from nearby countries.

Evans, William N.

TI Changing Labor Market Opportunities for Women and the Quality of Teachers 1957-1992. AU Corcoran, Sean P.; Evans, William N.; Schwab, Robert S.

TI The Impact of Income on Mortality: Evidence from the Social Security Notch. AU Snyder, Stephen E.; Evans, William N.

PD September 2002. TI The Social and Economic Impact of Native American Casinos. AU Evans, William N.; Topoleski, Julie H. AA Evans: University of Maryland and NBER. Topolesli: University of Maryland. SR National Bureau of Economic Research Working Paper: 9198; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 46. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE L83, R58. KW Native American Casinos. Employment. Health. Welfare.

AB We use a simple difference-in-difference framework where we compare economic outcomes before and after tribes open casinos to outcomes over the same period for tribes that do not adopt or are prohibited from adopting gaming. Four years after tribes open casinos, employment has increased by 26 percent, and tribal population has increased by about 12 percent. The fraction of adults who work but are poor has declined by 14 percent. Tribal gaming operations seem to have both positive and negative spillovers in the surrounding communities. In counties where an Indian-owned casino opens,

we find that jobs per adult increase by about five percent of the median value. Given the size of tribes relative to their counties, most of this growth in employment is due to growth in non-Native American employment. The increase in economic activity appears to have some health benefits in that four or more years after a casino opens, mortality has fallen by 2 percent in a county with a casino and an amount half that in counties near a casino. Casinos do, however, come at some cost. Four years after a casino opens, bankruptcy rates, violent crime, and auto thefts and larceny are up 10 percent in counties with a casino.

Evjen, Snorre
TI Estimating Risk Premia in Money Market Rates. **AU** Durre, Alain; Evjen, Snorre; Pilegaard, Rasmus.

Ewerhart, Christian
PD November 2002. **TI** A Model of the Eurosystem's Operational Framework for Monetary Policy Implementation. **AA** University of Bonn. **SR** European Central Bank Working Paper: 197; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 52. **PR** no charge. **JE** E51, E58, G28. **KW** Euro. Money Market. Operational Framework. Refinancing Operations. Reserve Requirements. Underbidding. Volatility.
AB This paper offers a game theoretic model of liquidity provision through repeated central bank tenders, in the spirit of the operational framework of the Eurosystem. Banks are required to satisfy reserve requirements subject to an averaging provision over individual maintenance periods, and transactions may carry over into the respective subsequent period. It is shown that liquidity shocks are absorbed by the system by exponentially declining oscillations around the stationary equilibrium. When a policy rate cut is expected, bidders strategically reduce demand prior to the decision, which may destabilize the system. The anticipation of strategic behavior may generate an oscillation even before the maintenance period in which the decision is expected. When the recently released ECB proposal is implemented in the model, then the bidders' strategic motives are effectively eliminated. It is shown that, alternatively, bidding behavior can be corrected using a simple reimbursement scheme.

Fabiani, Silvia
PD February 2003. **TI** Aggregation and Euro Area Phillips Curves. **AU** Fabiani, Silvia; Morgan, Julian. **AA** Fabiani: Banca d'Italia. Morgan: European Central Bank. **SR** European Central Bank Working Paper: 213; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 32. **PR** no charge. **JE** C52, C53, E24, E31. **KW** Euro Area. Phillips Curve. Wage Growth.
AB This paper examines the issue of the impact of aggregation in the empirical analysis of euro area labour markets. A Phillips Curve describing the adjustment of unit labour costs is estimated at the national and aggregate level for the 5 largest euro area countries. Potential sources of aggregation bias are investigated -- such as differences in parameter coefficients and a lack of correlation in the independent variables across countries -- as well as the potentially offsetting statistical averaging effect. Finally the out-of-sample forecasting performance of both approaches is

evaluated. The results point to some limited advantages of analysing wage developments at the national rather than at the area-wide level. The paper concludes that if major advantages in undertaking national analysis do exist, they are likely to arise from the ability to develop country-specific structures for the Phillips Curves and not from aggregation biases that emerge when a common structure is used.

Fallick, Bruce
PD March 2003. **TI** The Recall and New Job Search of Laid-off Workers: A Bivariate Proportional Hazard Model with Unobserved Heterogeneity. **AU** Fallick, Bruce; Ryu, Keunkwan. **AA** Fallick: Federal Reserve Board. Ryu: Seoul National University and Hong Kong University. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/22; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 23. **PR** no charge. **JE** C41, J64. **KW** Lay-Off. Hazard Rate. Proportional Hazard Model. Unobserved Heterogeneity. Duration Dependence.
AB Workers who lose their jobs can become re-employed either by being recalled to their previous employers or by finding new jobs. Workers' chances for recall should influence their job search strategies, so the rates of exit from unemployment by these two routes should be directly related. We solve a job search model to establish, in theory, a negative relationship between the recall and new job hazard rates. We look for evidence in the PSID by estimating a semi-parametric competing risks model with explicitly related hazards. We find only a small negative behavioral relationship between recall and new job hazard rates.

Falvey, Rodney E.
PD September 2002. **TI** Trade and the Globalization of Patent Rights. **AU** Falvey, Rodney E.; Martinez, Feli; Reed, Geoffrey. **AA** Falvey and Reed: University of Nottingham. Martinez: University of Leicester. **SR** University of Nottingham, GEP Research Paper: 2002/21; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 29. **PR** no charge. **JE** F02, F10, O34. **KW** Trade. Patent Rights. Open Economy.
AB This paper examines the role of patent policy in the open economy. It begins by considering how the presence of patents affects trade in patentable products. A brief review of the general argument for patent protection is followed by consideration of the elements that comprise a patent system, and which determine "patent strength". Attention is then given to how the existence of the global market influences countries' choices of patent system. It is noted that the way patents are applied tends to push countries towards extreme choices, which may partly explain the pressure for some degree of international harmonization that led to the minimum standards specified in the TRIPs Agreement. But even with these minimum standards, countries retain discretion over important aspects of their patent systems.

PD September 2002. **TI** North-South Trade, Knowledge Spillovers and Growth. **AU** Falvey, Rodney E.; Foster, Neil; Greenaway, David. **AA** Falvey and Greenaway: University of Nottingham. Foster: University of Vienna. **SR** University

of Nottingham, GEP Research Paper: 2002/23; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/7lezec/research/dp/. PG 18. PR no charge. JE F10, F43. KW Growth. International Trade. Knowledge Spillovers.

AB The endogenous growth literature has stimulated empirical research into links between trade and growth in general and international knowledge spillovers in particular. Results relating to the latter have been mixed and the issue of the appropriate construction of the spillover variable remains contentious. In this paper we develop measures taking account of whether knowledge is a public or private good in the donor and recipient countries, and include these in a dynamic panel model of growth. For a sample of five OECD donor countries and 52 developing recipient countries, we conclude that it matters little whether we treat knowledge as a private or public good in the donor but that spillovers, if they exist, act as a public good in the recipient. We also find that the level of trade is important in facilitating knowledge spillovers from donors to recipients.

PD December 2002. TI Globalization and Factor Returns in Competitive Markets. AU Falvey, Rodney E.; Kreickemeier, Udo. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/32; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/7lezec/research/dp/. PG 17. PR no charge. JE F11, F15, F16. KW Factor Mobility. Factor Real Returns. Non-Traded Goods.

AB The standard competitive trade model, extended to include many goods and factors, is used to establish two results. First, integration of goods markets decreases on average international disparities in the real returns of internationally immobile factors, irrespective of whether there is international factor mobility or not. Second, integration of factor markets has the same effect, and this result holds in the presence of non-traded goods. We conclude that globalization, a process of increasing freedom for international movements of goods and factors, will tend to reduce international disparities in the real returns to factors.

Farber, Henry S.

PD January 2002. TI Job Loss in the United States, 1981-2001. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 471; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. PG 43. PR $1.50. JE J63, J64, J65. KW Job Loss. Displacement.

AB This paper examines changes in the incidence and consequences of job loss between 1981 and 2001. The overall rate of job loss has a strong counter-cyclical component, but the job loss rate was higher than might have been expected during the mid-1990's given the strong labor market during that period. While the job loss rate of more-educated workers increased, less-educated workers continue to have the highest rates of job loss overall. Displaced workers have a substantially reduced probability of employment and an increased probability of part-time employment subsequent to job loss. The more educated have higher post- displacement employment rates and are more likely to be employed full-time. The probabilities of employment and full-time employment among those reemployed subsequent to job loss increased substantially in the late 1990s, suggesting that the strong labor market eased the transition of displaced workers. Reemployment rates dropped sharply in the recession of 2001. Those re-employed, even full-time and regardless of education level, suffer significant earnings declines relative to what they earned before they were displaced. There is no evidence of a decline during the tight labor market of the 1990s in the earnings loss of displaced workers who were reemployed full-time.

TI What's a Dropout to Do? Coping with the Deterioration of the Low- Skilled Labor Market. AU Platt, Leah; Farber, Henry S.

PD February 2003. TI Nonunion Wage Rates and the Threat of Unionization. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 472; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. PG 35. PR $1.50. JE J30, J50. KW Organization. Wages. Union.

AB This paper investigates how the threat of union organization affects the wage paid to nonunion workers. The paper starts by outlining the standard model of wage determination by a nonunion employer when faced with the threat of union organization. The model suggests that the nonunion wage will be directly related and the union wage gap will be inversely related to the threat. This paper develops a measure of the threat as the predicted probability of union membership. The paper uses this measure to estimate earnings functions that use several sources of variation in the likelihood of union membership to identify the threat effect in a manner that reduces the likelihood of omitted variable bias. Finally, the paper investigates two cases where there has arguably been a change in the likelihood of union organization that is not correlated with changes in the demand for labor. These include the wage changes surrounding the introduction of right-to-work (RTW) laws in two states during the period studied and wage changes surrounding deregulation of key industries in the late 1970s and early 1980s. The results are mixed.

PD May 2003. TI Is Tomorrow Another Day? The Labor Supply of New York City (NYC) Cab Drivers. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 473; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. PG 43. PR $1.50. JE J22, J40. KW Labor Supply. Utility Function. Income Effects.

AB The paper models the labor supply of taxi drivers as the result of optimization based on an inter-temporal utility function. Since income effects in response to temporary fluctuations in daily earnings opportunities are likely to be small, cumulative hours will be much more important than cumulative income in the decision to stop work on a given day. However, if these income effects are large due to very high discount and interest rates, then labor supply functions could be backward bending, and, in the extreme case where the wage elasticity of daily labor supply is minus one, drivers could be target earners. The paper concludes, based on new data, of the

stopping behavior of NYC cab drivers that, when accounting for earnings opportunities in a reduced form with measures of clock hours, day of the week, weather, and geographic location, cumulative hours worked on the shift is a primary determinant of the likelihood of stopping work while cumulative income earned on the shift is weakly related, at best, to the likelihood of stopping work. This is consistent with there being inter-temporal substitution and inconsistent with the hypothesis that taxi drivers are target earners.

Farley, Dennis
TI Declining Required Reserves, Funds Rate Volatility, and Open Market Operations. AU Demiralp, Selva; Farley, Dennis.

Farnsworth, Heber
PD February 2002. TI Performance Evaluation with Stochastic Discount Factors. AU Farnsworth, Heber; Ferson, Wayne E.; Jackson, David; Todd, Steven. AA Farnsworth: Washington University in St. Louis. Ferson: University of Washington and NBER. Jackson: Carleton University School of Business. Todd: Loyola University. SR National Bureau of Economic Research Working Paper: 8791; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE C15, G12, G14, G23. KW Stochastic Discount Factors. Investment Performance. Mutual Funds.
AB We study the use of stochastic discount factor (SDF) models in evaluating the investment performance of portfolio managers. By constructing artificial mutual funds with known levels of investment ability, we evaluate a large set of SDF models. We find that the measures of performance are not highly sensitive to the SDF model, and that most of the models have a mild negative bias when performance is neutral. We use the models to evaluate a sample of U.S. equity mutual funds. Adjusting for the observed bias, we find that the average mutual fund has enough ability to cover its transactions costs. Extreme funds are more likely to have good rather than poor risk adjusted performance. Our analysis also reveals a number of implementation issues relevant to other applications of SDF models.

Feldstein, Martin
PD September 2002. TI The Role for Discretionary Fiscal Policy in a Low Interest Rate Environment. AA NBER and Harvard University. SR National Bureau of Economic Research Working Paper: 9203; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 9. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E20, E50, E62, E63. KW Discretionary Fiscal Policy. Interest Rates. Stability. Monetary Policy.
AB Although there is now widespread agreement in the economics profession that discretionary "counter-cyclical" fiscal policy has not contributed to economic stability and may have actually been destabilizing at particular times in the past, there is one important condition when discretionary fiscal policy can play a constructive role: in a sustained downturn when aggregate demand and interest rates are low and when prices are falling or may soon be falling. This short note begins by summarizing the general case against using fiscal policy for stabilization. It next considers the argument for using a

"hyperexpansive" monetary policy to reduce the risk that a low rate of inflation will lead to a deflationary situation in which monetary policy becomes ineffective. Such a policy would increase the risk of asset price bubbles and of a misaligned exchange rate. Discretionary fiscal policy provides an alternative way to stimulate the economy when aggregate demand and interest rates are low and when prices are falling or may soon be falling. A stimulus can be achieved without increasing budget deficits if the fiscal policy acts by providing an incentive for increased private spending. Specific examples for the U.S. and Japan are considered.

Feliciano, Zadia
TI Foreign Entry into U.S. Manufacturing by Takeovers and the Creation of New Firms. AU Lipsey, Robert E.; Feliciano, Zadia.

Fernandes, Ana
PD July 2002. TI Trade Policy, Trade Volumes and Plant-Level Productivity in Colombian Manufacturing Industries. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 847; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 52. PR $2.00 plus postage. JE C14, D24, F13, O54. KW Production Functions. Trade Policy. Productivity. Colombian Manufacturing. Endogeneity of Protection.
AB This paper offers new insights on whether increased exposure to foreign competition generates gains in plant productivity by examining Colombian trade policy from 1977 to 1991, where liberalization alternated with increased protection in varied ways across industries. Using a rich panel of manufacturing plants, we obtain consistent production function estimates despite the simultaneity of input demands and productivity and derive productivity measures. We find a strong negative impact of lagged nominal tariffs on plant productivity controlling for unobserved plant and industry heterogeneity. The political economy of tariff determination in Colombia suggests that such impact does not reflect the endogeneity of protection. Controlling for variation in the real exchange rate does not overturn our findings. Plant exit plays a minor role in generating productivity gains in face of trade liberalization. The negative impact of trade protection on productivity is stronger for large plants and for plants in less competitive industries. The main findings are robust to the use of effective rates of protection and import penetration ratios.

Ferrett, Ben
PD September 2002. TI Endogenous R&D and Entry in an International Oligopoly. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/22; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 27. PR no charge. JE D43, F21. KW R&D. Oligopoly. FDI.
AB We present two models of the greenfield-FDI, R&D and entry decisions of rival firms in an international oligopoly. Specifically, we develop a blockaded-entry (BE) two-stage game as a benchmark: in the first stage, the two incumbents choose whether to undertake greenfield-FDI or R&D (or both); in the second stage, the firms compete a la Bertrand in two host

countries. The potential-entry (PE) game includes the entry decision of a third firm immediately before the market stage. The games are solved backwards so that industrial structure becomes endogenous. Four principal conclusions emerge. First, relationships between industry greenfield-FDI flows and R&D spending, and structural parameters can be non-monotonic. Second, two-way relationships exist between firms' greenfield-FDI and R&D decisions. Third, equilibria in the PE game differ from those under BE because of equilibrium entry-deterrence and -accommodation. Fourth, the incumbents' equilibrium strategies towards entry under PE depend on the sunk costs of greenfield-FDI and R&D.

PD February 2003. **TI** Greenfield Investment versus Acquisition: Positive Analysis. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2003/02; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 34. **PR** no charge. **JE** F21, F23, L13, O31. **KW** Greenfield-FDI. Acquisition-FDI. International Oligopoly. Equilibrium Industrial Structure.
AB The analysis is motivated by the observation that foreign direct investment (FDI) is in reality a heterogeneous flow of funds, composed of both greenfield-FDI ("greenfield investment") and acquisition-FDI (cross-border mergers and acquisitions), although previous game- theoretic analyses have concentrated exclusively on one form of FDI. We aim to isolate the determinants of the equilibrium form of FDI. We model the equilibrium industrial structures of a concentrated (two-incumbent) global industry that spans two (perfectly segmented) national product markets (i.e. an "international oligopoly"). Firms' FDI decisions (i.e. whether to produce abroad and what form of FDI to choose) and process R&D decisions are made endogenously, and potential entry into the industry is allowed for. Key findings are that acquisition-FDI arises in medium-sized markets (where entry does not occur) and that necessary conditions for greenfield-FDI are a large market and a small sunk cost of additional plants. In future work the welfare properties of equilibria associated with the alternative forms of FDI will be compared.

Ferson, Wayne E.
PD February 2002. **TI** Stochastic Discount Factor Bounds with Conditioning Information. **AU** Ferson, Wayne E.; Siegel, Andrew F. **AA** Ferson: University of Washington and NBER. Siegel: University of Washington. **SR** National Bureau of Economic Research Working Paper: 8789; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** C31, D51, G12. **KW** Stochastic Discount Factor. Conditioning Information.
AB Hansen and Jagannathan (HJ, 1991) describe restrictions on the volatility of stochastic discount factors (SDFs) that price a given set of asset returns. This paper compares the sampling properties of different versions of HJ bounds that use conditioning information in the form of a given set of lagged instruments. HJ describe one way to use conditioning information. Their approach is to multiply the original returns by the lagged variables, and much of the asset pricing literature to date has followed this "multiplicative" approach. We also study two versions of optimized HJ bounds with conditioning

information. One is from Gallant, Hansen and Tauchen (1990) and the second is based on unconditionally-efficient portfolios derived in Ferson and Siegel (2000). We document finite-sample biases in the HJ bounds, where the biased bounds reject asset-pricing models too often. We provide useful correction factors for the bias. We also evaluate the asymptotic standard errors for the HJ bounds, from Hansen, Heaton and Luttmer (1995).

PD February 2002. **TI** Conditional Performance Measurement Using Portfolio Weights: Evidence for Pension Funds. **AU** Ferson, Wayne E.; Khang, Kenneth. **AA** Ferson: Boston College and NBER. Khang: University of Wisconsin. **SR** National Bureau of Economic Research Working Paper: 8790; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 39. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G12, G14, G23. **KW** Performance Measure. Portfolio Weights. Pension Funds. Conditioning Information.
AB This paper combines the use of portfolio holdings data and conditioning information to create a new performance measure. Our conditional weight-based measure has several advantages. Using conditioning information avoids biases in weight-based measures as discussed by Grinblatt and Titman (1993). When conditioning information is used, returns-based measures face a bias if managers can trade between observation dates. The new measures avoid this interim trading bias. We use the new measures to provide fresh insights about performance in a sample of U.S. equity pension fund managers.

TI Performance Evaluation with Stochastic Discount Factors. **AU** Farnsworth, Heber; Ferson, Wayne E.; Jackson, David; Todd, Steven.

PD September 2002. **TI** Spurious Regressions in Financial Economics? **AU** Ferson, Wayne E.; Sarkissian, Sergei; Simin, Timothy. **AA** Ferson: Boston College and NBER. Sarkissian: McGill University. Simin: Pennsylvania State University. **SR** National Bureau of Economic Research Working Paper: 9143; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 23. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** C10, C12, C22, G10, G12. **KW** Spurious Regressions. Data mining.
AB Even though stock returns are not highly autocorrelated, there is a spurious regression bias in predictive regressions for stock returns related to the classic studies of Yule (1926) and Granger and Newbold (1974). Data mining for predictor variables interacts with spurious regression bias. The two effects reinforce each other, because more highly persistent series are more likely to be found significant in the search for predictor variables. Our simulations suggest that many of the regressions in the literature, based on individual predictor variables, may be spurious.

Fertig, Michael
PD February 2002. **TI** The Perception of Foreigners and Jews in Germany -- A Structural Analysis of a Large Opinion Survey. **AU** Fertig, Michael; Schmidt, Christoph M. **AA** Fertig: University of Heidelberg. Schmidt: RWI, Germany. **SR** CEPR Discussion Paper: 3222; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8

euros + postage and handling. **JE** C31, F22, J15. **KW** Attitudes. Minorities. Identification. Germany.

AB The ultimate aim of opinion surveys is the provision of information on the distribution of preferences and perceptions at the individual level. Yet, eliciting this information from the data is typically difficult. This paper uses a structural model to explain the answers on a set of questions regarding the perception of foreigners and Jews by native Germans. In this model it is assumed that in addition to observable individual characteristics there exists an underlying unobserved attitude towards minorities, which drives the distribution of answers by native respondents. This latent variable in turn is assumed to be influenced by a set of observable socio-economic characteristics of the individuals. In order to estimate this model it is necessary to impose strong identification restrictions. Estimation results show that education is the key correlate of the perception of foreigners and Jews in Germany.

Field, Erica

PD October 2002. **TI** Educational Debt Burden and Career Choice: Evidence from a Financial Aid Experiment at NYU Law School. **AA** Princeton University. **SR** Princeton University, Industrial Relations Section Working Paper: 469; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. **PG** 36. **PR** $1.50. **JE** D11, D12, H24, I22, J24. **KW** Educational Finance. Occupational Choice. Consumer Economics.

AB This paper explores how the timing of career-contingent financial aid influences its effectiveness in encouraging law students to enter public interest work, and hence the isolated effect of educational debt timing on career choice. The paper analyzes quasi-experimental data from NYU Law School's Innovative Financial Aid Study, in which career- contingent financial aid packages with equivalent net values but varying debt structures were randomly assigned to applicants. My results indicate that debt timing matters: law school graduates who receive tuition waivers rather than ex-post loan assistance have a 32% higher rate of first job placement in public interest law and a 91% higher rate of clerkships. Furthermore, recipients of tuition waivers are more likely to enroll in law school conditional on being admitted. Using propensity score methods to correct for sample selection bias at the matriculation stage, the paper finds that differences in first job placement according to debt timing persist after controlling for differential enrollment rates, implying an independent post-enrollment influence of debt timing on career decisions. The paper presents a behavioral model that rationalizes the time-inconsistency of career decisions when agents are both debt averse and loss averse.

Fielding, David

PD January 2003. **TI** Myopic Loss Aversion, Disappointment Aversion, and the Equity Premium Puzzle. **AU** Fielding, David; Stracca, Livio. **AA** Fielding: University of Leicester. Stracca: European Central Bank. **SR** European Central Bank Working Paper: 203; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 38. **PR** no charge. **JE** G11, G12. **KW** Myopic Loss Aversion. Disappointment Aversion. Equity Premium Puzzle. Investment Horizon. Reference Dependence.

AB This paper takes a close look at the "behavioral finance" explanations of the equity premium puzzle, namely myopic loss aversion (Benartzi and Thaler, 1995) and disappointment aversion (Ang, Bekaert and Liu, 2000). The paper proposes a simple specification of loss and disappointment aversion and brings these theories to the data. The main conclusion of the paper is that a highly short-sighted investment horizon is required for the historical equity premium to be explained by loss aversion, while reasonable values for disappointment aversion are found also for long investment horizons. So, stocks may lose only in the short term, but may disappoint also in the long term.

Finus, Michael

PD March 2003. **TI** A Non-Cooperative Foundation of Core-Stability in Positive Externality NTU-Coalition Games. **AU** Finus, Michael; Rundshagen, Bianca. **AA** University of Hagen. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/31; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/ Publications/Wpapers/default.htm. **PG** 12. **PR** no charge; available only online. **JE** C72. **KW** Core-Stability. Non-Cooperative Game Theory. Positive Externality Games.

AB We identify the core as an appealing stability concept of cooperative game theory, but argue that the non-cooperative approach has conceptual advantages in the context of economic problems with externalities. Therefore, we derive a non-cooperative foundation of core-stability for positive externality NTU-games. First, in the spirit of Hart/Kurz (1983), we develop a game that we call - game and show that strong Nash equilibria coalition structures in this game are identical to - and - core stable coalition structures. Second, as a by- product of the definition of the - game, we develop an extension called an - game. Finally, we compare equilibria in the - and - game with those in the - and - game of Hart and Kurz (1983).

Fisher, Anthony C.

TI Will U.S. Agriculture Really Benefit from Global Warming? Accounting for Irrigation in the Hedonic Approach. **AU** Schlenker, Wolfram; Hanemann, W. Michael; Fisher, Anthony C.

Fisman, Raymond

TI Are Politicians Really Paid Like Bureaucrats? **AU** Di Tella, Rafael; Fisman, Raymond.

Flotho, D. Teja

PD December 2002. **TI** A Note on Consumption Correlations and European Financial Integration. **AA** University of Freiburg. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2002/115; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 10. **PR** no charge; available only on website. **JE** E32, F41. **KW** Consumption Correlations. European Financial Integration. Financial Markets. International Risk Sharing.

AB In this paper we use empirical cross-country correlation coefficients of GDP- and private consumption data as a measure of financial integration between the current EU-member states and the central and eastern European accession states. We find, that the so- called consumption correlation puzzle with high output correlations and considerably small(er) consumption

correlations (just opposite to the theory of complete financial markets) does also and still exist among European countries, even using data-sets covering most recent time periods. Thus, there seems to be less financial market integration than often expected.

Foley, C. Fritz
TI   International Joint Ventures and the Boundaries of the Firm. AU   Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr.

TI   Chains of Ownership, Regional Tax Competition, and Foreign Direct Investment. AU   Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr..

Fontagne, Lionel
PD   September 2002. TI   International Trade and Rent Sharing in Developed and Developing Countries. AU   Fontagne, Lionel; Mirza, Daniel. AA   Fontagne: CEPII and University of Paris I-Pantheon-Sorbonne. Mirza: University of Nottingham. SR   University of Nottingham, GEP Research Paper: 2002/12; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/Tezec/research/dp/. PG   18. PR   no charge. JE   F10, F14, J30. KW   International Trade. Rent Sharing. Wages.
AB   In this paper, we derive then test a theoretical equation, based on rent sharing theories, linking industry wages to openness variables. This relation has three main features: 1) it can be easily confronted to the data, 2) it allows for both impacts of import and export variables to be properly considered in a same testable wage equation, 3) it stresses explicitly the role of imperfect market structures of goods and labor, as well as their interaction, when studying wages' response to openness. We construct a dataset that provides together trade, activity and labor related data for around 29 industries and 65 countries between 1981 and 1997. We find, for OECD countries, that an increase in export as well as domestic market shares is associated with growth in wages in roughly half of the industries. Among developing countries, Mediterranean followed by Latin American countries, are those where such phenomenon of rent-sharing can be observed. This does not seem to be the case in Asia however.

PD   February 2003. TI   The Role of Demand in the Adjustment of Employment to Trade. AU   Fontagne, Lionel; Mirza, Daniel. AA   Fontagne: University of Paris I-Pantheon-Sorbonne. Mirza: University of Nottingham. SR   University of Nottingham, GEP Research Paper: 2003/01; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/Tezec/research/dp/. PG   35. PR   no charge. JE   F16, J30, O20. KW   Liberalization. Employment. Competition.
AB   This article offers a new empirical explanation to the smooth adjustment of employment to openness at the industry level, observed in recent years in developing countries and some of the developed countries. In fact, we challenge the view through which trade is related to employment via a sole substitution effect. Using an oligopoly setting in international segmented markets, we show that each of both imports and exports, carry out an additional demand effect that is always positive on labor demand in a typical industry. We demonstrate that imports can be introduced into two alternative theoretical equations of labor demand that are easily testable and capable to discriminate between a (negative) substitution effect and a (positive) effect of demand. Empirical results seem to be robust to the existence of that "double" effect for most of the industries in the OECD and developing countries.

Forni, Mario
PD   February 2002. TI   Using Stationarity Tests in Antitrust Market Definition. AA   Universita di Modena and CEPR. SR   CEPR Discussion Paper: 3236; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG   not available. PR   5 pounds, $5 or 8 euros + postage and handling. JE   L41. KW   Antitrust Market Definition. Merger Guidelines. Stationarity. Dickey-Fuller Test. KPSS Test.
AB   In this paper it is argued that, if two products or geographic areas belong in the same market, their relative price must be stationary. Hence stationarity tests like the ADF and the KPSS can be helpful in delineating the relevant market for Antitrust purposes, particularly for abuses of dominant positions and agreements between competitors. The proposed procedure is closely related with cointegration analysis but has more general validity. An application to the Italian milk market illustrates the technique.

Foster, Lucia
PD   August 2002. TI   The Link Between Aggregate and Micro Productivity Growth: Evidence from Retail Trade. AU   Foster, Lucia; Haltiwanger, John; Krizan, C. J. AA   Foster: Bureau of Census. Haltiwanger: University of Maryland and NBER. Krizan: Bank of Spain. SR   National Bureau of Economic Research Working Paper: 9120; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   44. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   D24, J24, O47. KW   Productivity Growth. Retail Trade. Resource Reallocation.
AB   Understanding the nature and magnitude of resource reallocation, particularly as it relates to productivity growth, is important both because it affects how we model and interpret aggregate productivity dynamics, and also because market structure and institutions may affect the reallocation's magnitude and efficiency. Most evidence to date on the connection between reallocation and productivity dynamics for the U.S. and other countries comes from a single industry: manufacturing. Building upon a unique establishment-level data set of U.S. retail trade businesses, we provide some of the first evidence on the connection between reallocation and productivity dynamics in a non- manufacturing sector. Retail trade is a particularly appropriate subject for such a study since this large industry lies at the heart of many recent technological advances, such as E-commerce and advanced inventory controls. Our results show that virtually all of the productivity growth in the U.S. retail trade sector over the 1990s is accounted for by more productive entering establishments displacing much less productive exiting establishments. Interestingly, much of the between-establishment reallocation is a within, rather than between- firm phenomenon.

Foster, Neil
TI   North-South Trade, Knowledge Spillovers and Growth.
AU   Falvey, Rodney E.; Foster, Neil; Greenaway, David.

Frankel, Jeffrey A.
PD   September 2002. TI   Is Trade Good or Bad for the Environment? Sorting Out the Causality. AU   Frankel, Jeffrey A.; Rose, Andrew K. AA   Frankel: Harvard University and NBER. Rose: University of California, Berkeley and NBER. SR   National Bureau of Economic Research Working Paper: 9201; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   27. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   F18, Q20, Q53. KW   Environment. Causality. Trade. Endogeneity. Air Pollution.
AB   What is the effect of trade on a country's environment, for a given level of GDP? Some have observed an apparent positive correlation between openness to trade and measures of environmental quality. But this could be due to endogeneity of trade, rather than causality. This paper uses exogenous determinants of trade -- geographical variables from the gravity model -- as instruments to isolate the effect of openness. The finding is that trade may indeed have a beneficial effect on three measures of air pollution. Statistical significance is lacking for Particulate Matter, but is moderate for NO2, and high for SO2. Results for broader environmental measures are not as encouraging, but one can at least say that there is little evidence that trade has the detrimental effect on the environment that the race-to-the-bottom theory would lead one to expect. The larger effect appears to come via income itself: our results generally support the environmental Kuznets curve, which says that growth harms the environment at low levels of income and helps at high levels, and to support the proposition that openness to trade accelerates the growth process.

Fratzscher, Marcel
TI   Interdependence Between the Euro Area and the US: What Role for EMU? AU   Ehrmann, Michael; Fratzscher, Marcel.

Fried, Joel
PD   December 2002. TI   Canadian Retirement Savings Plans and Italian Pension Reform. AU   Fried, Joel; Amaboldi, Francesca. AA   Fried: University of Western Ontario. Amaboldi: Universita Bocconi. SR   University of Western Ontario, RBC Financial Group EPRI Working Paper: 2002/07; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/.   PG   17. PR   Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE   G23, H55, J26. KW   Pensions. Flexibility. Tax Deferred Savings.
AB   Canada has developed an extensive private pension system that accounts for more than half the government assisted resources available for retirement incomes. Private plans in Italy account for less than one percent of retirement resources, but it has recently provided pension reform to encourage greater use of these plans. This paper examines these reforms in light of Canada's experience with its private savings plans. In general terms the Canadian plans available to firms and individuals are more integrated with one another than is allowed in Italy, and, as well, the private plans in Italy have less flexibility to address both pre-retirement cash needs and the ability to shift retirement assets between portfolio managers. There are also fewer post retirement options available in Italy. The greater choice and flexibility of Canadian plans are seen as attractive features to savers and further Italian reforms that provide these characteristics to retirement savings plans should lead to more rapid growth in Italian private plans.

Gagnon, Joseph E.
PD   August 2003. TI   The Effect of Exchange Rates on Prices, Wages, and Profits: A Case Study of the United Kingdom in the 1990s. AA   Board of Governors of the Federal Reserve System. SR   Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 772; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG   14. PR   no charge. JE   D40, E30, F40. KW   Appreciation. Depreciation. Operating Surplus. Pass-Through.
AB   During the 1990s the United Kingdom experienced large and sudden exchange rate movements that had no apparent impact on overall consumer prices. This paper shows that the stability of U.K. consumer prices was made possible in part by offsetting movements in the price-cost margins of foreign exporters and in part by offsetting price-cost margins in the U.K. distribution sector. At the same time, U.K. manufacturers experienced margin swings in the opposite direction, largely due to their role as exporters. Thus, sterling depreciation boosted the profits of U.K. manufacturers and squeezed the profits of U.K. distributors, while sterling appreciation had the opposite effects.

Galenson, David W.
PD   February 2002. TI   The Life Cycles of Modern Artists. AA   University of Chicago and NBER. SR   National Bureau of Economic Research Working Paper: 8779; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   18. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   Z11. KW   Life Cycles. Art.
AB   There have been two very different life cycles for great modern artists: some have made their major contributions early in their careers, while others have produced their best work later in their lives. These patterns have been associated with different artistic goals and working methods: artists who peak late are motivated by aesthetic considerations and work by trial and error, whereas artists who peak early are motivated by conceptual concerns and plan their work in advance. This paper shows that Jackson Pollock, Mark Rothko, and the other leading Abstract Expressionists, who were experimental innovators, produced their best work considerably later in their careers than did Jasper Johns, Andy Warhol, and the other leading conceptual innovators of the generation that followed them. These results not only yield a new understanding of the life cycles of creative individuals, but also provide new insights into the value of works of art.

PD   September 2002. TI   Careers and Canvases: The Rise of the Market for Modern Art in the Nineteenth Century. AU   Galenson, David W.; Jensen, Robert. AA   Galenson:

University of Chicago and NBER. Jensen: University of Kentucky and NBER. **SR** National Bureau of Economic Research Working Paper: 9123; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 47. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** Z11. **KW** Art. Art Markets.

AB This paper reexamines the process by which a market for a new product modern painting emerged in Paris in the nineteenth century. Contrary to the accepted account, in which the monopoly of the official Salon was replaced by a competitive market operated by private dealers, we find that the Salon was in fact initially replaced by a series of smaller group exhibitions organized by artists. The Impressionists were thus leaders not only in creating modern art, but also in developing its markets. Our reinterpretation of this episode yields a new understanding of the interactions between artists and markets in the late nineteenth and early twentieth centuries, and for the first time highlights specific ways in which artists' behavior was affected by the structure of art markets during the first half century of the modern era.

PD September 2002. **TI** The New York School vs. the School of Paris: Who Really Made the Most Important Art After World War II? **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 9149; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** Z11. **KW** Modern Art.

AB American historians of modern art routinely assume that after World War II New York replaced Paris as the center of the western art world. An analysis of the illustrations in French textbooks shows that French art scholars disagree: they rate Jean Dubuffet as the most important painter of the era, ahead of Jackson Pollock, and they consider Yves Klein's anthropometries of 1960 as the greatest contribution of a single year, in front of Andy Warhol's innovations in Pop Art. Yet the French texts also show that the French artists' practices and conceptions of art paralleled those of the Americans. Thus while French and American scholars disagree over the relative importance of their nations' artists, there is no disagreement that the most important art of the 1950s was produced by experimental seekers, and that of the 60s by conceptual finders.

Galeotti, Marzio

TI Learning by Doing vs Learning by Researching in a Model of Climate Change of Policy Analysis. **AU** Castelnuovo, Efrem; Galeotti, Marzio; Gambarelli, Gretel; Vergalli, Sergio.

TI Non-Convexities in the Adjustment of Different Capital Inputs: A Firm-Level Investigation. **AU** Del Boca, Alessandra; Galeotti, Marzio; Rota, Paola.

Galetovic, Alexander

TI Could Higher Taxes Increase the Long-Run Demand for Capital? Theory and Evidence for Chile. **AU** Bustos, Alvaro; Engel, Eduardo; Galetovic, Alexander.

TI Privatizing Highways in Latin America: Is It Possible to Fix What Went Wrong? **AU** Engel, Eduardo; Galetovic, Alexander.

Gallin, Joshua

PD April 2003. **TI** The Long-Run Relationship Between House Prices and Income: Evidence from Local Housing Markets. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/17; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 25. **PR** no charge. **JE** C22, C23, R22, R31. **KW** House Prices. Cointegration. Panel Data.

AB The proposition that "housing prices can't continue to outpace growth in household income" (Wall Street Journal; July 25, 2002) is the received wisdom among many housing-market observers. More formally, many in the housing literature argue that house prices and income are cointegrated. This paper shows that the data do not support this view. Standard tests using 27 years of national-level data do not find evidence of cointegration. However, it is known that tests for cointegration have low power, especially in small samples. This paper uses panel-data tests for cointegration that have been shown to be more powerful than their standard time-series counterparts to test for cointegration in a panel of 95 metro areas over 23 years. Using a bootstrap approach to allow for cross-correlations in city-level house- price shocks, this paper shows that even these more powerful tests do not reject the hypothesis of no cointegration. Thus the error- correction specification for house prices and income commonly found in the literature may be inappropriate.

Gambarelli, Gretel

TI Learning by Doing vs Learning by Researching in a Model of Climate Change of Policy Analysis. **AU** Castelnuovo, Efrem; Galeotti, Marzio; Gambarelli, Gretel; Vergalli, Sergio.

Gaynor, Martin

TI Household Demand for Employer-Based Health Insurance. **AU** Abraham, Jean Marie; Vogt, William B.; Gaynor, Martin.

Gehrig, Thomas

PD February 2002. **TI** The Use of Flow Analysis in Foreign Exchange: Explanatory Analysis. **AU** Gehrig, Thomas; Menkhoff, Lukas. **AA** Gehrig: University of Freiburg and CEPR. Menkhoff: Universitat Hannover. **SR** CEPR Discussion Paper: 3221; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** F31. **KW** Foreign Exchange Markets. Flow Trading. Market Microstructure.

AB This paper provides questionnaire evidence on the role of flow analysis for professional traders and fund managers. This evidence suggests that besides fundamental information and technical analysis, the analysis of flows provides an independent third type of information for professionals. The proposition that flows can be used to learn about fundamentals is not consistent with the data. Instead, evidence indicates that flows more likely provide insight into semi-fundamental private information, suggesting support for the efficient market hypothesis only in a weak form.

Gelbach, Jonah B.
TI The Impact of Welfare Reform on Living Arrangements.
AU Bitler, Marianne P.; Gelbach, Jonah B.; Hoynes, Hilary W.

Gelos, R. Gaston
PD October 2002. TI Transparency and International Investor Behavior. AU Gelos, R. Gaston; Shang-Jin, Wei. AA IMF. SR International Monetary Fund Working Paper: WP/02/174; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 30. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE F32, F34, G15, G38. KW Financial Crises. Transparency. Portfolio Investment. Emerging Markets. International Investors. Financial Architecture. Contagion.
AB Does country "transparency" affect international portfolio investment? We examine this question and related ones using a unique micro dataset on international portfolio holdings. We employ various indices of government and corporate transparency, focusing on the availability and quality of information. We find that emerging market equity funds hold fewer assets in less transparent countries. Herding among funds is somewhat less prevalent in more transparent countries. During the Asian and Russian crises, emerging market funds withdrew more strongly from less transparent countries after controlling for other risk factors. However, funds tend to react less strongly to news from more opaque markets.

Gemmell, Norman
PD June 2002. TI Technology Transfer and External Shocks: Developing Country Growth from 1960 to 1990. AU Gemmell, Norman; Kneller, Richard. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/05; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 23. PR no charge. JE O30, O40. KW Growth. Developing Countries. Technology. Productivity.
AB The post-war growth experience of developing countries is characterized by three main features. Firstly, enormous divergence between the best and worst performers. Secondly, low persistence in growth rates across time, and finally a general decline in the average growth rate across all countries. Our evidence suggests that these patterns in the data are consistent with a technological growth model that is subject to random shocks. External shocks explain the variability of LDCs productivity growth rates, but only over the short- run: within 5 years; whereas faster growth of the technical frontier in innovating countries is associated with faster productivity growth in LDCs on average over the long-run. There are good reasons for believing that this reflects technology spillovers, and not simply demand effects.

Gentry, William M.
PD September 2002. TI The Effects of Progressive Income Taxation on Job Turnover. AU Gentry, William M.; Hubbard, R. Glenn. AA Gentry: Columbia University and NBER. Hubbard: Columbia University, NBER, and Council of Economic Advisers. SR National Bureau of Economic Research Working Paper: 9226; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H24, H31. KW Progressivity. Income Taxation. Job Turnover.
AB We examine whether the level of the income tax rate and the convexity of the income tax schedule affect job mobility, as measured by moving to a better job. While the predicted effect of the level of the tax rate is ambiguous, we predict that an increase in the convexity of the tax schedule decreases job search activity by taxing away some of the benefits of a successful job search. Using data from the Panel Study of Income Dynamics, we estimate that both higher tax rates and increased tax rate progressivity decrease the probability that a head of household will move to a better job during the coming year. Our estimates imply that a five-percentage-point reduction in the marginal tax rate increases the average probability of moving to a better job by 0.79 percentage points (an 8.0 percent increase in the turnover propensity) and that a one standard deviation in our measure of tax progressivity would increase this probability by 0.86 percentage points (an 8.7 percent increase in the turnover propensity).

Georgellis, Yannis
TI On the Trade-Off Between Work-Related Training and Labor Mobility: The Role of Firing and Exit Costs. AU Adnett, Nick; Bougheas, Spiros; Georgellis, Yannis.

Gerdesmeier, Dieter
PD January 2003. TI Empirical Estimates of Reaction Functions for the Euro Area. AU Gerdesmeier, Dieter; Roffia, Barbara. AA European Central Bank. SR European Central Bank Working Paper: 206; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 60. PR no charge. JE E52, E58. KW Taylor Rules. Reaction Functions. Monetary Policy. Euro Area.
AB This paper contains a set of estimates of reaction functions for the euro area based on a monthly data set starting in 1985. The main aim is to assess the performance of Taylor rules and to evaluate whether alternative specifications based on, inter alia, the inclusion of additional variables not contained in the original specification proposed by Taylor or the use of different measures of the output gap and the inflation term, can better track the interest rate setting in the euro area. An interesting result is that monetary developments (in the form of a money growth gap indicator derived as the deviation of M3 growth from its estimated reference value) enter significantly as an additional variable in a Taylor-like policy rule specification for the euro area.

Gerlagh, Reyer
PD January 2003. TI Induced Technological Change Under Technology Competition. AA Vrije Universiteit. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/05; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 22. PR no charge; available only on website. JE H23, O31, O41, O42. KW Induced Technological Change. Environmental Taxes. Partial Equilibrium.
AB We develop a partial one-sector model with capital, natural resources, and labor as production factors, and endogenous technological change through research. Production

exhibits increasing returns to scale. We compare the response of output and resource use to a change in resource prices with and without induced technological change (ITC). It is shown that induced technological change is insignificant in reducing resource use when there is one representative technology and output demand is inelastic to prices. In contrast, substantial gains from ITC appear when we allow for two competing technologies that can be employed for production, while these technologies are good substitutes. Also, in case of two technologies, conditions are specified under which multiple balanced growth paths exist, and it is shown that because of ITC, a temporary resource tax can lock out the economy from a resource intensive path and lock in to a resource extensive path.

PD January 2003. TI Natural Resources: A Blessing or a Curse? AU Gerlagh, Reyer; Papyrakis, Elissaios. AA Vrije Universiteit. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/08; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 13. PR no charge; available only on website. JE C21, O13, Q33. KW Natural Resources. Growth. Transmission Channels.
AB We examine empirically the effect of natural resource abundance on economic growth. We find that natural resources have a negative impact on growth when considered in isolation, but a positive impact on growth when including in the analysis other variables such as corruption, investments, openness, terms of trade, and schooling, and treating these variables as independent. However, when we take account of the effect of natural resources on the other variables and furthermore consider the indirect effect on growth, that is, when we examine possible transmission channels, we find a strong negative effect of natural resources on growth. Finally, we calculate the relative importance of each transmission channel.

Ghosal, Sayantan
PD January 2003. TI Information Aggregation, Costly Voting and Common Values. AU Ghosal, Sayantan; Lockwood, Ben. AA University of Warwick. SR The Warwick Economics Working Paper Series: 670; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 17. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE D72, D82. KW Voting. Information. Externality. Inefficiency.
AB In a model of majority voting with common values and costly but voluntary participation, we show that in the vicinity of equilibrium, it is always Pareto-improving for more agents, on the average, to vote. This demonstrates that the negative voting externality identified by Borgers (2001) in the context of private values is always dominated by a positive informational externality. In addition, we show that multiple Pareto-ranked voting equilibria may exist and moreover, majority voting with compulsory participation can Pareto dominate majority voting with voluntary participation. Finally, we show that the inefficiency result is robust to limited preference heterogeneity.

Ghura, Dhaneshwar
TI Cotton Sector Strategies in West and Central Africa. AU Badiane, Ousmane; Ghura, Dhaneshwar; Goreux, Louis; Masson, Paul.

Giammarioli, Nicola
PD May 2003. TI` The Natural Real Rate of Interest in the Euro Area. AU Giammarioli, Nicola; Valla, Natacha. AA European Central Bank. SR European Central Bank Working Paper: 233; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 26. PR no charge. JE E43, E52. KW Natural Rate of Interest. Monetary Policy. Euro Area.
AB In this paper, we discuss the consequences of taking into account the variations of the natural real interest rate (rt^*) in simple monetary policy rules. We also provide one possible model-based analysis of the level of rt^* that has prevailed in the euro area since the early 1970s, and present the implied "real rate gap" as a possible additional indicator to assess the stance of monetary policy.

Gilbert, Christopher L.
PD February 2002. TI Does Market Liberalization Jeopardize Export Quality? Cameroonian Cocoa, 1995-2000. AU Gilbert, Christopher L.; Tollens, Eric. AA Gilbert: Free University of Amsterdam and CEPR. Tollens: Catholic University of Leuven. SR CEPR Discussion Paper: 3224; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE Q17. KW Liberalization. Quality. Cocoa. Exports.
AB A frequently encountered argument against the liberalization of markets for tropical crop commodities is that this may jeopardize export quality. We look at this argument in the specific case of Cameroonian cocoa exports. The Cameroonian experience is important because an alleged decline in cocoa quality has often been cited as illustrating the dangers of market liberalization. That claim is not supported by examination of the unit value of cocoa imports into the European Union which demonstrates constant relativities over time in the unit value of cocoa imports from major west African producers. We argue that, in a liberalized environment, export quality is determined by the preferences of market participants and the technology of quality production. In Cameroon, changes in transport technology resulted in a diminished demand for premium grade cocoa while increased competition from cocoa buyers resulted in a transfer of some processing functions from farmers to intermediaries. There is no evidence of any significant quality problems arising from market liberalization. We conclude that government does not need to regulate in order to ensure a normal commercial outcome. Concerns about export quality should not be an issue in the continuing African market liberalization debate.

Giot, Pierre
TI News Announcements, Market Activity and Volatility in the Euro/Dollar Foreign Exchange Market. AU Bauwens, Luc; Giot, Pierre; Omrane, Walid Ben.

PD April 2003. TI The Information Content of Implied Volatility Indexes for Forecasting Volatility and Market Risk. AA University of Namur and Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/27; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 30. PR $5 per

paper; $100 per year. JE C53, G13, G14. KW Implied Volatility. Market Risk. VaR. Options. Futures.

AB In this paper, we assess the efficiency, information content and unbiasedness of volatility forecasts based on the VIX/VXN implied volatility indexes, RiskMetrics and GARCH-type models at the 5-, 10- and 22-day time horizon. Our empirical application focuses on the S&P100 and NASDAQ100 indexes. We also deal with the information content of the competing volatility forecasts in a market risk (VaR type) evaluation framework. The performance of the models is evaluated using LR, independence, conditional coverage and density forecast tests. Our results show that volatility forecasts based on the VIX/VXN indexes have the highest information content, both in the volatility forecasting and market risk assessment frameworks. Because they are easy-to-use and compare very favorably with much more complex econometric models that use historical returns, we argue that options and futures exchanges should compute implied volatility indexes and make these available to investors.

PD April 2003. TI Market Risk in Commodity Markets: A VaR Approach. AU Giot, Pierre; Laurent, Sebastien. AA University of Namur and Universite Catholique de Louvain. Laurent: CREST and Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/28; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 16. PR $5 per paper; $100 per year. JE C52, C53, G15. KW Value-at-Risk. Skewed Student Distribution. ARCH. APARCH. Commodity Markets.

AB We put forward Value-at-Risk models relevant for commodity traders who have long and short trading positions in commodity markets. In a five-year out-of-sample study on aluminum, copper, nickel, Brent crude oil and WTI crude oil daily cash prices and cocoa nearby futures contracts, we assess the performance of the RiskMetrics, skewed Student APARCH and skewed student ARCH models. While the skewed Student APARCH model performs best in all cases, the skewed Student ARCH model delivers good results and its estimation does not require non-linear optimization procedures. As such this new model could be relatively easily integrated in a spreadsheet-like environment and used by market practitioners.

Girma, Sourafel

PD June 2002. TI Merger Activity and Executive Pay. AU Girma, Sourafel; Thompson, Steve; Wright, Peter. AA Girma and Wright: University of Nottingham. Thompson: University of Leicester. SR University of Nottingham, GEP Research Paper: 2002/02; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 16. PR no charge. JE G34. KW Mergers. Acquisitions. Executive Pays.

AB This paper examines the impact of mergers and acquisitions on the remuneration of the CEOs in a large unbalanced panel of UK firms, over the period 1981-1996. We find significant and substantial executive pay increases in excess of those generated by the growth in firm size consequent upon the merger. This is consistent with the view that mergers reveal information about the quality of management that is useful to the firm's remuneration committee. However, executive pay is nine times more sensitive to internal growth than to growth as a result of acquisition. Furthermore, there is some evidence that hostile transactions generate smaller pay effects than friendly deals, probably because they are followed, at some remove, by size-reducing divestments. When mergers are distinguished by their impact on shareholder wealth we find that CEOs engaging in "bad" (i.e. wealth- reducing) acquisitions experience significantly lower remuneration than their counterparts whose deals meet with market approval. This result suggests that shareholder-principals have at least some success in penalizing managers for unwarranted empire-building mergers.

TI Regional Foreign Direct Investment and Wage Spillovers: Plant Level Evidence From the Electronics Industry. AU Driffield, Nigel; Girma, Sourafel.

PD June 2002. TI Foreign Ownership, Returns to Scale and Productivity: Evidence From UK Manufacturing Establishments. AU Girma, Sourafel; Gorg, Holger. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/07; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 15. PR no charge. JE D24, G32, L60. KW Productivity Growth. Manufacturing. Ownership Structure.

AB This paper calculates returns to scale and productivity growth (allowing for non-constant returns to scale) in UK manufacturing establishments in the electronics and food industries. Our results show that foreign establishments tend to have lower returns to scale than their domestic counterparts. We also examine the effect of the acquisition of a domestic establishment by a foreign owner on returns to scale and productivity growth. We use a matching and difference-in-differences methodology which allows us to construct a reasonable counterfactual and to determine the post-acquisition changes in RTS and productivity that can be attributed to the incidence of acquisition, rather than to changes in other external conditions. In both sectors, acquisition has a negative effect on RTS, although the effect appears stronger in the food sector. The effect of foreign acquisition on productivity differs between sectors; establishments in the electronics sector experience a reduction in productivity post acquisition, while plants in the food sector increase productivity.

PD June 2002. TI Absorptive Capacity and Productivity Spillovers from FDI: A Threshold Regression Analysis. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/08; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 16. PR no charge. JE D24, D62, F21. KW Productivity. Foreign Direct Investment. Spillovers. Technology Transfer.

AB The influence of absorptive capacity in productivity spillovers from FDI is explored using recently developed threshold regression techniques. These characterize technology transfer as a non-linear process where the impact of FDI could either be negative, positive or neutral, depending on some critical values of the absorptive capacity distribution. Substantial heterogeneity in the way FDI-induced externalities

are distributed across domestic firms in the U.K. is uncovered. There are also additional findings on the importance of exporting, geographic proximity and the motivation of FDI.

PD June 2002. **TI** Does Exporting Lead to Better Performance? A Microeconometric Analysis of Matched Firms. **AU** Girma, Sourafel; Greenaway, David; Kneller, Richard. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/09; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 21. **PR** no charge. **JE** D24, F10. **KW** Exports. Matching. Productivity. Sunk Costs.
AB Exporting involves sunk costs, so some firms export whilst others do not. This proposition derives from a number of models of firm behavior and has been exposed to microeconometric analysis. Evidence from the latter suggests that exporting firms are generally more productive than non-exporters; they self-select in that they are more productive before they enter export markets; but entry does not make them any more productive. This paper investigates exporting and firm performance for a large panel of UK manufacturing firms applying, for the first time, matching techniques. We find that exporters are more productive and they do self-select. In contrast to other evidence, however, we also find that exporting further increases firm productivity.

PD September 2002. **TI** Foreign Direct Investment, Spillovers and Absorptive Capacity: Evidence From Quantile Regressions. **AU** Girma, Sourafel; Gorg, Holger. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/14; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 16. **PR** no charge. **JE** D24, D62, F21. **KW** Foreign Direct Investment. Productivity Spillovers. Quantile Regressions.
AB This paper focuses on the role of absorptive capacity in determining whether or not domestic establishments benefit from productivity spillovers from FDI. We analyze this issue using establishment level data for the electronics and engineering sectors in the UK. We distinguish the effect of FDI in the same sector and region from FDI in the same sector but outside the region. We also allow for different effects of FDI on establishments located at different quantiles of the productivity distribution by using conditional quantile regression. Overall, while there is substantial heterogeneity in results across sectors and quantiles, our findings clearly suggest that both absorptive capacity and distance matter for productivity spillover benefits. We find evidence for a u-shaped relationship between absorptive capacity and productivity spillovers from FDI in the region, while there is an inverted u-shaped relationship for spillovers from FDI outside the region.

PD September 2002. **TI** Outsourcing, Foreign Ownership and Productivity: Evidence from UK Establishment Level Data. **AU** Girma, Sourafel; Gorg, Holger. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/16; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 13. **PR** no charge. **JE** D24, G32, J30. **KW** Outsourcing.

Productivity. Wages. Ownership Structure.
AB This paper presents an empirical analysis of "outsourcing" using establishment level data for UK manufacturing industries. We analyze an establishment's decision to outsource and the subsequent effects of outsourcing on the establishment's productivity. We compare outsourcing in domestic with foreign-owned establishments. Our empirical results suggest that high wages are positively related to outsourcing, suggesting that the cost saving motive is important. We also find that foreign-owned firms have higher levels of outsourcing than domestic establishments. In the productivity analysis we find that an establishment's outsourcing intensity is positively related to its labor productivity and total factor productivity growth and that this effect is more pronounced for foreign establishments.

PD October 2002. **TI** Productivity Levels and Dynamics: UK Service Sector Firms 1988-1998. **AU** Girma, Sourafel; Kneller, Richard. **AA** Girma: University of Leicester. Kneller: University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/25; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 16. **PR** no charge. **JE** D24, L80. **KW** Productivity. Service Sector. UK. Ownership.
AB This paper attempts to explain the level and dynamics of firm level productivity through a model of convergence, for UK service sector firms over the period 1988 to 1998. Firms of different characteristics have different productivity levels and rates of catch-up. We find strong evidence to relate differences in the rate of convergence to the ownership status of the firm and weak evidence that it is related to firm age. Given the high initial productivity of foreign owned firms we suggest that these firms have high absorptive capacity.

PD February 2003. **TI** Export Market Exit and Performance Dynamics: A Causality Analysis of Matched Firms. **AU** Girma, Sourafel; Greenaway, David; Kneller, Richard. **AA** Girma: University of Leicester. Greenaway and Kneller: University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2003/07; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 9. **PR** no charge. **JE** D24, F14. **KW** Export Market. Productivity.
AB As a result of the rapid growth of microeconometric studies of exporting firms, we now know quite a lot about the performance dynamics of firms that enter export markets. We know much less about what happens to performance when firms exit. We apply a difference-in- differences methodology based on matched firms to analyze the performance dynamics firms in UK manufacturing that exited export markets during the period 1991-1997. We find that, on average, exit from foreign markets has a negative albeit weak effect on total factor productivity. But this is confined to the year of exit as we fail to detect any discernible productivity effect due to exit in subsequent years. By contrast exit is found to have a deleterious effect on both employment and output dynamics. The effect on output is sizeable and quite persistent, suggesting that domestic demand was not able to make up for the loss in foreign market shares.

Girmens, Guillaume

PD December 2002. TI Privatization and Investment: Crowding-Out Effect vs Financial Diversification. AU Girmens, Guillaume; Guillard, Michel. AA EPEE and Universite d' Evry-Val d'Essonne. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/108; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 16. PR no charge; available only on website. JE D81, L33. KW Crowding-Out Effect. Non-Expected Preferences. Privatization. Risk- Sharing.

AB In this paper, we study the effect of share issue privatization (SIP) on private investment and financial market under incomplete risk diversification. Risk neutrality and imperfect intertemporal substitutability make investment decreasing in privatization (crowding- out effect). Vice-versa with risk aversion and perfect intertemporal substitutability (diversification effect). Finally, with risk aversion and imperfect intertemporal substitutability, crowding-out effects are more than compensated by diversification effects if and only if risk aversion is sufficiently high (relatively, i.e. compared to the inverse of the elasticity of intertemporal substitution). We establish these results in the most favorable case for the dominance of the crowding- out effect, when the revenues of privatization are devoted to present public consumption.

PD December 2002. TI Privatization, International Asset Trade and Financial Markets. AA EPEE, Universite d'Evry-Val d'Essonne. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/114; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 24. PR no charge; available only on website. JE F30, G10, L33. KW Financial Integration. International Risk-Sharing. Share Issue Privatization. Stock Market Development. Voucher Privatization.

AB This paper evaluates the impact of privatization on the development of capital markets in a two-country general equilibrium model. We draw particular attention to two divestment techniques, share issue privatizations (in developed market systems) and voucher privatizations (in transition economies). It is shown how these two privatization methods can have an impact, by diversification effects, on supplies of private assets, demands for assets, market capitalizations and international asset allocation strategies. We show that even a non- marketed privatization (free distribution of public assets to private individuals) has market-effects, by altering portfolio choices.

Glachant, Matthieu

PD April 2003. TI Voluntary Agreements Under Endogenous Legislative Threats. AA CERNA. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/36; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 19. PR no charge; available only online. JE D72, Q28. KW Environmental Policy. Voluntary Agreements. Bargaining. Legislatures. Rent Seeking.

AB The paper analyzes the welfare properties of voluntary agreements (VA) with polluters, when they are obtained under the legislative threat of an alternative stricter policy option. In the model, the threat is an abatement quota. Both the threat and its probability of implementation are endogenous. The latter is the outcome of a rent- seeking contest between a green and a polluter lobby group influencing the legislature. We show that a welfare-improving VA systematically emerges in equilibrium and that it is more efficient than the pollution quota. We also discuss various VA design aspects.

Glaeser, Edward L.

PD September 2002. TI The Injustice of Inequality. AU Glaeser, Edward L.; Shleifer, Andrei. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 9150; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 29. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE K40, K42, O17, O40, P51. KW Inequality. Corruption. Institutions.

AB In many countries, the operation of legal, political and regulatory institutions is subverted by the wealthy and the politically powerful for their own benefit. This subversion takes the form of corruption, intimidation, and other forms of influence. We present a model of such institutional subversion -- focusing specifically on courts -- and of the effects of inequality in economic and political resources on the magnitude of subversion. We then use the model to analyze the consequences of institutional subversion for the law and order environment in the country, as well as for capital accumulation and growth. We illustrate the model with historical evidence from Gilded Age United States and the transition economies of the 1990s. We also present some cross-country evidence consistent with the basic prediction of the model.

PD September 2002. TI The Social Multiplier. AU Glaeser, Edward L.; Sacerdote, Bruce I.; Scheinkman, Jose A. AA Glaesr: Harvard University and NBER. Sacerdote: Dartmouth College and NBER. Scheinkman: Princeton University. SR National Bureau of Economic Research Working Paper: 9153; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I20, J30, Z13. KW Social Multiplier. Education. Crime. Wages.

AB In many cases, aggregate data is used to make inferences about individual level behavior. If there are social interactions in which one person's actions influence his neighbor's incentives or information, then these inferences are inappropriate. The presence of positive social interactions, or strategic complementarities, implies the existence of a social multiplier where aggregate relationships will overstate individual elasticities. We present a brief model and then estimate the size of the social multiplier in three areas: the impact of education on wages, the impact of demographics on crime and group membership among Dartmouth roommates. In all three areas there appears to be a significant social multiplier.

PD September 2002. TI The Political Economy of Hatred. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 9171; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 51. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE P16, Z19. KW Hatred. Political Economy.

AB What determines the intensity and objects of hatred? Hatred forms when people believe that out-groups are responsible for past and future crimes, but the reality of past crimes has little to do with the level of hatred. Instead, hatred is

the result of an equilibrium where politicians supply stories of past atrocities in order to discredit the opposition and consumers listen to them. The supply of hatred is a function of the degree to which minorities gain or lose from particular party platforms, and as such, groups that are particularly poor or rich are likely to be hated. Strong constitutions that limit the policy space and ban specific anti-minority policies will limit hate. The demand for hatred falls if consumers interact regularly with the hated group, unless their interactions are primarily abusive. The power of hatred is so strong that opponents of hatred motivate their supporters by hating the haters.

Glatzer, Ernst

PD January 2003. TI Modelling the Implied Probability of Stock Market Movements. AU Glatzer, Ernst; Scheicher, Martin. AA Oesterreichische Nationalbank. SR European Central Bank Working Paper: 212; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 38. PR no charge. JE C22, C51, G12. KW Option Prices. Risk-Neutral Density. Volatility. Spillover.
AB In this paper we study risk-neutral densities (RNDs) for the German stock market. The use of option prices allows us to quantify the risk- neutral probabilities of various levels of the DAX index. For the period from December 1995 to November 2001, we implement the mixture of log-normals model and a volatility-smoothing method. We discuss the time series behaviour of the implied PDFs and we examine the relationships between the moments and observable factors such as macroeconomic variables, the US stock markets, and credit risk. We find that the risk-neutral densities exhibit pronounced negative skewness. Our second main observation is a significant spillover of volatility, as the implied volatility and kurtosis of the DAX RND are mostly driven by the volatility of US stock prices.

Gleich, Holger

PD February 2003. TI Budget Institutions and Fiscal Performance in Central and Eastern European Countries. AA BMW Group. SR European Central Bank Working Paper: 215; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 44. PR no charge. JE D73, E61, E62, H61, P21, P35. KW Budget Institutions. Fiscal Policy. Transition Countries.
AB This paper documents the modes of organization of the budget process in ten CEEC and examines the relationship between these institutional settings and fiscal performance. Using detailed information on the budget institutions in these countries, the national budget processes are classified according to their co-ordination and conflict resolution properties. Empirical results show that budget procedures that are conducive to reducing collective action problems have been associated with more fiscal discipline.

Glied, Sherry A.

TI Modeling Health Insurance Expansions: Effects of Alternate Approaches. AU Remler, Dahlia K.; Zivin, Joshua Graff; Glied, Sherry A.

Goerg, Holger

PD December 2002. TI Fancy a Stay at the "Hotel California"? Foreign Direct Investment, Taxation and Firing Costs. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/30; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. PG 22. PR no charge. JE F23, H25, J65. KW Foreign Direct Investment. Exit Costs. Firing Costs. Investment Incentives. Taxation.
AB This paper looks at the trade off between investment incentives and exit costs for the location of foreign direct investment (FDI). This issue does not appear to have been tackled in much detail in the literature. The analysis considers the effect of profit taxation (as a measure of investment incentives) and an index of hiring and firing costs (proxying exit costs) on the location of US outward FDI in 33 host countries. The results suggest that US FDI, in particular in manufacturing is negatively affected by the level of profit taxation and exit costs. Hence, if countries want to attract FDI it may not suffice that incentives are provided in order to ease the entry of multinationals. Instead, it also appears to be important that exit costs are at a level attractive to multinationals. In other words, multinationals may not check into an attractive looking Hotel California type host country if it is difficult to leave.

PD December 2002. TI Is There a Potential for Increases in FDI for Central and Eastern European Countries Following EU Accession? AU Goerg, Holger; Greenaway, David. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/31; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. PG 23. PR no charge. JE F23. KW Foreign Direct Investment. Transition Economies. Gravity Models.
AB Gravity modeling has been used extensively in analyzing trade flows but less so for cross-border investment. Recent theoretical work provides an underpinning for applications to FDI. In this paper we estimate a gravity model to evaluate the potential for increased FDI for a sample of Eastern European countries, following accession to the EU. Preliminary results suggest limited potential in manufacturing but greater scope in services.

TI Multinationals' Location Choice, Agglomeration Economies and Public Incentives. AU Barrios, Salvador; Goerg, Holger; Strobl, Eric.

Goetzmann, William

PD August 2002. TI Sharpening Sharpe Ratios. AU Goetzmann, William; Ingersoll, Jonathan; Spiegel, Matthew I.; Welch, Ivo. AA Goetzmann and Welch: Yale University and NBER. Ingersoll and Speigel: Yale University. SR National Bureau of Economic Research Working Paper: 9116; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G10, G12, G20. KW Sharpe Ratios. Options. Derivative Contracts. Hedge Funds.
AB It is now well known that the Sharpe ratio and other related reward- to-risk measures may be manipulated with option-like strategies. In this paper we derive the general conditions for achieving the maximum expected Sharpe ratio.

We derive static rules for achieving the maximum Sharpe ratio with two or more options, as well as a continuum of derivative contracts. The optimal strategy rules for increasing the Sharpe ratio. Our results have implications for performance measurement in any setting in which managers may use derivative contracts. In a performance measurement setting, we suggest that the distribution of high Sharpe ratio managers should be compared with that of the optimal Sharpe ratio strategy. This has particular application in the hedge fund industry where use of derivatives is unconstrained and manager compensation itself induces a non-linear payoff. The shape of the optimal Sharpe ratio leads to further conjectures. Expected returns being held constant, high Sharpe ratio strategies are, by definition, strategies that generate regular modest profits punctuated by occasional crashes. Our evidence suggests that the "peso problem" may be ubiquitous in any investment management industry that rewards high Sharpe ratio managers.

Golan, Amos
TI Effects of Government Policies on Income Distribution and Welfare. **AU** Wu, Ximing; Perloff, Jeffrey M.; Golan, Amos.

Gompers, Paul A.
TI Who Underreacts to Cash-Flow News? **AU** Cohen, Randolph B.; Gompers, Paul A.; Vuolteenaho, Tuomo.

Goncales, Silvia
PD November 2002. **TI** Bootstrapping Autoregressions with Conditional Heteroskedasticity of Unknown Form. **AU** Goncales, Silvia; Kilian, Lutz. **AA** Goncales: CRDE, CIRANO and Universite de Montreal. Kilian: University of Michigan, European Central Bank and CEPR. **SR** European Central Bank Working Paper: 196; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 48. **PR** no charge. **JE** C15, C22, C52. **KW** Wild Bootstrap. Pairwise Bootstrap. Robust Inference. GARCH. Stochastic Volatility.
AB Conditional heteroskedasticity is an important feature of many macroeconomic and financial time series. Standard residual-based bootstrap procedures for dynamic regression models treat the regression error as i.i.d. These procedures are invalid in the presence of conditional heteroskedasticity. We establish the asymptotic validity of three easy-to-implement alternative bootstrap proposals for stationary autoregressive processes with m.d.s. errors subject to possible conditional heteroskedasticity of unknown form. These proposals are the fixed-design wild bootstrap, the recursive-design wild bootstrap and the pairwise bootstrap. In a simulation study all three procedures tend to be more accurate in small samples than the conventional large-sample approximation based on robust standard errors. In contrast, standard residual-based bootstrap methods for models with i.i.d. errors may be very inaccurate if the i.i.d. assumption is violated. We conclude that in many empirical applications the proposed robust bootstrap procedures should routinely replace conventional bootstrap procedures based on the i.i.d. error assumption.

Gonzales, Fernando
TI A Framework for Collateral Risk Control Determination. **AU** Cossin, Didier; Huang, Zhijiang; Aunon-Nerin, Daniel; Gonzales, Fernando.

Goolsbee, Austan
TI How Prevalent is Tax Arbitrage? Evidence from the Market for Municipal Bonds. **AU** Erickson, Merle; Goolsbee, Austan; Maydew, Edward.

PD September 2002. **TI** The Impact and Inefficiency of the Corporate Income Tax: Evidence from State Organizational Form Data. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 9141; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 15. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** H25, L22. **KW** Corporate Income Tax. Organizational Form. Retail Trade.
AB By double taxing the income of corporate firms but not unincorporated firms, taxes can play an important role in a firm's choice of organizational form. The sensitivity of the organizational form decision to tax rates can also be used to approximate the efficiency cost of the corporate income tax. This paper uses new cross-sectional data on organizational form across states compiled in the Census of Retail Trade to estimate this sensitivity. The results document a significant impact of the relative taxation of corporate to personal income on the share of economic activity that is done by corporations including sales, employment, and the number of firms. The impacts are substantially larger than those found in the previous empirical literature based on time-series data.

Gordon, Robert J.
PD February 2002. **TI** Technology and Economic Performance in the American Economy. **AA** Northwestern University and NBER. **SR** National Bureau of Economic Research Working Paper: 8771; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 42. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** O30, O40, O51. **KW** Technology. Inflation. Unemployment.
AB This paper examines the sources of the U.S. macroeconomic miracle of 1995-2000 and attempts to distinguish among permanent sources of American leadership in high-technology industries, as contrasted with the particular post-1995 episode of technological acceleration, and with other independent sources of the economic miracle unrelated to technology. The core of the American achievement was the maintenance of low inflation in the presence of a decline in the unemployment rate to the lowest level reached in three decades. The post-1995 technological acceleration, particularly in information technology (IT) and accompanying revival of productivity growth, directly contributed both to faster output growth and to holding down the inflation rate. In turn low inflation allowed the Fed to maintain an easy monetary policy that fueled rapid growth in real demand, profits, and stock prices, which fed back into growth of consumption in excess of growth in income. The technological acceleration was made possible in part by permanent sources of American advantage over Europe and Japan, most notably the mixed system of government-and privately-funded research universities, the large role of U.S. government agencies providing research funding based on peer review, the strong tradition of patent and securities regulation, etc.

Goreux, Louis
TI Cotton Sector Strategies in West and Central Africa. **AU** Badiane, Ousmane; Ghura, Dhaneshwar; Goreux, Louis;

Masson, Paul.

Gorg, Holger
PD December 2001. TI Foreign Direct Investment and Intra-Industry Spillovers: A Review of the Literature. AU Gorg, Holger; Greenaway, David. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2001/37; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 29. PR no charge. JE F21, F23. KW Foreign Direct Investment. Spillovers.

AB Many governments offer significant inducements to attract inward investment, motivated by the expectation of spillover benefits. This paper reviews the possible sources of such spillovers and the empirical evidence for their existence in developing, developed and transitional economies. Although theory can identify a range of possible spillover channels, empirical support is hard to find. In the light of this, the paper concludes with a review of policy aspects.

TI Foreign Ownership, Returns to Scale and Productivity: Evidence From UK Manufacturing Establishments. AU Girma, Sourafel; Gorg, Holger.

PD September 2002. TI Spillovers From Foreign Firms Through Worker Mobility: An Empirical Investigation. AU Gorg, Holger; Strobl, Eric. AA Gorg: University of Nottingham. Strobl: University College Dublin. SR University of Nottingham, GEP Research Paper: 2002/13; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 12. PR no charge. JE D62, F23, J60. KW Spillovers. Multinationals. Mobility.

AB While there has been a large empirical literature on productivity spillovers from foreign to domestic firms this literature treats the channels through which these spillover effects work as a black box. This paper attempts to fill this gap in the literature. Our results suggest that firms which are run by owners that worked for multinationals in the same industry immediately prior to opening up their own firm have higher productivity growth than other domestic firms. This suggests that these entrepreneurs bring with them some of the knowledge accumulated in the multinational which can be usefully employed in the domestic firm. We do not find any positive effects on firm level productivity if the owner had experience in multinationals in other industries, or received training by multinationals.

TI Foreign Direct Investment, Spillovers and Absorptive Capacity: Evidence From Quantile Regressions. AU Girma, Sourafel; Gorg, Holger.

PD September 2002. TI Why Do Foreign-Owned Firms Pay More? The Role of On-the-Job Training. AU Gorg, Holger; Strobl, Eric; Walsh, Frank. AA Gorg: University of Nottingham. Strobl and Walsh: University College Dublin. SR University of Nottingham, GEP Research Paper: 2002/15; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 17. PR no charge. JE G32, J24, J30. KW On-the-Job Training. Wages.

AB Foreign-owned firms have consistently been found to pay higher wages than domestic firms to what appear to be equally productive workers in both developed and developing countries alike. Although a number of studies have documented and some attempted to explain this stylized fact, the issue still remains unresolved. In a multi-period bargaining framework we show that if firm specific training is more productive in foreign firms, foreign firm workers will have a steeper wage profile and thus acquire a premium over time. Using a rich employer-employee matched data set for Ghana manufacturing we show that the foreign wage premium is only acquired by workers over time spent in the firm and only by those that receive on the job training, thus providing empirical support for a firm specific human capital acquisition explanation.

TI Outsourcing, Foreign Ownership and Productivity: Evidence from UK Establishment Level Data. AU Girma, Sourafel; Gorg, Holger.

Gorton, Gary
PD September 2002. TI Banking Panics and the Origin of Central Banking. AU Gorton, Gary; Huang, Lixin. AA University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 9137; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E58, G21. KW Banking. Central Banks. Panics. Private Bank Coalitions.

AB Gorton and Huang (2001)(GH) argue that private coalitions of banks can act as central banks, issuing private money and providing deposit insurance during times of panic. This lender-of-last-resort role depends upon banking panics occurring threat of liquidation makes the private bank coalition incentive compatible, inducing banks to monitor each other. But, despite the evolution of private bank coalitions, government central banks and government deposit insurance schemes historically replaced the private bank coalitions. In this paper we ask why this transition from private arrangements to public arrangements occurred. We survey the historical and international evidence on panics, suggesting that GH are consistent with the evidence. Then, we extend GH to show the welfare improvement brought about by a government central bank replacing private bank coalitions as lender-of-last- resort. In particular, panics, while necessary for private coalitions to function, are costly because they disrupt the use of bank deposits as a medium of exchange. With government deposit insurance, panics do not occur, but the government must monitor banks. Such monitoring by the government is not as effective as private bank coalitions. We provide conditions under which the government can avoid the costs associated with panics by implementing deposit insurance and thereby raise social welfare.

PD September 2002. TI Liquidity, Efficiency and Bank Bailouts. AU Gorton, Gary; Huang, Lixin. AA Gorton: University of Pennsylvania and NBER. Huang: University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 9158; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E58, G21. KW Bank Bailouts. Liquidity Provision. Government

Bailouts.
AB Why do governments bail out banking systems in distress? We argue that the government can efficiently provide liquidity. We present a general equilibrium model in which not all assets can be used to purchase all other assets at every date. At some dates agents want to sell projects or securities. The only buyers are agents who have previously opportunistically invested in otherwise dominated assets because only these ("liquid") assets can be used to purchase the projects or securities. The market price of the projects or securities sold depends on the supply of liquidity, which is determined in general equilibrium. The supply of liquidity is not perfectly elastic so asset prices can deviate from "efficient market" prices, that is, the conditional expectation of the asset payoff. While private liquidity provision is socially beneficial since it allows valuable reallocations, it is also socially costly since liquidity suppliers could have made more efficient investments ex ante. As a result, there is a potential role for the government to supply liquidity by issuing government securities, backed by tax revenue. Government bailouts of banking systems are an example of such public liquidity provision.

Gowrisankaran, Gautam
PD September 2002. **TI** Do Mergers Lead to Monopoly in the Long Run? Results from the Dominant Firm Model. **AU** Gowrisankaran, Gautam; Holmes, Thomas J. **AA** Gowrisankaran: Harvard University and NBER. Holmes: University of Minnesota. **SR** National Bureau of Economic Research Working Paper: 9151; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** L12, L40. **KW** Mergers. Monopoly. Antitrust. Perfect Competition.
AB Will an industry with no antitrust policy converge to monopoly, competition, or somewhere in between? We analyze this question using a dynamic dominant firm model with rational agents, endogenous mergers, and constant returns to scale production. We find that perfect competition and monopoly are always steady states of this model, and that there may be other steady states with a dominant firm and a fringe co-existing. Mergers are likely only when supply is inelastic or demand is elastic, suggesting that the ability of a dominant firm to raise price, through monopolization is limited. Additionally, as the discount factor increases, it becomes harder to monopolize the industry, because the dominant firm cannot commit to not raising prices in the future.

PD September 2002. **TI** Competition, Payers, and Hospital Quality. **AU** Gowrisankaran, Gautam; Town, Robert. **AA** Gowrisankaran: Harvard University, Federal Reserve Bank of San Francisco, and NBER. Town: University of Minnesota. **SR** National Bureau of Economic Research Working Paper: 9206; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I11, I18, L13. **KW** HMOs. Competition. Medicare. Health Care Quality.
AB The objective of this study is to estimate the effects of competition for both Medicare and HMO patients on the quality decisions of hospitals in Southern California. We use discharge data from the State of California for the period 1989-1993. The outcome variables are the risk-adjusted hospital mortality rates for pneumonia (estimated by the authors) and acute myocardial infarction (reported by the state

of California). Measures of competition are constructed for each hospital and payer type. The competition measures are formulated to mitigate the possibility of endogeneity bias. The study finds that increases in the degree of competition for HMO patients decrease risk-adjusted hospital mortality rates. Conversely, increases in competition for Medicare enrollees are associated with increases in risk-adjusted mortality rates for hospitals. In conjunction with previous research, the estimates indicate that increasing competition for HMO patients appears to reduce prices and save lives and hence appears to improve welfare. However, increases in competition for Medicare appear to reduce quality and may reduce welfare. Increasing competition has little net effect on hospital quality for our sample.

Goyal, Amit
PD February 2002. **TI** Predicting the Equity Premium With Dividend Ratios. **AU** Goyal, Amit; Welch, Ivo. **AA** Goyal: UCLA. Welch: Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 8788; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G12, G14. **KW** Equity Premium. Dividend Ratios. Return Predictability.
AB Our paper reexamines the forecasting regressions which predict annual aggregate stock market returns net of the risk-free rate with lagged aggregate dividend-yield ratios and dividend-price ratios. Prior to 1990, the conditional dividend yield could reliably outperform the historical equity premium mean in predicting future equity premia *in- sample*. But our paper shows that the dividend ratios could not outperform the prevailing unconditional mean *out-of-sample*, plus any residual power was directly related to only two years, 1974 and 1975. As of 2000, even this in-sample predictive ability has disappeared. Our paper also documents changes in the time-series processes of the dividends themselves and shows that an increasing persistence of dividend-price ratio is largely responsible for weak stock return predictability.

Gray, Wayne B.
PD August 2002. **TI** The Declining Effects of OSHA Inspections on Manufacturing Injuries: 1979 to 1998. **AU** Gray, Wayne B.; Mendeloff, John. **AA** Gray: Clark University and NBER. Mendeloff: University of Pittsburgh. **SR** National Bureau of Economic Research Working Paper: 9119; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 19. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J28. **KW** Manufacturing. Industrial Health.
AB This study compares the impact of OSHA inspections on manufacturing industries using data from three time periods: 1979-85, 1987-91, and 1992-98. We find substantial declines in the impact of OSHA inspections since 1979-85. In the earliest period we estimate that having an OSHA inspection that imposed a penalty reduces injuries by about 15%; in the later periods it falls to 8% in 1987-91 and to 1% (and statistically insignificant) in 1992-98. Testing for different effects by inspection type, employment size, and industry, we find differences across size classes, but these cannot explain the overall decline. In fact, we find reductions in OSHA's impact over time for nearly all subgroups we examine, so shifts across

subgroups cannot explain the whole decline. We examine various other hypotheses concerning the declining impact, but in the end we are not able to provide a clear explanation for the decline.

PD September 2002. TI "Optimal" Pollution Abatement -- Whose Benefits Matter, and How Much? AU Gray, Wayne B.; Shadbegian, Ronald J. AA Gray: Clark University and NBER. Shadbegian: University of Massachusetts, Dartmouth, U.S. EPA, and NCEE. SR National Bureau of Economic Research Working Paper: 9125; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 25. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE L51, Q28. KW Pollution. Environmental Regulation.
AB We examine measures of environmental regulatory activity (inspections and enforcement actions) and levels of air and water pollution at approximately 300 U.S. pulp and paper mills, using data for 1985-1997. We find that levels of air and water pollution emissions are affected both by the benefits from pollution abatement and by the characteristics of the people exposed to the pollution. The results suggest substantial differences in the weights assigned to different types of people: the benefits received by out-of-state people seem to count only half as much as benefits received in-state, although their weight increases if the bordering state's Congressional delegation is strongly pro-environment. Some variables are also associated with greater regulatory activity being directed towards the plant, but those results are less consistent with our hypotheses than the pollution emissions results. One set of results was consistently contrary to expectations: plants with more nonwhites nearby emit less pollution. Some of our results might be due to endogenous sorting of people based on pollution levels, but an attempt to examine this using the local population turnover rate found evidence of sorting for only one of four pollutants.

Greco, Luciano G.
PD March 2003. TI Optimal Grants Under Asymmetric Information: Federalism Versus Devolution. AA Universite Catholique de Louvain and Universita degli studi di Padova. SR CORE Discussion Paper: 2003/24; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 18. PR $5 per paper; $100 per year. JE D82, H77. KW Intergovernmental Grants. Adverse Selection. Moral Hazard.
AB Economic research has inquired the role of asymmetric information between central and local governments in shaping the structure of optimal regional grants. In the mainstream literature, the theoretical setting has been characterized by some basic informational asymmetry between central authority and local government (the informed party) about the state of regional social and economic fundamentals (i.e. adverse selection). This setting fits quite well in the stylized facts of consolidated federalism, while it is hardly satisfactory in the case of devolved-powers states: fiscal systems that were recently reformed in the sense of higher degree of decentralization of policy decision- making and implementation (e.g., Belgium, Italy, etc.). This paper points out that the situation of newly decentralized public systems is better analyzed under pure moral hazard: the only source of asymmetric information is the imperfect verifiability of local

policy (while the information about social and economic fundamentals is symmetric). Building on a simple model, it is shown that the sign of optimal distortion that grants induce on regional fiscal policy is likely to differ between federalism (adverse selection and moral hazard) and devolution (pure moral hazard).

Green, David A.
TI Changes in U.S. Wages 1976-2000: Ongoing Skill Bias or Major Technological Change? AU Beaudry, Paul; Green, David A.

Greenaway, David
TI Foreign Direct Investment and Intra-Industry Spillovers: A Review of the Literature. AU Gorg, Holger; Greenaway, David.

TI Does Exporting Lead to Better Performance? A Microeconometric Analysis of Matched Firms. AU Girma, Sourafel; Greenaway, David; Kneller, Richard.

PD September 2002. TI Do Domestic Firms Learn to Export from Multinationals? AU Greenaway, David; Sousa, Nuno; Wakelin, Katharine. AA Greenaway: University of Nottingham. Sousa and Wakelin: not available. SR University of Nottingham, GEP Research Paper: 2002/11; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 15. PR no charge. JE F10, F23. KW Exports. Multinationals. Externalities.
AB Is it possible for a domestic firm to become more export oriented in response to the activities of MNEs' subsidiaries in the host country? We identify three channels through which this may occur, namely export information externalities, increased competition in the domestic market and demonstration effects. We then investigate this empirically for the United Kingdom, using a large firm-level panel of 3,662 firms from 1992 to 1996. Our results confirm positive spillover effects from MNEs on the decision to export of UK-owned firms as well as on their export propensity. It is also clear from our results that the main channel for this phenomenon is increased competition.

PD September 2002. TI Structural Adjustment and the Sectoral and Geographical Mobility of Labor. AU Greenaway, David; Upward, Richard; Wright, Peter. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/18; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 21. PR no charge. JE J60. KW Mobility. Education. Housing.
AB Conventional methods for analyzing worker flows often focus on gross flows or transition probabilities. This is not necessarily informative for identifying the scale of labor "adjustment" in an economy in the sense of the expansion and decline of industries. We develop a method which relates the individual characteristics of workers to net, rather than gross flows. Our method also allows for interactions between the regional and sectoral mobility of labor. We apply this to the UK using data from the Labour Force Survey over a period of significant structural change, and quantify the relative

importance of education and housing tenure on regional and sectoral mobility.

PD September 2002. TI Regionalism and Gravity. AU Greenaway, David; Milner, Chris. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/20; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 13. PR no charge. JE F10, O18, R10. KW Gravity Models. Regional Trade Arrangements. Trade. Regionalism.
AB Gravity models have been extensively used to evaluate the trade effects of regional trading arrangements (RTAs), especially over the last 10 years or so. Questions addressed by researchers include, is there a regional bias to trade and are there identifiable trade affects attributable to RTAs? This paper reviews the evidence extant from this literature and evaluates the modeling and methodological issues confronted when applying gravity modeling to the analysis of regionalism. The paper argues that the approach has a distinctive role to play in evaluating trade effects and its application has been enhanced by both the refinement of theoretical underpinnings and development of econometric technique.

TI North-South Trade, Knowledge Spillovers and Growth. AU Falvey, Rodney E.; Foster, Neil; Greenaway, David.

PD November 2002. TI Trade and Rising Wage Inequality in the UK: Results from a CGE Model. AU Greenaway, David; Reed, Geoffrey; Winchester, Niven. AA Greenaway and Reed: University of Nottingham. Winchester: University of Otago. SR University of Nottingham, GEP Research Paper: 2002/29; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 26. PR no charge. JE D58, F16. KW Trade and Wages. CGE Modeling.
AB The phenomenon of rising wage inequality has been extensively documented in OECD countries. In the final quarter of the last century it appears to have been particularly marked in the US and UK. The drivers of rising inequality have been subject to econometric analysis and the relative roles of trade and skill-biased technical change evaluated. In this paper, we take an alternative approach, namely computable general equilibrium (CGE) modeling. The contribution of the paper is twofold: first, it constructs the first purpose built model of the UK economy specifically geared to evaluating the drivers of rising wage inequality; second, it incorporates new and more disaggregated measures of labor types. The model's output identifies clearly the role of trade in the process over the period 1980 to 1998.

TI Is There a Potential for Increases in FDI for Central and Eastern European Countries Following EU Accession? AU Goerg, Holger; Greenaway, David.

PD February 2003. TI Effective Protection, Policy Appraisal and Trade Policy Reform. AU Greenaway, David; Milner, Chris. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2003/06; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 22.

PR no charge. JE F10, F13. KW Protection. Trade Policy.
AB When the effective protection concept was first developed it was widely regarded as a key measure of the structure of protection and became widely deployed. It was however subject to a theoretical critique on the grounds that it was essentially a partial equilibrium measure, which could not be easily embedded in a general equilibrium framework. Notwithstanding this critique, the concept has continued to be widely used, especially in the context of policy reform and policy appraisal in developing countries. This paper reappraises the concept, reviews the extent of its application and discusses the factors behind its longevity as an investigative tool. The paper concludes that the measure still has a role to play in evaluating the structure of protection.

TI Export Market Exit and Performance Dynamics: A Causality Analysis of Matched Firms. AU Girma, Sourafel; Greenaway, David; Kneller, Richard.

Grossman, Michael
PD September 2002. TI Get High and Get Stupid: The Effect of Alcohol and Marijuana Use on Teen Sexual Behavior. AU Grossman, Michael; Kaestner, Robert; Markowitz, Sara. AA Grossman and Markowitz: NBER. Kaestner: University of Illinois at Chicago. SR National Bureau of Economic Research Working Paper: 9216; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I12, J13. KW Risky Sex. Substance Abuse. Teens.
AB Numerous studies have documented a strong correlation between substance use and teen sexual behavior, and this empirical relationship has given rise to a widespread belief that substance use causes teens to engage in risky sex. This causal link is often used by advocates to justify policies targeted at reducing substance use. Here, we argue that previous research has not produced sufficient evidence to substantiate a causal relationship between substance use and teen sexual behavior. Accordingly, we attempt to estimate causal effects using two complementary research approaches. Our findings suggest that substance use is not causally related to teen sexual behavior, although we cannot definitively rule out that possibility.

Gruber, Jonathan
PD February 2002. TI A Theory of Government Regulation of Addictive Bads: Optimal Tax Levels and Tax Incidence for Cigarette Excise Taxation. AU Gruber, Jonathan; Koszegi, Botond. AA Gruber: MIT and NBER. Koszegi: University of California, Berkeley. SR National Bureau of Economic Research Working Paper: 8777; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H21, H22, I12, I18. KW Excise Taxes. Regulation. Addiction. Cigarettes.
AB The traditional normative analysis of government policy towards addictive bads is carried out in the context of a "rational addiction" model, whereby the only role for government is in correcting the external costs of consumption of such goods. But available evidence is at least as consistent, if not more so, with an alternative where individuals are "time inconsistent" about decisions such as smoking, having a higher discount rate between this period and the next than between

future periods. We develop this time inconsistent model, and show that this alternative formulation delivers radically different implications for government policy towards smoking. Unlike the traditional model, our alternative implies that there is a role for government taxation of addictive bads even if there are no external costs; we estimate that the optimal tax on cigarettes is $1 or more higher than that implied by the traditional model. And we estimate that cigarette excise taxes are much less regressive than previously believed, and indeed for most parameter values are progressive, since lower income groups are much more price elastic and therefore benefit more from the commitment device provided by higher excise taxes.

PD September 2002. TI Health Insurance Coverage and the Disability Insurance Application Decision. AU Gruber, Jonathan; Kubik, Jeffrey. AA Gruber: MIT and NBER. Kubik: Syracuse University. SR National Bureau of Economic Research Working Paper: 9148; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H30, I11, I12, I18. KW Health Insurance. Disability Insurance. Medicare.
AB We investigate the effect of health insurance coverage on the decision of individuals to apply for Disability Insurance (DI). Those who qualify for DI receive public insurance under Medicare, but only after a two-year waiting period. This raises concerns that many disabled are going uninsured while they wait for their Medicare coverage. Moreover, the combination of this waiting period and the uncertainty about application acceptance may deter those with health insurance on their jobs, but no alternative source of coverage, from leaving work to apply for DI. Data from the Health and Retirement Survey show that, in fact, uninsurance does not rise during the waiting period for DI benefits; reductions in own employer coverage are small, and are offset by increases in other sources of insurance. Correspondingly, we find that imperfect insurance coverage does deter DI application. Those who have an alternative source of insurance coverage (coverage from a spouse's employer or retiree coverage) are 26 to 74% more likely to apply for DI than those without such an alternative. Thus, limiting this waiting period would not increase the insurance coverage of the disabled in the U.S., but it would significantly increase applications to the DI program.

Guell, Maia
PD May 2003. TI Estimating the Probability of Leaving Unemployment Using Uncompleted Spells from Repeated Cross-Section Data. AU Guell, Maia; Hu, Luojia. AA Guell: Universitat Pompeu Fabra. Hu: Northwestern University. SR Princeton University, Industrial Relations Section Working Paper: 475; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. PG 44. PR $1.50. JE C41, J64. KW Repeated Cross-Section Data. GMM Duration Analysis. Unemployment.
AB We propose a new econometric estimation method for analyzing the probability of leaving unemployment using uncompleted spells from repeated cross-section data, which can be especially useful when panel data are not available. The proposed method-of-moments-based estimator has two important features: (1) it estimates the exit probability at the individual level and (2) it does not rely on the stationary

assumption of the inflow composition. We illustrate and gauge the performance of the proposed estimator using the Spanish Labor Force Survey data, and analyze the change in distribution of unemployment between the 1980s and 1990s during a period of labor market reform. We find that the relative probability of leaving unemployment of the short-term unemployed versus the long-term unemployed becomes significantly higher in the 1990s.

Guillard, Michel
TI Privatization and Investment: Crowding-Out Effect vs Financial Diversification. AU Girmens, Guillaume; Guillard, Michel.

Guinnane, Timothy W.
PD October 2002. TI The Fertility of the Irish in America in 1910. AU Guinnane, Timothy W.; Moehling, Carolyn M.; O Grada, Cormac. AA Guinnane and Moehling: Yale University. O Grada: University College, Dublin. SR Yale Economic Growth Center Discussion Paper: 848; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 44. PR $2.00 plus postage. JE J11, J13, N31. KW Ireland. United States. Fertility. Demography. Immigration.
AB In most western societies, marital fertility began to decline in the nineteenth century. But in Ireland, it remained high into the twentieth century. Explanations focus on cultural factors and are often supported by claims that the Irish outside of Ireland behaved the same way. We investigate these claims by examining the marital fertility of Irish-Americans in 1910. We find that the Irish in America had smaller families than both the rural and urban Irish, and their fertility patterns show clear evidence of fertility control. However, Irish-Americans had much larger families than the native-born population. This difference was not due to differences in other population characteristics; rather, conditional on such characteristics, Irish-Americans chose to have larger families. Germans and English immigrants also had higher fertility than natives, but to a much larger extent than for the Irish, this higher fertility could be explained by the population characteristics of these groups.

TI Two Statistical Problems in the Princeton Project on the European Fertility Transition. AU Brown, John C.; Guinnane, Timothy W.

Gupta, Nandini
PD December 2002. TI Partial Privatization and Firm Performance. AA University of Michigan Business School. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/110; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 18. PR no charge; available only on website. JE L33. KW Partial Privatization. Stock Market.
AB Most privatization programs begin with a period of partial privatization in which only non-controlling shares of firms are sold on the stock market. Since management control is not transferred to private owners it is widely contended that partial privatization has little impact on firm behavior. This perspective ignores the role that the stock market can play in monitoring and rewarding managerial performance even when

the government remains the controlling owner. Using data on the population of Indian state-owned enterprises we find that partial privatization has a positive and highly significant impact on firm sales, profits, and labor productivity.

Gustman, Alan L.

AB This paper estimates a structural model of family retirement using U.S. data from the Health and Retirement Study (HRS) and from the National Longitudinal Survey of Mature Women. Estimates using the HRS benefit from having, for each spouse, earnings histories provided by the respondent and the Social Security Administration, and employer provided pension plan descriptions. We find that a measure of how much each spouse values being able to spend time in retirement with the other accounts for a good portion of the apparent interdependence of the retirement decisions of husbands and wives. When we include this measure, the simulations almost double the frequency of predicted joint retirements. Once estimated, we use the model to investigate the labor supply effects of alternative social security policies, examining the effect of dividing credit for earnings evenly between spouses, or of basing social security benefits on the amounts accumulated in private accounts. Both policies change the relative importance of spouse and survivor social security benefits within the household and both raise the relative reward to work later in the life cycle. The incentives created are modest, and retirement responds accordingly.

AB This paper specifies and estimates a structural life cycle model of retirement and wealth that explains the peaks in retirement both at ages 62 and at 65. Our estimates suggest that leisure and time preference are widely distributed among the population, with a bimodal distribution of time preference. Discount rates are either very low or very high. Those with high discount rates find the actuarial adjustments in Social Security benefits, which use a 3 percent real interest rate, to be inadequate. Once they reach age 62, the benefit accrual profile declines with age. This is the major explanation for the spike in retirement activity at 62. Liquidity constraints from inability to borrow on Social Security and pension benefits add to this effect. Simulations with the model suggest that raising the Social Security early entitlement age from age 62 to 64 will shift about three fifths of the bunching of retirements at age 62 to age 64. The bunching amounts to about 8 percent of the population, so raising the Social Security early age of entitlement will cause about 5 percent of the population to delay their retirement, implying a substantial effect on the Social Security system and its finances.

Guthrie, Denise

AB This article constitutes a formal empirical framework for assessing the cost and effectiveness of sanctions. Traditionally, the costs of sanction episodes have been estimated as lost trade and sanctions are believed to be ineffective. We contend that the reason sanctions "don't work" is due a "(mis)selection effect" where the sanctioning party wrongly assumes that the target country will give in if its trading opportunities dry out. Yet, we argue, that leaders in the target country are also concerned with lost output occurring as a result of misallocation during the period of adjustment back to autarky, as well as with maintaining their legitimacy as a government (sovereign costs). Our formal assessment leads to some counterintuitive results: 1) Sanctions are more effective against mature economies, 2) Sanctions that are imposed quickly are more effective than sanctions that are imposed slowly, and 3) Financial sanctions are more effective than trade sanctions.

Guvenen, Fatih

AB In this paper we study the asset pricing implications of a parsimonious two-agent macroeconomic model with two key features: limited participation in the stock market and heterogeneity in the elasticity of intertemporal substitution. The parameter values for the model are taken from the real business cycle literature and are not calibrated to match financial statistics. Yet, with a risk aversion of two, the model is able to explain a large number of asset pricing phenomena including all the facts matched by the external habit model of Campbell and Cochrane (1999). We also show that the similarity of our results to those from an external habit model is not a coincidence: the model has a reduced form representation which is similar to Campbell and Cochrane's framework for asset pricing. However, the macroeconomic implications of the

two models are different, favoring the limited participation model. Moreover, policy analysis yields dramatically different conclusions in each framework.

Hall, Bronwyn H.

PD February 2002. **TI** The Financing of Research and Development. **AA** University of California, Berkeley, Institute of Fiscal Studies, and NBER. **SR** National Bureau of Economic Research Working Paper: 8773; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G32, O32, O38. **KW** R&D. Venture Capital. Funding.
AB Evidence on the "funding gap" for R&D is surveyed. The focus is on financial market reasons for underinvestment in R&D that persist even in the absence of externality-induced underinvestment. The conclusions are that 1) small and new innovative firms experience high costs of capital that are only partly mitigated by the presence of venture capital; 2) evidence for high costs of R&D capital for large firms is mixed, although these firms do prefer internal funds for financing these investments; 3) there are limits to venture capital as a solution to the funding gap, especially in countries where public equity markets are not highly developed; and 4) further study of governmental seed capital and subsidy programs using quasi-experimental methods is warranted.

Haller, Hans

PD November 2002. **TI** An Analysis of Advertising Wars. **AU** Haller, Hans; Chakrabarti, Subhadip. **AA** Virginia Polytechnic Institute and State University. **SR** University of Copenhagen, CIE Discussion Paper: 2002/03; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. **PG** 28. **PR** no charge. **JE** C72, L13. **KW** Advertising. Cournot Oligopoly. Product Differentiation.
AB Comparative advertising by one brand against another showcases its merits versus the demerits of the other. In a two-stage game among finitely many firms, firms decide first on how much to advertise against whom. In the second stage, given the advertising configuration, firms compete as Cournot oligopolists. In the symmetric case, equilibrium advertising expenses constitute a clear welfare loss. Equilibrium advertising levels and advertising expenditures decline with rising advertising costs. Whereas equilibrium levels of advertising decrease in the number of firms, aggregate advertising expenditures increase. We further relate effectiveness of advertising to proximity in product space. With two firms, comparative advertising and quality choice have similar effects. In a three-stage game, where firms choose first locations (variety), then advertising levels (quality), and then quantities, we obtain maximum horizontal product differentiation and minimum vertical product differentiation.

Haltiwanger, John

TI The Link Between Aggregate and Micro Productivity Growth: Evidence from Retail Trade. **AU** Foster, Lucia; Haltiwanger, John; Krizan, C. J.

Hamers, Herbert

PD November 1999. **TI** On the Nucleolus of Neighbor Games. **AU** Hamers, Herbert; Klijn, Flip; Solymosi, Tamas;

Tijs, Stef; Vermeulen, Dries. **AA** Hamers, Klijn, and Tijs: Tilburg University. Solymosi: Budapest University of Economic Sciences, Hungary. Vermeulen: University of Maastricht. **SR** Tilburg CentER Discussion Paper: 99111; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: http://center.uvt.nl or http://greywww.kub.nl:2080/greyfiles/. **PG** 21. **PR** no charge. **JE** C63, C71, C78. **KW** Neighbor Games. Nucleolus.
AB The class of neighbor games is the intersection of the class of assignment games (cf. Shapley and Shubik (1972)) and the class of component additive games (cf. Curiel et al. (1994)). For assignment games and component additive games there exist polynomially bounded algorithms of order p^4 for calculating the nucleolus, where p is the number of players. In this paper we present a polynomially bounded algorithm of order p^2 for calculating the nucleolus of neighbor games.

Hanemann, W. Michael

TI Will U.S. Agriculture Really Benefit from Global Warming? Accounting for Irrigation in the Hedonic Approach. **AU** Schlenker, Wolfram; Hanemann, W. Michael; Fisher, Anthony C.

Hannan, Timothy H.

PD January 2003. **TI** The Impact of Credit Unions on the Rates Offered for Retail Deposits by Banks and Thrift Institutions. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/06; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 23. **PR** no charge. **JE** D40, G21, L10, L40. **KW** Competition. Banks. Credit Unions.
AB Because of the increasing significance of credit unions as potential competitors for consumer deposits, this paper examines the impact of the market presence of credit unions, variously measured, on the rates for three different types of consumer deposits offered by banks and thrift institutions. In contrast to previous studies, the sample employed covers the nation as a whole, incorporates all large urban areas, and employs survey data on deposit rates for a substantially larger number of institutions than previously employed. Despite circumstances that are argued to militate against the finding of a relationship, regression analyses yield positive coefficients of the measures of credit union presence, with statistical significance in a number of cases.

Hansen, Jorgen Drud

PD December 2001. **TI** Green Subsidies and Learning-By-Doing in the Windmill Industry. **AU** Hansen, Jorgen Drud; Jensen, Camilla; Madsen, Erik Strojer. **AA** Hansen: University of Southern Denmark. Jensen: University of Copenhagen. Madsen: Aarhus University. **SR** University of Copenhagen, CIE Discussion Paper: 2001/06; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. **PG** 19. **PR** no charge. **JE** D20, L50, L94. **KW** Learning-by-Doing. Infant Industry. Green Subsidies.
AB This paper examines the remarkable learning-by-doing in the windmill industry since it emerged in the beginning of the

1980's. Green subsidies for producing electricity by wind power have been a precondition for the rapid growth in the production of windmills. Based on time series of prices of windmills a dynamic cost function for producing windmills is tested. The cost disadvantage of producing electricity by windmills relative to traditional power stations has narrowed considerably because of a strong learning-by-doing effect. The deliberate policy to subsidize production of electricity by wind power has placed Denmark in a first-mover position in this market and the future has to show whether this is a successful story of an infant industrial policy.

PD   November 2002. TI   The Establishment of the Danish Windmill Industry -- Was it Worthwhile? AU   Hansen, Jorgen Drud; Jensen, Camilla; Madsen, Erik Strojer. AA   University of Copenhagen and Aarhus University. SR   University of Copenhagen, CIE Discussion Paper: 2002/07; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG   34. PR   no charge. JE   D20, L50, L60, L94. KW   Learning-by-Doing. Infant Industry. Green Subsidies.
AB   The paper examines the welfare effects of the Danish subsidies towards the production of electricity from wind power. This policy has been a precondition for the remarkable development of the Danish windmill industry resulting in a dominant position on the world market. The article demonstrates a strong learning-by-doing productivity growth in the Danish windmill industry and it analyses the costs and benefits of this infant industry case. The costs consist of the efficiency loss from diverting production of electricity from using fossil fuels to utilizing wind power. In making up the benefits the environmental damage of using fossil fuels should in principle be taken into account. However, the environmental effect is only evaluated by calculating an implicit price of the emission of carbon dioxide. The main benefits are related to the emergence of a new export sector. As the value of the windmill companies at the stock exchange by far exceeds that of the accumulated distorted loss in production of electricity, this case seems to make up an example of a successful infant industry strategy.

Hardy, Daniel C.
PD   September 2002. TI   Microfinance Institutions and Public Policy. AU   Hardy, Daniel C.; Holden, Paul; Prokopenko, Vassili. AA   Hardy and Prokopenko: IMF. Holden: Enterprise Research Institute. SR   International Monetary Fund Working Paper: WP/02/159; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG   20. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE   G21, G28, O16. KW   Microfinance. Microcredit. Bank Regulation.
AB   Many governments and nongovernmental organizations have adopted policies to promote the growth of microfinance institutions (MFIs). The appropriate level and form of support for MFIs are discussed in this paper on the basis of a review of key MFI characteristics. Governments are also responsible for the regulation of MFIs; here, some principles concerning the extent and coverage of MFI regulation and supervision are developed.

Harrigan, James
TI   Distance, Time, and Specialization. AU   Evans,

Carolyn; Harrigan, James.

Harrison, Mark
PD   January 2003. TI   How Much Did the Soviets Really Spend on Defense? New Evidence from the Close of the Brezhnev Era. AA   University of Warwick and University of Birmingham. SR   The Warwick Economics Working Paper Series: 662; Department of Economics, University of Warwick, Coventry   CV4   7AL,   United   Kingdom.   Website: www2.warwick.ac.uk/fac/soc/economics/research/papers.
PG   27. PR   no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE   N40, P24, P30. KW   Soviet Defense. Budget.
AB   The paper considers the influence of the budget for military spending in the Soviet command economy. A specific problem is that the Soviet strategy of concealment left us without good measures of the military burden on Soviet resources. The paper surveys previous western attempts to fill this gap alongside post-Brezhnev revelations. A new documentary source from 1982 that appears authoritative suggests much higher figures than anything proposed or revealed so far, and supports these higher figures in detail. However, the figures contain many puzzles and the authenticity of the document itself cannot be fully assured.

Harrison, Paul
TI   Do Banks Strategically Time Public Bond Issuance Because of Accompanying Disclosure, Due Diligence, and Investor Scrutiny? AU   Covitz, Daniel M.; Harrison, Paul.

Hartmann, Philipp
PD   May 2003. TI   The Euro Area Financial System: Structure, Integration and Policy Initiatives. AU   Hartmann, Philipp;   Maddaloni,   Angela;   Manganelli,   Simone. AA   European Central Bank. SR   European Central Bank Working Paper: 230; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG   54. PR   no charge. JE   F36, G20. KW   Financial System Design. Financial Structure. Financial Integration. Euro Area. Financial Policy.
AB   Four years after the introduction of the euro, this paper provides an overview of the current structure and integration of the euro area financial systems and related policy initiatives. We first compare the euro area financial structure with that of the United States and Japan. Using new and comprehensive financial account data, we also describe how the euro area financial structure has evolved since 1995. We document the progress towards integration of the major euro area financial segments, namely money markets, bond markets, equity markets, and banking. Finally, we discuss recent policy initiatives aimed at further improving European financial integration.

Hassett, Kevin A.
TI   Optimal   Long-Run   Fiscal   Policy: Constraints, Preferences   and   the   Resolution   of   Uncertainty. AU   Auerbach, Alan J.; Hassett, Kevin A.

Hatton, Timothy J.
PD   September 2002. TI   What Fundamentals Drive World Migration? AU   Hatton, Timothy J.; Williamson, Jeffrey G. AA   Hatton: University of Essex and CEPR. Williamson: Harvard University and NBER. SR   National Bureau of

Economic Research Working Paper: 9159; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 25. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F22, J11, O15. KW Immigration. World Migration. Demographics.

AB OECD governments note rising immigration with alarm and grapple with policies aimed at selecting certain migrants and keeping out others. Economists appear to be well armed to advise governments since they are responsible for an impressive literature that examines the characteristics of individual immigrants, their absorption and the consequences of their migration on both sending and receiving regions. Economists, however, know considerably less about the determinants of the world migrations that give rise to public alarm. This paper offers a quantitative assessment of the economic and demographic fundamentals that have driven and are driving world migration, across different historical epochs and around the world. The paper is organized around three questions: How do the standard theories of migration perform when confronted with evidence drawn from more than a century of world migration experience? How do inequality and poverty influence world migration? Is it useful to distinguish between migration pressure and migration ex-post, or between the potential demand for visas and the actual use of them?.

Head, Keith

PD September 2002. TI Vertical Networks and US Auto Parts Exports: Is Japan Different? AU Head, Keith; Ries, John; Spencer, Barbara J. AA Head and Ries: University of British Columbia. Spencer: University of British Columbia and NBER. SR National Bureau of Economic Research Working Paper: 9162; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F12, F23, L14, L22. KW Vertical Networks. Insiders. Vertical Integration. Downstream. Upstream.

AB This paper develops a model in which upstream network "insiders" conduct relationship specific investment that induces the downstream firm to transact within networks. The scale of destination-country production and part-specific measures of the importance of network relationships and engineering costs are used to explain the pattern of U.S. auto parts exports. Our results support the prediction that large scale promotes relationship-specific investment and reduces imports. Also, while Japan is a large parts importer, the composition of its imports is shifted away from parts where vertical keiretsu are prominent. Nations hosting U.S.-owned automakers import more U.S. parts.

Heckman, James J.

PD September 2002. TI Flexibility and Job Creation: Lessons for Germany. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 9194; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H20, J30, L50. KW Job Creation. Germany. Regulation.

AB This paper examines the performance of the German economy and the role of the regulation and welfare state policies in affecting its performance. While the German economy is still strong, incentives in place are likely to impair future German competitiveness and productivity.

Heinen, Andreas

PD March 2003. TI Multivariate Modelling of Time Series Count Data: An Autoregressive Conditional Poisson Model. AU Heinen, Andreas; Rengifo, Erick. AA Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/25; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 21. PR $5 per paper; $100 per year. JE C32, C35, G10. KW Count Data. Time Series. Copula. Market Microstructure.

AB This paper introduces a new multivariate model for time series count data. The Multivariate Autoregressive Conditional Poisson model (MACP) makes it possible to deal with issues of discreteness, overdispersion (variance greater than the mean) and both auto- and cross-correlation. We model counts as Poisson or double Poisson and assume that conditional on past observations the means follow a Vector Autoregression. We use a copula to introduce contemporaneous correlation between the series. An important advantage of this model is that it can accommodate both positive and negative correlation among variables. As a feasible alternative to multivariate duration models, the model is applied to the submission of market orders and quote revisions on IBM on the New York Stock Exchange. We show that a single factor cannot explain the dynamics of the market process, which confirms that time deformation, taken as meaning that all market events should accelerate or slow down proportionately, does not hold. We advocate the use of the Multivariate Autoregressive Conditional Poisson model for the study of multivariate point processes in finance, when the number of variables considered simultaneously exceeds two and looking at durations becomes too difficult.

Helwege, Jean

PD November 2002. TI Initial Public Offerings in Hot and Cold Markets. AU Helwege, Jean; Liang, Nellie. AA Helwege: Ohio State University. Liang: Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/04; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 43. PR no charge. JE G32. KW IPO. Hot Markets. Firm Performance. Investor Sentiment.

AB The literature on IPOs offers a wide variety of explanations to justify the dramatic swings in the volume of IPOs observed in the market. Many theories predict that hot IPO markets are characterized by clusters of firms in particular industries for which a technological innovation has occurred, suggesting that hot and cold market IPO firms will differ in quality, prospects, or types of business. Others suggest hot market IPOs are firms that take advantage of irrational investors. We compare firms that go public in a number of hot and cold markets during 1975-2000, examining them at the time of the IPO and during the following five years. We find that both hot and cold market IPOs are largely concentrated in the same narrow set of industries and hot markets for many industries occur at the same time. We also find few distinctions in quality and scant evidence that hot market IPOs have better

growth prospects. Our results suggest that technological innovations are not the primary determinant of hot markets because IPO markets cycle with greater frequency than the underlying innovations, and are more in line with the view that hot markets reflect greater investor optimism, though not necessarily active manipulation by managers.

Hendershott, Patric H.

PD September 2002. TI Household Leverage and the Deductibility of Home Mortgage Interest: Evidence from UK House Purchasers. AU Hendershott, Patric H.; Pryce, Gwilym; White, Michael. AA Hendershott and White: University of Aberdeen. Pryce: University of Glasgow. SR National Bureau of Economic Research Working Paper: 9207; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H24, H31. KW Mortgage Interest. Deductibility. Tax Penalties. Home Ownership. United Kingdom.

AB Beginning in 1974, mortgage interest deductibility has been gradually phased out in the UK through a series of policy changes. The combination of these changes gives a rich array of different debt tax penalties for different households in different years. We analyze over 117,000 loans during the 1988-91 and 1995-98 periods to finance home purchases. We first estimate a logit to predict whether a household's loan exceeds the #30,000 ceiling. These predicted probabilities are then employed to construct debt tax penalty variables that are used to explain household LTVs on loans to finance home purchases. The penalty variables depend on the predicted probability of having a loan that exceeds the ceiling, the market mortgage rate, and exogenous household specific tax rates. From these results we compute estimates of the impact of removing deductibility on initial LTVs in the UK and on the WACC for owner-occupied housing. Removal of deductibility is estimated to reduce initial LTVs, which mitigates the rise in the weighted average cost of capital, by about 30 percent, with the reduction varying with household age, loan size (above or below the #30,000 limit) and tax bracket.

PD September 2002. TI Valuing and Pricing Retail Leases with Renewal and Overage Options. AU Hendershott, Patric H.; Ward, Charles W. R. AA Hendershott: University of Aberdeen and NBER. Ward: University of Reading. SR National Bureau of Economic Research Working Paper: 9214; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G10, G12. KW Landlord Overage Options. Tenant Renewal Options. Retail Leases.

AB We consider retail leases with landlord overage options, with tenant renewal options, with both, and with neither. We illustrate how the ratio of initial expected sales to the sales threshold can be manipulated to equate the value of the landlord overage options to that of the tenant renewal option at the same initial rent. As a result, not only are the values of the dual option -- overage plus renewal lease -- and no option leases equal, the cumulative distributions of potential IRRs on the two leases are nearly identical. This suggests that these leases are equally attractive to risk-adverse investors and thus that the same risky discount rate can be used in valuing the leases. The analysis is carried out in a risk-neutral framework, and sensitivity of the results to interest rate uncertainty, real

sales volatility and growth, and the required risk premium on retail real estate is shown. The appropriate risky discount rate for the overage lease is calculated to be 75 to 160 basis points greater than that for the renewal lease.

Hertzendorf, Mark N.

PD January 2001. TI Prices as Signals of Quality in Duopoly. AU Hertzendorf, Mark N.; Overgaard, Per Baltzer. AA Hertzendorf: Federal Trade Commission. Overgaard: University of Copenhagen and Aarhus University. SR University of Copenhagen, CIE Discussion Paper: 2001/01; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 30. PR no charge. JE C72, D82, L15. KW Duopoly Signaling. Quality Uncertainty. Pooling vs. Separation.

AB This paper studies price signaling in a multi-sender context with two competing firms. Either firm may offer a high or a low quality, but potential customers are, initially, incompletely informed about the quality available at a given outlet. In particular, consumers do not know a priori whether the goods offered are vertically differentiated or homogenous, and, in the latter case, whether they are of high or low quality. We show that fully revealing equilibria are ruled out by a natural equilibrium refinement, whereas partial revelation of information is possible in equilibrium. However, we note that a non- revealing outcome with standard Bertrand-features (pricing at cost) seems likely, whether the goods offered are vertically differentiated or homogenous.

Hillman, Arye L.

PD November 2002. TI User Payments for Basic Education in Low-Income Countries. AU Hillman, Arye L.; Jenkner, Eva R. AA IMF. SR International Monetary Fund Working Paper: WP/02/182; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 33. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE H52, I22. KW Government Expenditures. Education. Low Income. Developing Countries.

AB Insufficient resources and inadequate public expenditure management often prevent governments in low-income countries from providing quality basic education free of charge. User payments by parents are an alternative means of financing basic education. This paper assesses how user payments affect educational opportunities and quality of education for children of poor families in low-income countries. Conditions are identified under which user payments can or cannot improve educational outcomes. User payments, whether taking the form of compulsory benefit taxation or voluntary user fees, are a temporary solution and second- best compared with free-access, publicly financed quality education that is consistent with macroeconomic stability.

Hines, James R., Jr

TI International Joint Ventures and the Boundaries of the Firm. AU Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr.

Hines, James R., Jr.

TI Chains of Ownership, Regional Tax Competition, and

Foreign Direct Investment. AU Desai, Mihir A.; Foley, C. Fritz; Hines, James R., Jr..

Hogan, Vincent
PD September 2002. TI Using Heteroscedasticity to Estimate the Returns to Education. AU Hogan, Vincent; Rigobon, Roberto. AA Hogan: UCD. Rogobon: MIT and NBER. SR National Bureau of Economic Research Working Paper: 9145; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 12. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE C30, I20, J31. KW Heteroscedasticity. Education.
AB We apply a new estimator to the measurement of the economic returns to education. We control for endogenous education, unobserved ability and measurement error using only the natural heteroscedasticity of wages and education attainment. Our preferred estimate, 6.07%, is closer to the OLS estimate but smaller (and more precise) than the estimates typically reported by studies that use IV. Our results indicate that the biases generated by unobserved ability and measurement error tend to cancel each other out as suggested by Griliches (1977). We also present Monte Carlo evidence to show that the finite sample bias of our estimator is small.

Holden, Paul
TI Microfinance Institutions and Public Policy. AU Hardy, Daniel C.; Holden, Paul; Prokopenko, Vassili.

Holden, Steinar
TI Coordination, Fair Treatment and Inflation Persistence. AU Driscoll, John C.; Holden, Steinar.

PD May 2003. TI Inflation Persistence and Relative Contracting. AU Holden, Steinar; Driscoll, John C. AA Holden: University of Oslo and Norges Bank. Driscoll: Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/29; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 11. PR no charge. JE E31, E50, J30. KW Inflation Persistence. Phillips Curve. Real Wages.
AB Macroeconomists have for some time been aware that the New Keynesian Phillips curve, though highly popular in the literature, cannot explain the persistence observed in actual inflation. We argue that one of the more prominent alternative formulations, the Fuhrer and Moore (1995) relative contracting model, is highly problematic. Fuhrer and Moore's 1995 formulation generates inflation persistence, but this is a consequence of their assuming that workers care about the past real wages of other workers. Making the more reasonable assumption that workers care about the current real wages of other workers, one obtains the standard formulation with no inflation persistence.

TI Coordination, Fair Treatment and Inflation Persistence. AU Driscoll, John C.; Holden, Steinar.

Holmes, Thomas J.
TI Do Mergers Lead to Monopoly in the Long Run? Results from the Dominant Firm Model. AU Gowrisankaran, Gautam; Holmes, Thomas J.

Hopenhayn, Hugo A.
TI Market Size Matters. AU Campbell, Jeffrey R.; Hopenhayn, Hugo A.

PD April 2004. TI Risk Taking by Entrepreneurs. AU Hopenhayn, Hugo A.; Vereshchagina, Galina. AA Hopenhayn: University of Rochester and Universidad Torcuato Di Tella. Vereshchagina: CERGE-EI. SR Rochester Center for Economic Research Working Paper: 500; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: http://rcer.econ.rochester.edu. PG 20. PR 3 papers free per year; $5 each additional. JE D92, E21, L25. KW Occupational Choice. Risk Taking. Firm Dynamics. Borrowing Constraints.
AB Entrepreneurs bear substantial risk, but empirical evidence shows no sign of a positive premium. This paper develops a theory of endogenous entrepreneurial risk taking that explains why self-financed entrepreneurs may find it optimal to invest into risky projects offering no risk premium. The model has also a number of implications for firm dynamics supported by empirical evidence, such as a positive correlation between survival, size, and firm age.

Horie, Mayumi
PD December 2002. TI Pre-Negotiation for an International Emission Reduction Game. AU Horie, Mayumi; Imai, Haruo. AA Kyoto University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/106; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 19. PR no charge; available only on website. JE C78. KW Prenegotiation. Coalition Formation. International Emission Reduction Game.
AB Based on a result due to Ray and Vohra showing the possibility of inefficiency due to a coalition formation in an international emission reduction game, we consider a possibility of negotiation preceding the negotiation stage, and by means of an example, indicate that the efficiency is restored. In the equilibrium obtained, we observe a potential in which different set of coalition arises in the two stages, which could help explain what is going on in the international negotiation.

Horvath, Roman
PD January 2003. TI Optimum Currency Area Indices: Evidence From the 1990's. AU Horvath, Roman; Komarek, Lubos. AA Horvath: Central European University. Komarek: Czech National Bank. SR The Warwick Economics Working Paper Series: 665; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 14. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE E32, E42, F33, F42. KW Optimum Currency Area. EMU. Monetary Policy. Convergence. Core and Periphery.
AB In this paper the authors calculate OCA-indexes for industrial countries in an effort to estimate the benefit-cost ratio of adopting a common currency. The results correspond to the estimation of Bayoumi and Eichengreen (1997b) and show that the rankings of the economies suitable to form a monetary union stay the same in the 1980s as well as in the 1990s. This empirical estimation also does not provide evidence for views, which emphasize the seemingly striking difference between the core and the periphery of the European Union. The authors

perform also an estimation of the same index by including the Czech Republic and find no support for the view that the economy of the Czech Republic could possibly structurally differ more than the EMU member countries between each other. Then they conclude that if the EMU is sustainable, the accession of the Czech economy should not change it.

Hossain, Akhtar

PD October 2002. TI Exchange Rate Responses to Inflation in Bangladesh. AA IMF. SR International Monetary Fund Working Paper: WP/02/166; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 23. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE C22, E31, F31. KW Bangladesh. Devaluation. Inflation. Monetary Policy.

AB This paper investigates the exchange rate responses to inflation in Bangladesh during the period from 1972-73 to 1999. Both annual and monthly data are used in the investigation. The results suggest that past consumer price inflation generally led to currency devaluation, measured as a decline in the value of the currency in terms of the trade-weighted nominal effective exchange rate. The effect of inflation on devaluation, however, became weaker following the financial reforms undertaken in the early 1980s. The effect of devaluation on inflation was not significant, and this result remained robust throughout the sample period.

Howitt, Peter

PD August 2002. TI R&D, Implementation and Stagnation: A Schumpeterian Theory of Convergence Clubs. AU Howitt, Peter; Mayer-Foulkes, David. AA Howitt: Brown University and NBER. Mayer-Foulkes: Centro de Investigacion y Docencia Economicas. SR National Bureau of Economic Research Working Paper: 9104; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 29. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE O30, O33, O40. KW R&D. Growth Theory. Technological Change. Technology Transfer.

AB We construct a Schumpeterian growth theory consistent with the divergence in per-capita income that has occurred between countries since the mid 19th Century, and with the convergence that occurred between the richest countries during the second half of the 20th Century. The theory assumes that technological change underwent a transformation late in the 19th Century, associated with modern R&D labs. Countries sort themselves into three groups. Those in the highest group converge to a steady state where they do leading edge R&D, while those in the intermediate group converge to a steady state where they implement technologies developed elsewhere. Countries in both of these groups grow at the same rate in the long run, as a result of technology transfer, but inequality between them increases during the transition. Countries in the lowest group grow at a slower rate, with relative incomes that fall asymptotically to zero. Once modern R&D has been introduced, a country may have only a finite window of opportunity in which to introduce the institutions that support it.

Hoynes, Hilary W.

TI The Impact of Welfare Reform on Living Arrangements.

AU Bitler, Marianne P.; Gelbach, Jonah B.; Hoynes, Hilary W.

Hsieh, Chang-Tai

PD September 2002. TI Can Free Entry be Inefficient? Fixed Commissions and Social Waste in the Real Estate Industry. AU Hsieh, Chang-Tai; Moretti, Enrico. AA Hsieh: Princeton University and NBER. Moretti: UCLA and NBER. SR National Bureau of Economic Research Working Paper: 9208; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 35. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE J44, L85. KW Real Estate Market. Entry. Fixed Commissions. Productivity.

AB Real estate agents in the US typically charge a 6 percent commission, regardless of the price of the house sold such that the commission fee from selling a house differs dramatically across cities although the effort necessary to match buyers and sellers may not. We use a simple model and cross-city data to show that if the commission rate does not vary and if there are low barriers to entry to the real- estate brokerage business, the entry of real-estate agents into cities with high housing prices is socially inefficient. We find that when the average price of land in a city increases, (1) the fraction of real- estate brokers in a city increases; (2) the productivity of an average real-estate agent falls; and (3) the real wage of a typical real-estate agent remains unchanged. We cannot completely rule out the alternative explanation that these results reflect unmeasured differences in the quality of broker services. However, we present evidence that as the average price of housing in a city increases, there is only a small increase in the amount of time a buyer spends searching for a house, and the average time a house for sale stays on the market falls.

Hu, Luojia

TI Estimating the Probability of Leaving Unemployment Using Uncompleted Spells from Repeated Cross-Section Data. AU Guell, Maia; Hu, Luojia.

Huang, Lixin

TI Banking Panics and the Origin of Central Banking. AU Gorton, Gary; Huang, Lixin.

TI Liquidity, Efficiency and Bank Bailouts. AU Gorton, Gary; Huang, Lixin.

Huang, Zhijiang

TI A Framework for Collateral Risk Control Determination. AU Cossin, Didier; Huang, Zhijiang; Aunon-Nerin, Daniel; Gonzales, Fernando.

Hubbard, R. Glenn

TI The Effects of Progressive Income Taxation on Job Turnover. AU Gentry, William M.; Hubbard, R. Glenn.

Hubert, Florence

PD December 2001. TI Fiscal Incentives, European Integration and the Location of Foreign Direct Investment. AU Hubert, Florence; Pain, Nigel. AA National Institute of Economic and Social Research, London. SR University of Nottingham, GEP Research Paper: 2001/34; Research Paper Coordinator, School of Economics, University of Nottingham,

University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 29. **PR** no charge. **JE** F15, F23. **KW** Foreign Direct Investment. European Integration.
AB Foreign direct investment in the European Economic Area (EEA) has grown rapidly in recent years. This paper tests for structural change in the geographical and industrial pattern of FDI in Europe using a panel data set on outward investment by German companies in the EEA since 1980. There is evidence of significant structural change since 1990, with nearly all locations and industries seeing a higher level of cross-border investment than might have been expected. We also investigate the scope for national governments to affect location choice through the use of fiscal instruments such as corporation taxes, investment in infrastructure and other forms of development grants and subsidies. The findings are mixed. Some measures, such as tax competitiveness, appear important but are sensitive to the specification of the model. But the level of government fixed investment expenditure relative to that in other economies is found to have a significant positive impact, particularly in locations with less need for EU structural funds. Although the direct marginal impact appears relatively small, an additional finding of significant agglomeration forces suggests that fiscal policies could still have a permanent influence on the location of economic activities.

Hughes Hallett, Andrew

PD February 2002. **TI** The Cost of Heterogeneity in a Monetary Union. **AU** Hughes Hallett, Andrew; Weymark, Diana. **AA** Hughes Hallett: Vanderbilt University and CEPR. Weymark: Vanderbilt University and Western Washington University. **SR** CEPR Discussion Paper: 3223; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** E58, E63, F02. **KW** Transmission Asymmetries. Preference Asymmetries. EMU. Currency Union. Central Bank Independence.
AB In this paper, we explore whether heterogeneity among union members could threaten the stability of the EMU. The types of heterogeneity we consider are (1) asymmetries in the transmission of monetary and fiscal policies, and (2) differences in national preferences for price stability, output growth, and income redistribution. Our results show that the costs of membership are cumulative and can be significant for countries whose structure and/or preferences deviate from those underlying the common monetary policy. In part, these costs arise because monetary policy imposed by an independent central bank automatically constrains the use of fiscal policy by national governments.

Hurd, Michael D.

PD September 2002. **TI** The Effects of Subjective Survival on Retirement and Social Security Claiming. **AU** Hurd, Michael D.; Smith, James P.; Zissimopoulos, Julie M. **AA** Hurd: RAND Corporation and NBER. Smith and Zissimopoulos: RAND Corporation. **SR** National Bureau of Economic Research Working Paper: 9140; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website:www.nber.org. **PG** 17. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J14, J26, J32. **KW** Retirement. Social Security.
AB According to the life-cycle model, mortality risk will influence both retirement and the desire to annuitize wealth. We estimate the effect of subjective survival probabilities on retirement and on the claiming of Social Security benefits because delayed claiming is equivalent to the purchase of additional Social Security annuities. We find that those with very low subjective probabilities of survival retire earlier and claim earlier than those with higher subjective probabilities, but the effects are not large. The great majority of workers claim as soon as they are eligible.

PD September 2002. **TI** Expected Bequests and Their Distribution. **AU** Hurd, Michael D.; Smith, James P. **AA** Hurd: RAND Corporation and NBER. Smith: RAND Corporation. **SR** National Bureau of Economic Research Working Paper: 9142; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E21, J14. **KW** Bequests. Saving.
AB Based on a sample of actual bequests that is population-representative and on the subjective probability of bequests, we estimate the distribution of bequests that the older population will make. We find that the distribution is highly skewed, so that the typical baby-boom person will receive a very modest inheritance. This is partly due to the skewed distribution of wealth and partly due to the tendency of the wealthy to have fewer children. But it is also due to anticipated dissaving: we estimate that households in the age band 70-74 will bequeath just 39% of their wealth, consuming the rest before they die.

Ihrig, Jane

PD May 2003. **TI** An Empirical Analysis of Inflation in OECD Countries. **AU** Ihrig, Jane; Marquez, Jaime. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 765; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 60. **PR** no charge. **JE** C22, C53, E17, E37. **KW** Phillips Curve. Unemployment. NAIRU. Labor Productivity. Policy Credibility.
AB One of the most remarkable macroeconomic developments of the past decade has been the widespread decline in inflation despite declines in unemployment rates. For the United States, these seemingly contradictory developments have been reconciled in terms of three factors: (1) an acceleration in productivity, (2) structural changes in labor markets that lowered the natural unemployment rate (NAIRU), and (3) improved credibility of monetary policy. Here we ask whether comparable factors were at work in foreign industrial countries. To address this question, we empirically characterize the relationship between inflation, the unemployment rate, and structural factors using an extended Phillips curve model with quarterly data through 1994. By undertaking counterfactual simulations from 1995 to 2001, we quantify the separate contributions of unemployment-rate movements, labor-market reforms (that affected the NAIRU), and productivity developments on inflation. In line with previous work on the United States, we find that productivity advancements were the main structural factor reducing inflation in the United States. For foreign countries, persistent labor-market slack was the main factor exerting downward pressure on inflation. This persistence stemmed, in part, from structural reforms that

lowered the NAIRU while the unemployment rate was declining.

Imai, Haruo
TI Pre-Negotiation for an International Emission Reduction Game. **AU** Horie, Mayumi; Imai, Haruo.

Ingersoll, Jonathan
TI Sharpening Sharpe Ratios. **AU** Goetzmann, William; Ingersoll, Jonathan; Spiegel, Matthew I.; Welch, Ivo.

Inoue, Atsushi
PD November 2002. **TI** In-Sample or Out-of-Sample Tests of Predictability: Which One Should We Use? **AU** Inoue, Atsushi; Kilian, Lutz. **AA** Inoue: North Carolina State University. Kilian: European Central Bank. **SR** European Central Bank Working Paper: 195; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 42. **PR** no charge. **JE** C12, C22, C52. **KW** Predictability Test. Data Mining. Structural Change. Out-of-Sample Inference.
AB It is widely known that significant in-sample evidence of predictability does not guarantee significant out-of-sample predictability. This is often interpreted as an indication that in-sample evidence is likely to be spurious and should be discounted. In this paper we question this conventional wisdom. Our analysis shows that neither data mining nor parameter instability is a plausible explanation of the observed tendency of in-sample tests to reject the no predictability null more often than out-of-sample tests. We provide an alternative explanation based on the higher power of in-sample tests of predictability. We conclude that results of in-sample tests of predictability will typically be more credible than results of out-of-sample tests.

PD February 2003. **TI** On the Selection of Forecasting Models. **AU** Inoue, Atsushi; Kilian, Lutz. **AA** Inoue: North Carolina State University. Kilian: University of Michigan, European Central Bank and CEPR. **SR** European Central Bank Working Paper: 214; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 60. **PR** no charge. **JE** C22, C52, C53. **KW** Model Selection. Forecast Accuracy. Structural Change. Information Criteria.
AB It is standard in applied work to select forecasting models by ranking candidate models by their PMSE in simulated out of-sample (SOOS) forecasts. Alternatively, forecast models may be selected using information criteria (IC). We compare the asymptotic and finite-sample properties of these methods in terms of their ability to minimize the true out-of-sample PMSE, allowing for possible misspecification of the forecast models under consideration. We first study a covariance stationary environment. We show that under suitable conditions the IC method will be consistent for the best approximating model among the candidate models. In contrast, under standard assumptions the SOOS method will select overparameterized models with positive probability, resulting in excessive finite-sample PMSEs. We also show that in the presence of unmodelled structural change both methods will be inadmissible in the sense that they may select a model with strictly higher PMSE than the best approximating model among the candidate models.

Ito, Harumi
TI Sticky Prices, Coordination and Enforcement. **AU** Driscoll, John C.; Ito, Harumi.

Jackson, David
TI Performance Evaluation with Stochastic Discount Factors. **AU** Farnsworth, Heber; Ferson, Wayne E.; Jackson, David; Todd, Steven.

Jackson, Matthew O.
PD February 2003. **TI** Envy-Freeness and Implementation in Large Economies. **AU** Jackson, Matthew O.; Kremer, Ilan. **AA** Jackson: California Institute of Technology. Kremer: Stanford University. **SR** Caltech Social Science Working Paper: 1157; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. **PG** 10. **PR** no charge. **JE** D51, D71, D78. **KW** Policy Making.
AB We show that an asymptotic envy-freeness is a necessary condition for a form of robust approximate implementation in large economies.

PD March 2003. **TI** Allocation Rules for Network Games. **AA** California Institution of Technology. **SR** Caltech Social Science Working Paper: 1160; Working Paper Assistant, California Institute of Technology, Division of the Humanities and Social Sciences, MC 228-77, 1200 E. California Blvd., Pasadena, CA 91125. Website: www.hss.caltech.edu/ss/working-papers. **PG** 29. **PR** no charge. **JE** A14, C71, C72. **KW** Networks. Core. Myerson Value. Shapley Value. Allocation Rules.
AB Previous allocation rules for network games, such as the Myerson Value, implicitly or explicitly take the network structure as fixed. In many situations, however, the network structure can be altered by players. This means that the value of alternative network structures (not just sub-networks) can and should influence the allocation of value among players on any given network structure. This paper presents a family of allocation rules that incorporate information about alternative network structures when allocating value.

Jagannathan, Ravi
TI Understanding Mutual Fund and Hedge Fund Styles Using Return Based Style Analysis. **AU** Dor, Arik Ben; Jagannathan, Ravi.

Janssens, Maddy
PD January 2003. **TI** Theories of Diversity Within Organization Studies: Debates and Future Trajectories. **AU** Janssens, Maddy; Steyaert, Chris. **AA** Janssens: K.U.Leuven. Steyaert: University of St. Gallen. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/14; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 20. **PR** no charge; available only online. **JE** J15. **KW** Identity. Diversity. Difference. Organization Studies.
AB The purpose of this paper is to: 1) review the existing studies on diversity identifying their main purposes, 2) identify the current debates in the field, and 3) point towards possible future directions. Studies on diversity seem to have a two-fold

purpose. A first purpose is to identify discriminatory practices in the workplace. A second purpose is to examine the effects of diversity on work-related outcomes. Wanting to achieve one (or both) of the two purposes, the domain has mainly focused on the consequences of diversity and seems to have neglected theoretical reflections on the notions of "diversity," "difference," or the "other." This need for theorizing has been indicated by well-known scholars in the field, concerned about the continuation of the diversity domain. Within these current debates, the authors identified mainly four issues: a narrow or broad definition of diversity, a stable or dynamic conception of identity, the role of power, and the importance of the socio-historical context. With the discussion of these four issues, the authors indicated the implicit "theoretical" choices prioritizing the concept of "identity," turning the issues of diversity into a managing of individuals and "their" identities. ·

Jenkner, Eva R.
TI User Payments for Basic Education in Low-Income Countries. AU Hillman, Arye L.; Jenkner, Eva R.

Jensen, Camilla
TI Green Subsidies and Learning-By-Doing in the Windmill Industry. AU Hansen, Jorgen Drud; Jensen, Camilla; Madsen, Erik Strojer.

TI The Establishment of the Danish Windmill Industry -- Was it Worthwhile? AU Hansen, Jorgen Drud; Jensen, Camilla; Madsen, Erik Strojer.

Jensen, J. Bradford
TI Survival of the Best Fit: Competition from Low Wage Countries and the (Uneven) Growth of US Manufacturing Plants. AU Bernard, Andrew B.; Jensen, J. Bradford; Schott, Peter K.

Jensen, Robert
TI Careers and Canvases: The Rise of the Market for Modern Art in the Nineteenth Century. AU Galenson, David W.; Jensen, Robert.

Jensen, Svend E. Hougaard
PD October 2002. TI Economic Transition, Entrepreneurial Capacity, and Intergenerational Distribution. AU Jensen, Svend E. Hougaard; Rasmussen, Tobias N.; Rutherford, Thomas F. AA Jensen: CEBR and University of Copenhagen. Rasmussen: IMF. Rutherford: University of Colorado and CEBR. SR International Monetary Fund Working Paper: WP/02/180; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 24. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE C68, O11, O21, O31, O33. KW Transition Economies. Structural Reforms. Economic Growth.
AB A defining feature of transition economies is the expansion of the private sector. Observing that new enterprises in transition economies seem to have a strong preference for recruiting young people, this paper studies intergenerational redistribution following market reforms that stimulate private sector activity and firm creation. We implement a theoretical model and find that in some cases more than half of the current working age population may be made worse off by an increase in entrepreneurial capacity. This may help explain why market reforms have been voted down despite their long-run benefits.

Jenter, Dirk
TI Selling Company Shares to Reluctant Employees: France Telecom's Experience. AU Degeorge, Francois; Jenter, Dirk; Moel, Alberto; Tufano, Peter.

Jepsen, Christopher
PD September 2002. TI What is the Tradeoff Between Smaller Classes and Teacher Quality? AU Jepsen, Christopher; Rivkin, Steven. AA Jepsen: Public Policy Institute of California. Rivkin: Amherst College and NBER. SR National Bureau of Economic Research Working Paper: 9205; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H42, I21, I28, J44. KW Class Size. Teacher Quality. Student Achievement. California.
AB This paper investigates the effects of California's class size reduction program on teacher quality and student achievement in an effort to gain a comprehensive understanding of the impact of a large- scale decrease in class size. It uses year-to-year differences in class size generated by natural variation in enrollment and the state's class size reduction program to identify both the direct effects of class size reduction and accompanying changes in teacher quality. The results show that, other things being equal, smaller classes raise third-grade mathematics and reading achievement, particularly for lower-income students. However, the expansion of the teaching force required to staff the additional classrooms appears to have led to a deterioration in average teacher quality in schools serving a predominantly black student body. This deterioration partially or, in some cases, fully offset the benefits of smaller classes, demonstrating the importance of considering all implications of any policy change.

Johnson, Simon
TI An African Success Story: Botswana. AU Acemoglu, Daron; Johnson, Simon; Robinson, James A.

TI Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth. AU Acemoglu, Daron; Johnson, Simon; Robinson, James; Thaicharoen, Yunyong.

Jouvet, Pierre-Andre
PD November 2002. TI Tax Reform and Public Spending Trade-Offs in an Endogenous Growth Model With Environmental Externality. AU Jouvet, Pierre-Andre; Oueslati, Walid. AA Jouvet: GRQAM. Oueslati: THEMA. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/103; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 15. PR no charge; available only on website. JE D62, E62, H22, O41, Q28. KW Endogenous Growth. Environmental Externality. Tax Reform. Transitional Dynamics. Welfare.
AB We analyze the trade-offs between fiscal policy reform and public expenses structures within a two-sector endogenous growth model with an environmental externality. Transitional dynamics, balanced growth path and welfare cost alternative policy are computed. We show that taxes structure changes

leads to a lower welfare cost.

Judge, George G.
TI Empirical Evidence Concerning the Finite Sample Performance of EL- Type Structural Equation Estimation and Inference Methods. **AU** Mittelhammer, Ron C.; Judge, George G.; Schoenberg, Ron.

PD 2003. **TI** An Information Theoretic Approach to Ecological Estimation and Inference. **AU** Judge, George G.; Miller, Douglas; Cho, Wendy K. **AA** Judge: UC Berkeley. Miller: Purdue University. Cho: University of Illinois. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 946; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/946. **PG** 34. **PR** $8.50 domestic; $17.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C10. **KW** Ecological Economics. Econometric Models. Information Theory. Voting.
AB Given the existence and importance of ecological estimation and inference problems in political science, this paper proposes information theoretic procedures to recover estimates of the unknown conditional probabilities used as a basis for understanding voter behavior.

TI Some Empirical Evidence on the Impact of Measurement Errors in Making Ecological Inferences. **AU** Cho, Wendy K.; Judge, George G.

PD 2003. **TI** A Semiparametric Basis for Combining Estimation Problems Under Quadratic Loss. **AU** Judge, George G.; Mittelhammer, Ron C. **AA** Judge: UC Berkeley. Mittelhammer: Washington State University. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 948; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/948. **PG** C10, C24. **PR** $7.50 domestic; $15.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C10, C24. **KW** Stein-Like Shrinkage. Quadratic Loss. Ill-Conditioned Design. Semiparametric Estimation and Inference. Data Dependent Shrinking Vector.
AB When there is uncertainty concerning the appropriate statistical model to use in representing the data sampling process and corresponding estimators, we consider a basis for optimally combining estimation problems. In the context of the multivariate linear statistical model, we consider a semiparametric stein-like (SPSL) estimator that shrinks to a random data dependent vector and, under quadratic loss, has superior performance relative to the conventional least squares estimator. The relationship of the SPSL estimator to the family of stein estimators is noted and risk dominance extensions between correlated estimators are demonstrated. As an application we consider the problem of a possibly ill-conditioned design matrix and devise a corresponding SPSL estimator. Asymptotic and analytic finite sample risk properties of the estimator are demonstrated. An extensive sampling experiment is used to investigate finite sample performance over a wide range of data sampling processes to illustrate the robustness of the estimator for an array of symmetric and

skewed distributions. Bootstrapping procedures are used to develop confidence sets and a basis for inference.

TI Combining Estimators to Improve Structural Model Estimation Under Quadratic Loss. **AU** Mittelhammer, Ron C.; Judge, George G.

Jurajda, Stepan
PD February 2002. **TI** What Drives the Speed of Job Reallocation During Episodes of Massive Adjustment? **AU** Jurajda, Stepan; Terrell, Katherine. **AA** Jurajda: CERGE-EI and CEPR. Terrell: University of Michigan. **SR** CEPR Discussion Paper: 3218; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** J23, O10, O40, P20. **KW** Job Creation. Job Destruction. Transition.
AB This paper uses individual-level data to characterize economy-wide job creation and destruction during periods of massive structural adjustment. We contrast the gradualist Czech and the rapid Estonian approach to the destruction of the communist economy to provide evidence on selected macroeconomic theories of reallocation with frictions. We find that gradualism (slowing down job destruction) effectively synchronizes job creation and destruction. Drastic job destruction leads to little or no slowdown of job creation. Small newly established firms are the under-researched fountainhead of jobs during the transition from communist to market oriented economies.

Kaestner, Robert
TI Get High and Get Stupid: The Effect of Alcohol and Marijuana Use on Teen Sexual Behavior. **AU** Grossman, Michael; Kaestner, Robert; Markowitz, Sara.

Kalashnikov, Vyacheslav V.
TI Equilibrium in Generalized Cournot and Stackelberg Models. **AU** Bulavsky, Vladimir A.; Kalashnikov, Vyacheslav V.

Kamat, Samir
TI Networks and Farsighted Stability. **AU** Page, Frank H., Jr..; Wooders, Myrna H.; Kamat, Samir.

Karp, Larry
PD January 2003. **TI** A Global Game with Strategic Substitutes and Complements. **AU** Karp, Larry; Lee, In Ho; Mason, Robin. **AA** Karp: UC Berkeley. Lee: Seoul National University and University of Southampton. Mason: University of Southampton. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 940; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/940. **PG** 23. **PR** $5.75 domestic; $11.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C79, D84. **KW** Global Games. Congestion. Coordination Problem.
AB We study a global game in which actions are strategic complements over some region and strategic substitutes over another region. An agent's payoff depends on a market

fundamental and the actions of other agents. If the degree of congestion is sufficiently large, agents' strategies are non-monotonic in their signal about the market fundamental. In this case, a signal that makes them believe that the market fundamental is more favorable for an action may make them less likely to take the action, because of the risk of overcrowding.

PD April 2003. TI Property Rights, Mobile Capital, and Comparative Advantage. AA UC Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 942; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/942. PG 23. PR $5.75 domestic; $11.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE D23, F02, F16. KW Imperfect Property Rights. Comparative Advantage. General Equilibrium.
AB Recent papers use sector-specific factor models with mobile labor to show that imperfect property rights can be a source of comparative advantage. In these models, weaker property rights to the specific factor in a sector attract the mobile factor and increase the country's comparative advantage for that sector. If capital in addition to labor is mobile, and if the benefits of capital are non-excludable or if the degree of property rights is endogenous, a deterioration of property rights has ambiguous effects on comparative advantage. The presence of a second mobile factor also makes the relation between the equilibrium wage-rental ratio and the degree of property rights ambiguous.

Katsoulakos, Yannis

PD December 2002. TI Fiscal and Other Macroeconomic Effects of Privatization. AU Katsoulakos, Yannis; Likoyanni, Elissavet. AA Athens University of Economics and Business and CERES. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/113; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 27. PR no charge; available only on website. JE H62, H63, J64, L33. KW Privatization. Public Deficit. Public Debt. Unemployment.
AB This paper contains an econometric analysis using country level panel data, extending existing empirical work, and more specifically work on the impact of privatization on public deficit, the impact on public debt and the impact on other macroeconomic variables. The main results are the following: (i) Our results with an extended data set show that privatization receipts are not significantly correlated with budget deficit neither for the whole OECD sample, nor for the four southern countries (Spain, Greece, Italy, and Portugal). (ii) We also find that there exists a statistically significant and negative relation between privatization receipts and public debt for the whole OECD sample, while this does not seem to be the case for the three countries with the higher debt over GDP rates (Belgium, Greece and Italy). (iii) One of the most interesting results of our analysis is that current privatization receipts have a statistically significant and negative effect on the current unemployment rate and a positive effect on the previous period's unemployment rate.

Katuscak, Peter

TI Do Trust and Trustworthiness Pay Off? AU Slemrod, Joel; Katuscak, Peter.

Keller, Wolfgang

PD February 2003. TI Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the United States. AU Keller, Wolfgang; Yeaple, Stephen R. AA Keller: Brown University and University of Texas. Yeaple: University of Pennsylvania. SR University of Nottingham, GEP Research Paper: 2003/03; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 52. PR no charge. JE F10, F21, O30. KW Technology Spillovers. Foreign Direct Investment. Learning Externalities. Technology Transfer.
AB We estimate international technology spillovers to U.S. manufacturing firms via imports and foreign direct investment (FDI) between the years of 1987 and 1996. In contrast to earlier work, our results suggest that FDI leads to significant productivity gains for domestic firms. The size of FDI spillovers is economically important, accounting for about 14% of productivity growth in U.S. firms between 1987 and 1996. In addition, there is some evidence for imports-related spillovers, but it is weaker than for FDI. The paper also gives a detailed account of why our study leads to results different from those found in previous work. This analysis indicates that our results are likely to generalize to other countries and periods.

Kelly, Clare

PD April 2003. TI Analytical Results for a Model of Periodic Consumption. AU Kelly, Clare; Lanot, Gauthier. AA Kelly: University of Warwick. Lanot: Keele University. SR The Warwick Economics Working Paper Series: 673; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers.
PG 22. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE D11, D12, D91. KW Analytical Consumption Function. Liquidity Constraints. Uncertainty.
AB This paper presents the partial analytical solution to a model of periodic consumption that incorporates imperfect capital markets and uncertainty. Our model assumes that consumption decisions occur more frequently than income receipt. We show that the week specific consumption functions can be ordered. At low levels of wealth these functions exhibit a "u-shaped" pattern between income receipts. We show analytically that changes in the level of the borrowing constraint affect only the level of consumption function and not the MPC, whilst mean preserving changes in uncertainty affect both.

Keloharju, Matti

PD March 2003. TI Strategic Behavior and Underpricing in Uniform Price Auctions: Evidence From Finnish Treasury Auctions. AU Keloharju, Matti; Nyborg, Kjell G.; Rydqvist, Kristian. AA Keloharju: Helsinki School of Economics. Nyborg: London Business School and CEPR. Rydqvist: Binghamton University and CEPR. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/25; Fondazione Eni Enrico

Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 35. **PR** no charge; available only online. **JE** D44, G10. **KW** Uniform Price Auctions. Treasury Auctions. Market Power. Demand Functions. Underpricing.

AB We study uniform price auctions using a dataset which includes individual bidders' demand schedules in Finnish Treasury auctions during the period 1992-99. Average underpricing amounts to .041% of face value. Theory suggests that underpricing may result from monopolistic market power. We develop and test robust implications from this theory and that it has little support in the data. For example, bidders' individual demand functions do not respond to increased competition in the manner predicted by the theory. We also present evidence that the Finnish Treasury acts strategically, taking into account the fact that the auctions are part of a repeated game between the Treasury and the primary dealers. Empirically, the main driver behind bidder behavior and underpricing is the volatility of bond returns. Since there is no evidence that bidders are risk averse, this suggests that private information and the winner's curse may play an important role in these auctions.

Kemfert, Claudia
TI Strategic Action in the Liberalized German Electricity Market. **AU** Lise, Wietze; Kemfert, Claudia; Tol, Richard S. J.

Kennickell, Arthur B.
PD March 2003. **TI** A Rolling Tide: Changes in the Distribution of Wealth in The U.S., 1989-2001. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/24; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 51. **PR** no charge. **JE** D31. **KW** Wealth Distribution. SCF.

AB Over the period from 1989 to 2001, wealth in real terms grew broadly across U.S. families. Although a variety of caveats are presented in the paper, the data also support the hypothesis that wealth grew most strongly at the highest levels of the wealth distribution. By 2001, the division of wealth observed in the SCF attributed about a third each to the wealthiest 1 percent, the next wealthiest 9 percent, and the remainder of the population. The paper decomposes changes in wealth holdings in a variety of ways. Particular attention is given to three subgroups: families with negative net worth, families of older "baby boomers," and African American families.

Keping, Li
TI Recentralization in China? **AU** Ahmad, Ehtisham; Keping, Li; Richardson, Thomas; Singh, Raju.

Khan, Shakeeb
PD October 2002. **TI** Pairwise Comparison Estimation of Censored Transformation Models. **AU** Khan, Shakeeb; Tamer, Elie. **AA** Khan: University of Rochester. Tamer: Princeton. **SR** Rochester Center for Economic Research Working Paper: 495; Terry Fisher, W. Allen Wallis Institute of Political Economy, RCER, 107 Harkness Hall, University of Rochester, Rochester, NY 14627. Website: http://rcer.econ.rochester.edu. **PG** 23. **PR** 3 papers free per year; $5 each additional. **JE** C13, C14, C24. **KW** Transformation Models. Pairwise Comparison. Maximum Rank Correlation. Duration Analysis.

AB In this paper a pairwise comparison estimation procedure is proposed for the regression coefficients in a censored transformation model. The main advantage of the new estimator is that it can accommodate covariate dependent censoring without the requirement of smoothing parameters, trimming procedures, or stringent tail behavior restrictions. We also modify the pairwise estimator for other variations of the transformation model and propose estimators for the transformation function itself, as well as regression coefficients in heteroskedastic and panel data models. The estimators are shown to converge at the parametric (root-n) rate, and the results of a small scale simulation study indicate they perform well in finite samples. We illustrate our estimator using the Stanford Heart Transplant data and marriage length data from the CPS fertility supplement.

Khang, Kenneth
TI Conditional Performance Measurement Using Portfolio Weights: Evidence for Pension Funds. **AU** Ferson, Wayne E.; Khang, Kenneth.

Khawaja, Sarmad
PD October 2002. **TI** Statistical Legislation: Toward a More General Framework. **AU** Khawaja, Sarmad; Morrison, Thomas K. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/179; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 62. **PR** $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. **JE** C81, C82. **KW** Statistical Legislation. Official Statistics. IMF.

AB The paper outlines a general framework for statistical legislation. The implications of statistical legislation for the whole statistical system, as well as for centralized versus decentralized statistical systems, are addressed. The general framework is spelled out by identifying "essential" components of statistical legislation. The paper illustrates how these components can be applied to different country situations, and it draws attention to a number of additional topics for discussion and areas for future study in statistical legislation. It also brings together summary descriptions of the statistical legislation of a large number of countries that underlie the derivation of the essential components. It thus provides a reference for countries considering new or revised statistical legislation.

Kiley, Michael T.
PD September 2002. **TI** How Should Unemployment Benefits Respond to the Business Cycle? **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/01; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 19. **PR** no charge. **JE** E24, J64, J65. **KW** Unemployment Insurance. Time-Varying Benefits.

AB Unemployment insurance programs balance the benefits of consumption smoothing for unemployed workers against the

disincentive effects of unemployment benefits. Such a balancing of benefits and costs is likely to be sensitive to the cyclical state of the economy, and hence the generosity of benefits should also respond to the cyclical state of the economy. The nature of such responses in an optimal unemployment insurance (UI) program is analyzed in a simple model. The results suggest that an optimal UI program would increase the initial level of benefits and probably extend higher benefits over time in response to a recessionary shock. A simple extension of benefits, such as the one that exists automatically in the system in the United States, provides both poorer insurance and poorer incentives than the optimal program, and does so at a higher cost. Moreover, the current UI system in the U.S. provides a substantially higher level of welfare to workers who lose jobs during tight labor markets.

Kilian, Lutz

TI In-Sample or Out-of-Sample Tests of Predictability: Which One Should We Use? **AU** Inoue, Atsushi; Kilian, Lutz.

TI Bootstrapping Autoregressions with Conditional Heteroskedasticity of Unknown Form. **AU** Goncales, Silvia; Kilian, Lutz.

TI On the Selection of Forecasting Models. **AU** Inoue, Atsushi; Kilian, Lutz.

PD April 2003. **TI** The Central Bank as a Risk Manager: Quantifying and Forecasting Inflation Risks. **AU** Kilian, Lutz; Manganelli, Simone. **AA** Kilian: University of Michigan, European Central Bank and CEPR. Manganelli: European Central Bank. **SR** European Central Bank Working Paper: 226; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 56. **PR** no charge. **JE** E31, E37, E52, E58. **KW** Inflation. Deflation. Risk. Forecast. Monetary Policy.
AB We propose to regard the central banker as a risk manager who aims to contain inflation within pre-specified bounds. We develop formal tools of risk management that may be used to quantify and forecast the risks of failing to attain that objective. We illustrate the use of these risk measures in practice. First, we demonstrate the usefulness of risk forecasts in understanding the Fed's decision to tighten monetary policy in 1984, 1988, and 1994. Second, we forecast the risks of worldwide deflation for horizons of up to two years. We find that, as of September 2002, with the exception of Japan there is no evidence of substantial deflation risks. We also put the estimates of deflation risk for the United States, Germany and Japan into historical perspective. We find that only for Japan is there evidence of deflation risks that are unusually high by historical standards.

Klaeffing, Matt

PD May 2003. **TI** Monetary Policy Shocks --A Nonfundamental Look at the Data. **AA** University of Bonn. **SR** European Central Bank Working Paper: 228; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 38. **PR** no charge. **JE** C12, E52. **KW** Nonfundamental. Blaschke Matrices. VAR Models. Monetary Policy.
AB VAR studies of the effects of monetary policy on output suggest that a contractionary impulse results in a drawn-out, hump-shaped response of output. Standard structural economic

models are generally not able to reproduce such a response. In this paper I look at nonfundamental representations that are observationally equivalent to a VAR. I find that the quantitative effect of a monetary policy shock on output might be much smaller and much more short-lived than the VAR studies suggest. I conclude that the apparent discrepancy between the VAR findings and standard structural models may be spurious and that the general tendency to append non-structural, ad hoc features to structural models should be questioned.

Kletzer, Kenneth M.

TI Sargent-Wallace Meets Krugman-Flood-Garber, or: Why Sovereign Debt Swaps Don't Avert Macroeconomic Crises. **AU** Aizenman, Joshua; Kletzer, Kenneth M.; Pinto, Brian.

Klijn, Flip

TI On the Nucleolus of Neighbor Games. **AU** Hamers, Herbert; Klijn, Flip; Solymosi, Tamas; Tijs, Stef; Vermeulen, Dries.

PD November 1999. **TI** Weak Stability and a Bargaining Set for the Marriage Model. **AU** Klijn, Flip; Masso, Jordi. **AA** Klign: Tilburg University. Masso: Universitat Autonoma de Barcelona. **SR** Tilburg CentER Discussion Paper: 99114; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: http://center.uvt.nl or http://greywww.kub.nl:2080/greyfiles/. **PG** 10. **PR** no charge. **JE** C78. **KW** Matching. (Weak) Stability. Bargaining Set.
AB In this note we introduce weak stability, a relaxation of the concept of stability for the marriage model by assuming that the agents are no longer myopic in choosing a blocking pair. The new concept is based on threats within blocking pairs: an individually rational matching is weakly stable if for every blocking pair one of the members can find a more attractive partner with whom he forms another blocking pair for the original matching. Our main result is that under the assumption of strict preferences, the set of weakly stable and weakly efficient matchings coincides with the bargaining set of Zhou (1994) for this context.

Klonner, Stefan

PD April 2003. **TI** Buying Fields and Marrying Daughters: An Empirical Analysis of Rosca Auctions in a South Indian Village. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 854; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 44. **PR** $2.00 plus postage. **JE** D44, J12. **KW** Roscas. Auctions. Marriage. South India.
AB A bidding rotating savings and credit association (Rosca) is modeled as a sequence of symmetric-independent-private-value auctions with price-proportional benefits to bidders. We estimate a structural econometric model which, by introducing an altruistic component into each bidder's utility function, allows for socially favorable deviations from the private information, non-altruistic bidding equilibrium. We find that bidding is more altruistic in groups managed by experienced organizers and in Roscas whose current members have already run through more than one Rosca cycle of the current group, implying that effective leadership and enduring relationships help mitigate the social cost of strategic behavior. When a bidder has to meet an unforeseen expenditure and this

information is public, bidders act more altruistically than when information is private and the Rosca funds are used for investment, indicating reciprocal risk sharing among Rosca participants.

Kneller, Richard

TI Technology Transfer and External Shocks: Developing Country Growth from 1960 to 1990. **AU** Gemmell, Norman; Kneller, Richard.

TI Does Exporting Lead to Better Performance? A Microeconometric Analysis of Matched Firms. **AU** Girma, Sourafel; Greenaway, David; Kneller, Richard.

PD October 2002. **TI** Frontier Technology, Absorptive Capacity and Distance. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/24; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 22. **PR** no charge. **JE** O33, O47. **KW** Technology. Productivity. Technology Diffusion. Human Capital.
AB The recent literature on international technology diffusion has demonstrated the positive effect improvements in foreign country productivity can have on domestic productivity. Using a sample of 9 manufacturing industries in 12 OECD countries over the period 1972 to 1992 we search to find evidence that absorptive capacity and physical distance are important for technology transfer. We find strong evidence that the level of productivity depends on human capital, that the effect of physical distance are weakest at the end of the time period and in some industries and that R&D is important for productivity but not technology transfer.

TI Productivity Levels and Dynamics: UK Service Sector Firms 1988-1998. **AU** Girma, Sourafel; Kneller, Richard.

PD November 2002. **TI** No Miracles Here: Trade Policy, Fiscal Policy and Growth. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/26; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. **PG** 25. **PR** no charge. **JE** F43, H53, O40, O57. **KW** Trade Policy. Fiscal Policy. Growth.
AB In this paper we consider whether the effects of trade liberalization on GDP growth are offset by changes in other policy variables, namely changes in fiscal policy. Governments increase welfare spending as a response to greater exposure to international trade. We find for a sample of developing countries that this is not the case. Countries that liberalize their trade regimes do increase their spending on welfare, but once we control for fiscal policy trade liberalization still has no effect on the rate of growth. Fiscal policy itself has the expected effect on GDP growth. The paper uses a difference-in-difference approach for a matched sample of non-liberalizing countries.

TI Export Market Exit and Performance Dynamics: A Causality Analysis of Matched Firms. **AU** Girma, Sourafel; Greenaway, David; Kneller, Richard.

Knight, Brian

PD October 2002. **TI** State Capital Taxes and the Location of Investment. **AA** Federal Reserve Board.

SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/59; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 20. **PR** no charge. **JE** H20, H70, H71. **KW** Tax Competition. Fiscal Federalism. State and Local Public Finance.
AB Applying lessons from theoretical tax competition models, this study of manufacturing investment and taxes in U.S. states makes four contributions to the empirical tax competition literature. First, while the existing empirical literature has assumed exogenous tax rates, the theoretical model, which endogenizes state tax rate choices, demonstrates that tax rates and investment decisions are determined by the same set of jurisdiction characteristics. The second insight involves the appropriate unit of observation. The empirical literature has conducted both aggregate analyses, in which jurisdictions are the unit of observation, and discrete choice analyses, in which manufacturing plants are the unit of observation. While the tax competition model demonstrates the violation of a key assumption in discrete choice analyses, the estimating equation in this paper, an aggregate analysis, can be derived directly from the model. Third, the theoretical model sheds light on the appropriateness of previously employed measures of tax burdens. The effective tax rate is shown to be superior to the after-tax rate of return, which is both invariant across jurisdictions and dependent on the distribution of investment. Fourth, this paper provides estimates of the degree of undertaxation of capital.

Kolstad, Charles D.

PD October 2002. **TI** Climate Change Policy: A View from the US. **AA** UCSB, MIT, and Resources for the Future. **SR** University of California, Santa Barbara, Working Paper in Economics: 2002/22; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. **PG** 23. **PR** no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". **JE** Q54, Q58. **KW** US Greenhouse Gas Emissions. Kyoto Protocol. Bush Proposal. Dynamic Consistency. Reduced Uncertainty.
AB The Bush Administration followed its withdrawal from the Kyoto Protocol in March, 2001, by a February, 2002 proposal for unilateral action to reduce US greenhouse gas emissions. The February proposal has been widely criticized for having little content and no teeth. The lack of teeth is clearly a valid criticism. The proposal is unlikely to result in much in the way of changed behavior within the US economy. However, a side benefit is that other actors, particularly states, are attempting to fill the void left by the Federal Government. Those actions are reviewed in this paper. Furthermore, there is an interesting idea within the Bush Proposal, an idea that may warrant further examination at the international level. Although the idea is probably not original, its emphasis by the Bush Administration gives it more prominence than it has had in the past. The idea is to focus on the rate of decline of the emissions intensity of the economy, rather than the total amount of emissions (though the two are obviously related). This has a number of advantages, including dynamic consistency, reduced uncertainty, and potential attractiveness to non-Annex I countries. These characteristics are reviewed in this paper.

Komarek, Lubos

TI   Optimum Currency Area Indices: Evidence From the 1990's. AU   Horvath, Roman; Komarek, Lubos.

Kopczuk, Wojciech

PD   September 2002. TI   Why World Redistribution Fails. AU   Kopczuk, Wojciech; Slemrod, Joel; Yitzhaki, Shlomo. AA   Kopczuk: University of British Columbia. Slemrod: University of Michigan and NBER. Yitzhaki: Central Bureau of Statistics, Israel. SR   National Bureau of Economic Research Working Paper: 9186; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   F35, H21, H23. KW   Redistribution. Social Welfare Function. Inequality.
AB   An optimal linear world income tax that maximizes a border-neutral social welfare function provides a drastic reduction in world consumption inequality, dropping the Gini coefficient from 0.69 to 0.25. In contrast an optimal decentralized (i.e., within countries) redistribution has miniscule effect on world income inequality. Thus, the traditional public finance concern about the excess burden of redistribution cannot explain why there is so little world redistribution. Actual foreign aid is vastly lower than the transfers under the simulated world income tax, suggesting that countries such as the United States either place a much lower value on the welfare of foreigners or else expect that a very significant fraction of cross- border transfers is wasted. The product of the welfare weight and one minus the share of transfers that are wasted constitutes an implied weight that the United States assigns to foreigners. We calculate that value to be as low as 1/2000 of the value put on the welfare of an American, suggesting that U.S. policy implicitly assumes either that essentially all transfers are wasted or places essentially no value on the welfare of the citizens of the poorest countries.

PD   September 2002. TI   The Trick is to Live: Is the Estate Tax Social Security for the Rich? AA   University of British Columbia and NBER. SR   National Bureau of Economic Research Working Paper: 9188; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   19. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   H20. KW   Estate Tax. Annuity Income.
AB   Because estate tax liability usually depends on how long one lives, it implicitly provides annuity income. In the absence of annuity markets, lump-sum estate taxation may be used to achieve the first-best solution for individuals with a sufficiently strong bequest motive. Calculations of the annuity embedded in the U.S. estate tax show that people with $10 million of assets may be effectively receiving more than $100,000 a year financed at actuarially fair rates by their tax payments. According to my calibrations, the insurance effect reduces the marginal cost of funds (MCF) for the estate tax by as much as 30% and the resulting MCF is within the range of estimates for the marginal cost of funds for the income tax.

Koszegi, Botond

TI   A Theory of Government Regulation of Addictive Bads: Optimal Tax Levels and Tax Incidence for Cigarette Excise Taxation. AU   Gruber, Jonathan; Koszegi, Botond.

Kreickemeier, Udo

TI   Globalization and Factor Returns in Competitive Markets. AU   Falvey, Rodney E.; Kreickemeier, Udo.

PD   December 2002. TI   A General Model of Fair Wages in an Open Economy. AU   Kreickemeier, Udo; Schoenwald, Steffi. AA   Kreickemeier: University of Nottingham. Schoenwald: University of Mainz. SR   University of Nottingham, GEP Research Paper: 2002/34; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/ìezec/research/dp/. PG   22. PR   no charge. JE   F11, F16. KW   International Trade Theory. Unemployment. Fair Wages.
AB   We analyze the behavior of a multi-sector small open economy with involuntary unemployment due to fair wages. The equilibrium level of employment depends in an intuitively appealing way on the sectoral structure of the economy. It is shown that induced changes in employment are a driving force behind many of the comparative static results. Fair wage variants of the Heckscher-Ohlin and the Ricardo- Viner model, respectively, are derived as special cases.

Kremer, Ilan

TI   Envy-Freeness and Implementation in Large Economies. AU   Jackson, Matthew O.; Kremer, Ilan.

Krizan, C. J.

TI   The Link Between Aggregate and Micro Productivity Growth: Evidence from Retail Trade. AU   Foster, Lucia; Haltiwanger, John; Krizan, C. J.

Krueger, Alan B.

PD   October 2002. TI   Inequality, Too Much of a Good Thing. AA   Princeton University. SR   Princeton University, Industrial Relations Section Working Paper: 466; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. PG   56. PR $2. JE   D63, I20. KW   Inequality. Education. Training.
AB   There are both positive and negative effects of inequality. On the positive side, differential rewards provide incentives for individuals to work hard, invest and innovate. On the negative side, differences in rewards that are unrelated to productivity- due to racial discrimination, for example-are corrosive to civil society and cause resources to be misallocated. Even if discrimination did not exist, however, income inequality would be problematic in a democratic society if those who are privileged use their economic muscle to curry favor in the political arena and thereby secure monopoly rents or other advantages. Moreover, for several reasons discussed in the paper, poverty and income inequality create negative externalities. Consequently, it can be in the interest of the wealthy as well as the poor to raise the incomes of the poor, especially by using education and training as a means for redistribution.

PD   November 2002. TI   Another Look at the New York City School Voucher Experiment. AU   Krueger, Alan B.; Zhu, Pei. AA   Princeton University. SR   Princeton University, Industrial Relations Section Working Paper: 470; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website:

www.irs.princeton.edu/pubs/working_papers.html. **PG** 42. **PR** $1.50. **JE** I20. **KW** Education. Labor Studies. Public Economics.
AB This paper reexamines data from the New York City school choice program, the largest and best implemented private school scholarship experiment yet conducted. Students with missing baseline test scores were excluded from previous analyses of achievement, even though these students were tested in the follow-up years. Including these students increases the sample size by 44 percent. For African American students, the only group to show a significant gain from vouchers on achievement in past studies, the difference in average follow-up test scores between the treatment group and control group becomes statistically insignificant at the .05 level and much smaller. In addition, the effect of vouchers is found to be sensitive to the particular way race/ethnicity was defined.

Krueger, Dirk

PD September 2002. **TI** Does Income Inequality Lead to Consumption Inequality? Evidence and Theory. **AU** Krueger, Dirk; Perri, Fabrizio. **AA** Krueger: Stanford University and NBER. Perri: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 9202; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D31, D63, D91, E21, G22. **KW** Income Inequality. Consumption Inequality. Credit Markets.
AB This paper first documents the evolution of the cross-sectional income and consumption distribution in the US in the past 25 years. We find that a rising income inequality has not been accompanied by a corresponding rise in consumption inequality. Over the period from 1972 to 1998 the standard deviation of the log of after-tax labor income has increased by 20% while the standard deviation of log consumption has increased less than 2%. Furthermore income inequality has increased both between and within education groups while consumption inequality has increased between education groups but mildly declined within groups. We then argue that these empirical findings are consistent with the hypothesis that an increase in income volatility has been an important cause of the increase in income inequality, but at the same time has lead to an endogenous development of credit markets, allowing households to better smooth their consumption against idiosyncratic income fluctuations. We develop a consumption model in which the sharing of income risk is limited by imperfect enforcement of credit contracts and in which the development of financial markets depends on the volatility of the individual income process.

Kubik, Jeffrey

TI Health Insurance Coverage and the Disability Insurance Application Decision. **AU** Gruber, Jonathan; Kubik, Jeffrey.

Kuhn, Peter

PD October 2002. **TI** Internet Job Search and Unemployment Durations. **AU** Kuhn, Peter; Skuterud, Mikal. **AA** Kuhn: UCSB. Skuterud: Statistics Canada. **SR** University of California, Santa Barbara, Working Paper in Economics: 2002/20; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. **PG** 44.

PR no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". **JE** J64. **KW** Job Search. Unemployment. Duration. Internet.
AB After decades of stability, the technologies used by workers to locate new jobs began to change rapidly with the diffusion of internet access in the later 1990s. Which types of persons incorporated the internet into their job search strategy, and did searching for work on line help these workers find new jobs faster? We address these questions using measures of internet job search derived from the December 1998 and August 2000 CPS Computer and Internet Supplements, matched with job search outcomes from subsequent CPS files. We find that internet searchers are positively selected on observable, but negatively selected on unobservable. A beneficial (unemployment duration reducing) causal effect of internet job search is consistent with our estimates only if negative selection on unobservables is especially strong, in other words only if the population of on-line resumes is strongly adversely selected.

la Cour, Lisbeth F.

PD November 2002. **TI** Meaningful and Measurable Market Domination. **AU** la Cour, Lisbeth F.; Mollgaard, H. Peter. **AA** University of Copenhagen. **SR** University of Copenhagen, CIE Discussion Paper: 2002/06; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. **PG** 7. **PR** no charge. **JE** K21, L41, L61. **KW** Dominant Position. Economic Interpretation. Econometric Tests.
AB The European Court of Justice's definition of when a firm has a dominant position has recently come under attack as being meaningless and impossible to measure. We argue that both attacks are wrong, suggest an economic interpretation of domination and propose how it may be measured using modern time series econometrics. We illustrate the approach empirically.

LaFrance, Jeffrey T.

PD December 2002. **TI** Generalized Rational Random Errors. **AA** UC Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 938; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.cdlib.org/are_ucb/938. **PG** 27. **PR** $6.75 domestic; $13.50 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** C40, L66. **KW** Agricultural Farm and Food Policy. Bayesian Method of Moments. Generalized Maximum Entropy.
AB Theil's theory of rational random errors is sufficient for strict exogeneity of group expenditure in separable demand models. Generalized rational random errors is necessary and sufficient for strict exogeneity of group expenditure. A simple, robust, asymptotically normal t-test of this hypothesis is derived based on the generalized method of moments. An application to per capita annual U.S. food demand in the 20th century strongly rejects exogeneity of food expenditure in a model that in all other respects is highly compatible with the data set and with the implications of economic theory.

Lai, Huiwen

AB The difficulty of incorporating general equilibrium price effects into econometric estimating equations has deterred most researchers from econometrically estimating the welfare gains from trade liberalization. Using a pared-down CES monopolistic competition example, we show that this difficulty has been greatly exaggerated. Along the way, we precisely estimate large welfare gains from trade liberalization as measured by compensating variation. Unlike calibration methods, econometric methods allow researchers to isolate the violence done by the model to the data. We find that the CES monopolistic competition model horribly misspecifies behavioral price elasticities and general equilibrium price feedbacks. The model as conceived is therefore of limited value for analyzing the effects of trade liberalization. We report a number of specification issues that should point the way to better theoretical modeling.

Laidler, David

AB The debate about whether Canada should seek some form of monetary integration with the United States is surveyed. It is argued that the choice here is among overall monetary orders, rather than among exchange rate regimes considered in isolation, with particular attention needing to be paid to questions of the credibility of policy and the accountability of policy makers. Canada's recent economic performance under its current monetary order -- inflation targets, underpinned by a flexible exchange rate, and pursued by accountable policy makers -- is assessed, and arguments that the flexible exchange rate has undermined the economy's real performance are analyzed. Alternative orders are considered. It is concluded that the most economically attractive among them -- negotiated adoption by Canada of the US dollar with provision being made for meaningful Canadian input into policy decisions and the supervision and oversight of the monetary system -- is not politically attainable, and that the economic and political drawbacks associated with intermediate arrangements are large enough to render them clearly inferior to Canada's current monetary order.

and Political Differences. AA University of Western Ontario and C. D. Howe Institute. SR University of Western Ontario, RBC Financial Group EPRI Working Paper: 2003/03; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/. PG 22. PR Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE E42, E52, E58. KW Monetary Policy. Monetary Integration. Currency Unification. Monetary Orders.

AB There are strong economic arguments in favor of one money for one market, but multiple currencies continue to exist because of network externalities supported by national legal restrictions. The national currencies of Canada and Britain will not vanish spontaneously as the result of market forces, but they could be eliminated by acts of policy. Each country currently faces a choice between competing monetary orders, and in each of them the status quo, based on a national currency and inflation targeting, is working rather well; but the alternatives available are very different. Britain can join an already functioning European monetary order that is a component of a broader and still evolving political order, and its choice must ultimately depend upon its electorate's degree of trust in domestic versus European monetary institutions. The United States have no interest in sharing authority over their own monetary arrangements with Canada, let alone with a new supra-national central bank, so the choice facing the Canadian electorate is between the status quo and unilateral dollarization, a monetary order that is clearly inferior on both economic and political grounds.

Lakdawalla, Darius

AB This paper investigates the rationale for government intervention in the market for terrorism insurance, focusing on the externalities associated with self-protection. Self-protection by one target encourages terrorists to substitute towards less fortified targets. Investments in self-protection thus have negative external effects in the presence of rational terrorists. Government subsidies for terror insurance can discourage self-protection and limit the inefficiencies associated with these and other types of negative externalities. They may also serve as a complement to a policy of publicly provided protection.

Lambertini, Luca

L13. **KW** Partial Collusion. Product Differentiation.

AB We investigate the choice of market variable, price or quantity, of an optimal implicit cartel. If the discount factor is high, the cartel can realize the monopoly profit in both cases. Otherwise, it is optimal for the cartel to rely on quantities in the collusive phase if goods are substitutes and prices if goods are complements. The reason is that this minimizes the gains from deviations from collusive play.

Lanchance, Marie-Eve

PD September 2002. **TI** Understanding Individual Account Guarantees. **AU** Lanchance, Marie-Eve; Mitchell, Olivia S. **AA** Lanchance: University of Pennsylvania. Mitchell: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 9195; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G23, H40, I30, J14. **KW** Social Security. Individual Accounts.

AB Demographic aging renders workers vulnerable to the inherent uncertainty of unfunded social security systems. This realization has set off a global wave of social security reforms, and numerous countries have now set up Individual Accounts (IA) plans in response. Strengths of IAs are that participants gain ownership in their accounts, and they also may diversify their pension investments; additionally, they produce a capitalized, funded system that enhances old-age economic security. While IAs reduce the risk participants face due to unfunded social security systems, participants holding capital market investments in IAs are exposed to fluctuations in the value of their pension assets. Concern over market volatility has prompted some to emphasize the need for "guarantees" of pension accumulations. This paper offers a way to think about guarantees in the context of a social security reform that includes Individual Accounts. When a pension guarantee has economic value to participants, it will have economic costs. We illustrate how these costs can be important and vary significantly with time horizon, investment mix, and guarantee design. Our findings indicate that plan designers and budget analysts would do well to recognize such costs and identify how they can be financed.

Lange, Joe

TI Money Demand and Equity Markets. **AU** Carpenter, Seth; Lange, Joe.

Lanot, Gauthier

TI Analytical Results for a Model of Periodic Consumption. **AU** Kelly, Clare; Lanot, Gauthier.

Laubach, Thomas

PD March 2003. **TI** New Evidence on the Interest Rate Effects of Budget Deficits and Debt. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/12; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 13. **PR** no charge. **JE** E60, H60. **KW** Government Debt. Government Deficits. Interest Rate Regressions. CBO Projections. OMB Projections.

AB Estimating the effects of government debt and deficits on Treasury yields is complicated by the need to isolate the effects of fiscal policy from other influences. To abstract from the effects of the business cycle, and associated monetary policy actions, on debt, deficits, and interest rates, this paper studies the relationship between long-horizon expected government debt and deficits, measured by CBO and OMB projections, and expected future long-term interest rates. The estimated effects of government debt and deficits on interest rates are statistically and economically significant: a one percentage point increase in the projected deficit-to-GDP ratio is estimated to raise long-term interest rates by roughly 25 basis points. Under plausible assumptions these estimates are shown to be consistent with predictions of the neoclassical growth model.

Laurent, Sebastien

TI Market Risk in Commodity Markets: A VaR Approach. **AU** Giot, Pierre; Laurent, Sebastien.

TI Multivariate GARCH Models: A Survey. **AU** Bauwens, Luc; Laurent, Sebastien; Rombouts, Jeroen V. K.

Lazear, Edward P.

PD August 2002. **TI** Entrepreneurship. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 9109; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** J41, J44, M13. **KW** Entrepreneurship.

AB The theory proposed below is that entrepreneurs are jacks-of-all- trades who may not excel in any one skill, but are competent in many. A coherent model of the choice to become an entrepreneur is presented. The primary implication is that individuals with balanced skills should be more likely than others to become entrepreneurs. The model provides implications for the proportion of entrepreneurs by occupation, by income and yields a number of predictions for the distribution of income by entrepreneurial status. Using a data set of Stanford alumni, the predictions are tested and found to hold. In particular, by far the most important determinant of entrepreneurship is having background in a large number of different roles. Further, income distribution predictions, e.g., that there are a disproportionate number of entrepreneurs in the upper tail of the distribution, are borne out.

Leahy, Dermot

TI Employment Protection and Globalization in Dynamic Oligopoly. **AU** Dewit, Gerda; Leahy, Dermot; Montagna, Catia.

Lee, In Ho

TI A Global Game with Strategic Substitutes and Complements. **AU** Karp, Larry; Lee, In Ho; Mason, Robin.

Leech, Dennis

PD June 2003. **TI** The Utility of Voting Power Approach. **AA** University of Warwick. **SR** The Warwick Economics Working Paper Series: 678; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. **PG** 13. **PR** no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. **JE** D72.

AB This paper argues that the voting power approach is much more general than is portrayed by Albert ("The Voting Power Approach: Measurement without Theory", European Union Politics, 4:3, 2003) and is therefore capable of generating important insights about voting systems. The voting power approach focuses on understanding the properties of voting systems by analyzing outcomes and is able to generate empirical facts that are not otherwise obvious. That the approach is so general has not previously been pointed out in the relevant literature; it has usually been taken as coinciding with power indices. Albert's criticism is directed at one aspect of the theory of voting power indices: the assumption of probabilistic voting that underlies conventional power indices. It is argued that he fails to take account of the different uses of power indices and that the probabilistic voting assumptions he derides may or may not be useful depending on this.

Leeper, Eric M.

AB We present a framework for computing and evaluating linear projections of macro variables conditional on hypothetical paths of monetary policy. A modest policy intervention is a change in policy that does not significantly shift agents' beliefs about policy regime and does not generate quantitatively important expectations-formation effects of the kind Lucas (1976) emphasizes. The framework is applied to an econometric model of U.S. postwar monetary policy behavior. It finds that a rich class of interventions routinely considered by the Federal Reserve is modest and their impacts can be reliably forecasted by an accurately identified linear model. Moreover, modest interventions can matter: they may shift the projected paths and probability distributions of macro variables in economically meaningful ways.

Leon-Ledesma, Miguel

AB We quantify the degree of persistence in unemployment rates of transition countries using a variety of methods benchmarked against the EU. In part of the paper, we work with the concept of linear "Hysteresis" as described by the presence of unit roots in unemployment. Since this is potentially a narrow definition, we also take into account the existence of structural breaks and non-linear dynamics in unemployment. Finally, we examine whether CEECs' unemployment presents features of multiple equilibria: if it remains locked into a new level whenever a structural change occurs. Our findings show that, in general, we can reject the unit root hypothesis after controlling for structural changes and business cycle effects, but we can observe the presence of high and low unemployment equilibria. The speed of adjustment is faster for CEECs than the EU, although CEECs tend to move more frequently between equilibria.

Lerner, Josh

AB This paper presents a theory of liquidity where we explicitly model the liquidity of the security as a choice variable, which enables the manager raising the funds to screen for "deep pocket" investors, i.e. these that have a low likelihood of a liquidity shock. By choosing the degree of illiquidity of the security, the manager can influence the type of investors the firm will attract. The benefit of liquid investors is that they reduce the manager's cost of capital for future fund raising. We test the predictions of our model in the context of the private equity industry. Consistent with the theory, we find that transfer restrictions on investors are less common in later funds organized by the same private equity firm, where information problems are presumably less severe. Contracts involving the close-knit California venture capital community -- where information on the relative performance of funds are more readily ascertained -- are less likely to employ many of these provisions as well. Also, private equity partnerships whose investment focus is in industries with longer investment cycles display more transfer constraints. Finally, we investigate whether the identity of the investors that invest in a private equity fund is related to the transferability of the stakes.

AB The paper builds a tractable model of a patent pool, an agreement among patent owners to license a set of their patents to one another or to third parties. It first provides a necessary and sufficient condition for a patent pool to enhance welfare. It shows that requiring pool members to be able to independently license patents matters if and only if the pool is otherwise welfare reducing, a property that allows the antitrust authorities to use this requirement to screen out unattractive pools. The paper then undertakes a number of extensions. It evaluates the "external test" according to which patents with substitutes should not be included in a pool; analyzes the welfare implications of the reduction in the members' incentives to invent around or challenge the validity of each other's patents; looks at the rationale for the (common) provision of automatic assignment of future related patents to the pool; and, last,

studies the intellectual property owners' incentives to form a pool or to cross-license when they themselves are users of the patents in the pool.

Levent, Tuzin Baycan

PD January 2003. **TI** Diversity in Entrepreneurship: Ethnic and Female Roles in Urban Economic Life. **AU** Levent, Tuzin Baycan; Masurel, Enno; Nijkamp, Peter. **AA** Levent: Free University Amsterdam and Istanbul Technical University. Masurel and Nijkamp: Free University Amsterdam. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/15; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 27. **PR** no charge; available only online. **JE** M13. **KW** Ethnic Female Entrepreneurship. Diversity in Entrepreneurship. Ethnic Female Profile. Turkish Female Entrepreneurs.
AB The aim of this paper is to investigate the phenomenon of ethnic female entrepreneurship in urban economic life. The focus of the research is on the attitude and behavior of Turkish female entrepreneurs in Amsterdam. The main fascinating question is: Are ethnic female entrepreneurs special ethnic entrepreneurs or special female entrepreneurs? This paper provides an answer to this question on the basis of field surveys. The results of the case study research on Turkish female entrepreneurs in Amsterdam show that the "ethnic female profile" is a "special female profile" and that Turkish female entrepreneurs are "special female entrepreneurs," particularly in terms of personal and business characteristics, driving forces and motivations. They appear to combine their ethnic opportunities with their personal characteristics (and other opportunities) in the urban market, and to have a successful performance. This is also caused by the fact that they have become service providers not only for their own ethnic groups, but also for other groups in the city.

Levine, Paul L.

PD February 2002. **TI** Market Entry and Roll-Out With Product Differentiation. **AU** Levine, Paul L.; Rickman, Neil; Tzavara, Dionisia. **AA** Levine and Rickman: University of Surrey and CEPR. Tzavara: University of Surrey. **SR** CEPR Discussion Paper: 3237; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** L10, L50. **KW** Roll-Out. Entry. Regulation. Telecommunications.
AB This paper examines a general problem exemplified by post-auction (third generation "3G") mobile telecommunications markets and by recent developments in the UK market for postal services. When entering these (or any other) markets, firms must often decide on the degree of coverage ("roll-out") they wish to achieve. Prior investment must be sunk in order to achieve the desired (or mandated) coverage level. We study the private and social incentives of a would-be entrant into a market with horizontal product differentiation when choosing its level of roll-out. The endogenous extent of entry influences downstream retail prices; Bertrand or local monopoly pricing or a mixed strategy equilibrium may emerge. Importantly, entry may involve too much or too little roll-out from a social perspective, thus suggesting that regulatory intervention may be appropriate to

achieve desired levels of competition in such settings.

Levine, Phillip B.

TI Maternal Employment and Overweight Children. **AU** Anderson, Patricia M.; Butcher, Kristin F.; Levine, Phillip B.

Levine, Ross

TI Tropics, Germs, and Crops: How Endowments Influence Economic Development. **AU** Easterly, William; Levine, Ross.

PD September 2002. **TI** Bank-Based or Market-Based Financial Systems: Which is Better? **AA** University of Minnesota and NBER. **SR** National Bureau of Economic Research Working Paper: 9138; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G10, G21, K20, O40. **KW** Banks. Financial Development. Economic Growth.
AB For over a century, economists and policy makers have debated the relative merits of bank-based versus market-based financial systems. Recent research, however, argues that classifying countries as bank- based or market-based is not a very fruitful way to distinguish financial systems. This paper represents the first broad, cross-country examination of which view of financial structure is more consistent with the data. The results indicate that although overall financial development is robustly linked with economic growth, there is no support for either the bank-based or market-based view.

TI International Financial Integration and Economic Growth. **AU** Edison, Hali J.; Levine, Ross; Ricci, Luca; Slok, Torsten.

Levy, Philip I.

PD February 2003. **TI** Non-tariff Barriers as a Test of Political Economy Theories. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 852; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 30. **PR** $2.00 plus postage. **JE** D72, F12, F13, P16. **KW** Trade Policy. Lobbying. Tariffs. Political Economy.
AB This paper provides a rough test of a broad and prominent class of political economy of trade models and finds them wanting. The class features governments with weighted social welfare functions, including the prominent model of Grossman and Helpman. Whether the government is the single domestic player or there are other players involved (as with the lobbies in the Grossman-Helpman case) the government ultimately acts as a unitary player in international dealings. Recent work has shown that such unitary actors care exclusively about terms of trade in international negotiations. This paper pursues the implication that governments' choice of trade instruments may offer a better test of the unitary government framework than existing empirical work. We use the structure of United States protection to argue that governments consistently choose instruments that sacrifice terms of trade, thus casting doubt on the unitary approach. We offer a discussion of alternative theories of political economy that could accommodate this stylized fact.

Li, Kui-Wai

PD February 2003. TI China's Capital and Productivity Measurement Using Financial Resources. AA City University of Hong Kong. SR Yale Economic Growth Center Discussion Paper: 851; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 20. PR $2.00 plus postage. JE O47, O53. KW China Economic Reform. Provincial Growth. Productivity. Financial Resources.
AB This paper constructs China's capital stock, which is used in conjunction with a labor variable to estimate a Cobb-Douglas production function for the Chinese economy. Two panels of data are used -- one for capital formation and one for sources of investment finance. Both national and provincial data are used for these two panels, thus giving a total of four capital-stock series'. The Cobb-Douglas estimates show that China's total factor productivity was about 3.4 percent in the post-reform years. Productivity of coastal provinces is higher than inner provinces. Among the various sources of investment finance, foreign direct investment is more efficient than state-funded capital stock.

Liang, Nellie

PD September 2002. TI Investor Behavior and the Purchase of Company Stock in 401(k) Plans -- The Importance of Plan Design. AU Liang, Nellie; Weisbenner, Scott. AA Liang: Federal Reserve Board. Weisbenner: University of Illinois and NBER. SR National Bureau of Economic Research Working Paper: 9131; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 39. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G11, J30, J32. KW Retirement. 401(k).
AB Using panel data for nearly 1,000 companies during 1991 to 2000, this paper documents that the average share of participant's discretionary 401(k) contributions in company stock was almost 20 percent, and then relates this share to plan design features and firm financial characteristics. We find that the number of investment alternatives offered, n, and whether the company requires some of the match to be in company stock are key factors of the share of total contributions in company stock. We cannot reject the hypothesis that participants invest 1/n of their contributions in company stock. In addition, participants do not offset an employer match in company stock with a smaller share of their own contributions to company stock, contrary to efficient diversification. Workers also appear to view other plan restrictions as providing cues about the desirability of purchasing company stock. Thus, plan design is very important in determining the share of 401(k) assets in company stock.

TI Initial Public Offerings in Hot and Cold Markets.
AU Helwege, Jean; Liang, Nellie.

LiCalzi, Marco

PD March 2003. TI Tilting the Supply Schedule to Enhance Competition in Uniform-Price Auctions. AU LiCalzi, Marco; Pavan, Alessandro. AA LiCalzi: University of Venice. Pavan: Northwestern University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/22; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 17. PR no charge; available only online. JE D44, E58. KW Uniform-Price Auction. Divisible Good. Strategic Role of the Seller. Endogenous Supply. Treasury and IPO Auctions.
AB Uniform-price auctions of a divisible good in fixed supply admit underpricing equilibria, where bidders submit high inframarginal bids to prevent competition on prices. The seller can obstruct this behavior by tilting her supply schedule and making the amount of divisible good on offer change endogenously with its (uniform) price. Precommitting to an increasing supply curve is a strategic instrument to reward aggressive bidding and enhance expected revenue. A fixed supply may not be optimal even when accounting for the cost to the seller of issuing a quantity different from her target supply.

Lichtenberg, Frank R.

PD September 2002. TI The Effect of Changes in Drug Utilization on Labor Supply and Per Capita Output. AA Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 9139; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I10, J22, L65, O30. KW Labor Supply. Technical Progress. Drugs.
AB We hypothesize that pharmaceutical-embodied technical progress increases per capita output via its effect on labor supply. We examine the effect of changes in both the average quantity and average vintage (FDA approval year) of drugs consumed on labor supply, using longitudinal, condition-level data. The estimates indicate that conditions for which there were above-average increases in utilization of prescriptions during 1996-1998 tended to have above-average reductions in the probability of missed work days. The estimated value to employers of the reduction in missed work days appears to exceed the employer's increase in drug cost. The estimates are also consistent with the hypothesis that an increase in a condition's mean drug vintage reduces the probability that people with that condition will experience activity and work limitations and reduces their average number of restricted-activity days. The estimates imply that activity limitations decline at the rate of about one percent per year of drug vintage, and that the rate of pharmaceutical-embodied technical progress with respect to activity limitations is about 18% per year. Estimates of the cost of the increase in drug vintage necessary to achieve reductions in activity limitations indicate that increases in drug vintage tend to be very "cost-effective.".

TI The Effect of Education on Medical Technology Adoption: Are the More Educated More Likely to Use New Drugs. AU Lleras-Muney, Adriana; Lichtenberg, Frank R.

Likoyanni, Elissavet

TI Fiscal and Other Macroeconomic Effects of Privatization.
AU Katsoulakos, Yannis; Likoyanni, Elissavet.

Lindley, Joanne

TI Intra-Sectoral Labor Mobility and Adjustment Costs.
AU Elliott, Robert; Lindley, Joanne.

PD June 2002. TI Economic Assimilation and the Labor Market Performance of British Refugees and Economic Migrants. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2002/06; Research Paper

Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/Tezec/research/dp/. **PG** 16. **PR** no charge. **JE** J30, J61. **KW** Immigration. Economic Assimilation. Refugees.
AB The Quarterly Labor Force Survey contains useful information on the earnings and employment characteristics of immigrants and natives, including the country of origin of immigrants. This paper separates refugee and non-refugee immigrants using country of origin, UK arrival time and various immigration statistics on refugee sending countries. The labor market performance of these immigrant groups is compared. Refugee immigrants exhibit larger earnings penalties and higher unemployment propensities compared to non-refugee immigrants. This suggests that economic migrants are volunteers and therefore self- select into those who will do well. Refugees are forced to move. As a consequence refugees are relatively poor labor market performers. Further ethnic comparisons demonstrate lower earnings and employment for non-whites relative to whites (refugees and non-refugees), over and above all other human capital and socio-economic characteristics. Non- white refugees and South Asians exhibit the largest ethnic penalties, where there is no evidence that ethnic unemployment penalties diminish for second generation UK born South Asians. Finally, earnings assimilation patterns of refugees differ to those of non-refugees and white immigrant earnings show signs of assimilating, whereas those for South Asians and other non-white immigrants do not.

PD September 2002. **TI** Regional Mobility and Unemployment Transitions in the UK and Spain. **AU** Lindley, Joanne; Upward, Richard; Wright, Peter. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/19; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/Tezec/research/dp/. **PG** 26. **PR** no charge. **JE** J61, J62, J64. **KW** Mobility. Unemployment.
AB If the distribution of industrial employment is uneven across regions, changes in patterns of production will require the reallocation of labor across regions as well as industries. In this paper we consider this aspect of the adjustment process. Specifically, we compare the geographical mobility of the workforce in the UK and Spain, and examine the extent to which differences in mobility explain differences in the probability of exiting unemployment between the two countries.

Linsenmeier, David M.
PD September 2002. **TI** Financial Aid Packages and College Enrollment Decisions: An Econometric Case Study. **AU** Linsenmeier, David M.; Rosen, Harvey S.; Rouse, Cecilia Elena. **AA** Linsenmeier: Princeton University. Rosen and Rouse: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 9228; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** I22, J15, J24. **KW** Financial Aid. College Enrollment. Low-Income Students.
AB We study the effects of a change in financial aid policy introduced by a Northeastern university in 1998. Prior to that time, the university's financial aid packages for low-income students consisted of grants, loans, and campus jobs. After the change, the entire loan portion of the package for low-income students was replaced with grants. We find the program increased the likelihood of matriculation by low-income students by about 3 percentage points, although the effect is not statistically significant. The effect among low-income minority students was between 8 and 10 percentage points and statistically significant at the 10 percent level.

Lipsey, Robert E.
PD September 2002. **TI** Foreign Entry into U.S. Manufacturing by Takeovers and the Creation of New Firms. **AU** Lipsey, Robert E.; Feliciano, Zadia. **AA** Lipsey: NBER. Feliciano: NBER and Queens College. **SR** National Bureau of Economic Research Working Paper: 9122; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 13. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** F21, F23, G34. **KW** Manufacturing. Takeovers. Comparative Advantage. International Investments.
AB Using U.S. Bureau of Economic Analysis data for individual foreign acquisitions and new establishments in the U.S from 1988 to 1998, and aggregate data for 1980 to 1998, we find that acquisitions and establishments of new firms tend to occur in periods of high U.S. growth and take place mainly in industries in which the investing country has some comparative advantage in exporting. New establishments are largely in industries of U.S. comparative disadvantage, and the relation of U.S. comparative advantage to takeovers is also negative, but never significant. High U.S. stock prices, industry profitability, and industry growth discourage takeovers. High U.S interest rates and high investing country growth and currency values encourage takeovers. Direct investments in acquisitions and new establishments thus tend to flow in the same direction as trade. They originate in countries with comparative advantages in particular industries and flow to industries of U.S. comparative disadvantage.

Lise, Wietze
PD January 2003. **TI** Strategic Action in the Liberalized German Electricity Market. **AU** Lise, Wietze; Kemfert, Claudia; Tol, Richard S. J. **AA** Lise: Vrije Universiteit. Kemfert: Oldenburg University. Tol: Vrije Universiteit, Hamburg University, and Carnegie Mellon University. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/03; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 16. **PR** no charge; available only on website. **JE** C70, D20, Q40, R30. **KW** Electricity Market. Liberalization. Game Theoretic Model. Environmental Effectiveness.
AB Nowadays, a process can be observed in Germany where electricity producing and trading firms react to the electricity market liberalization by merging market shares, since the year 2000, which reduces the number of suppliers and influences production and consumer prices. This paper discusses whether the liberalization process will have positive or negative impacts on the environmental situation and whether this process together with a phase out of nuclear power can guarantee the intended improvement of environmental conditions without governmental regulation in Germany. This is done by modeling different strategic options of energy suppliers and their impacts on the economic and environmental situation in the liberalized

German electricity market by a computational game theoretic model. Calculations with this model show that when German firms act strategically (e.g. a change in action of one firm affects the electricity price and, hence, the payoffs of other firms), the environment is better off at the cost of higher electricity prices. This result is robust to perturbations as shown by performing a sensitivity analysis.

Liu, Jun

PD August 2002. TI Dynamic Asset Allocation With Event Risk. AU Liu, Jun; Longstaff, Francis A.; Pan, Jun. AA Liu: UCLA. Longstaff: UCLA and NBER. Pan: MIT. SR National Bureau of Economic Research Working Paper: 9103; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G11, G12. KW Asset Allocation. Asset Pricing. Jumps. Event Risk.

AB Major events often trigger abrupt changes in stock prices and volatility. We study the implications of jumps in prices and volatility on investment strategies. Using the event-risk framework of Duffie, Pan, and Singleton (2000), we provide analytical solutions to the optimal portfolio problem. Event risk dramatically affects the optimal strategy. An investor facing event risk is less willing to take leveraged or short positions. The investor acts as if some portion of his wealth may become illiquid and the optimal strategy blends both dynamic and buy-and-hold strategies. Jumps in prices and volatility both have important effects.

- Lleras-Muney, Adriana

PD September 2002. TI The Effect of Education on Medical Technology Adoption: Are the More Educated More Likely to Use New Drugs. AU Lleras-Muney, Adriana; Lichtenberg, Frank R. AA Lleras-Muney: Princeton University and NBER. Lichtenberg: Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 9185; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I12, I21. KW Education. Medical Technology. Drugs.

AB There is a large body of work that documents a strong, positive correlation between education and measures of health, but little is known about the mechanisms by which education might affect health. One possibility is that more educated individuals are more likely to adopt new medical technologies. We investigate this theory by asking whether more educated people are more likely to use newer drugs, while controlling for other individual characteristics, such as income and insurance status. Using the 1997 MEPS, we find that more highly educated people are more likely to use drugs more recently approved by the FDA. We find that education only matters for individuals who repeatedly purchase drugs for a given condition, suggesting that the more educated are better able to learn from experience.

Lloyd-Braga, Teresa

TI Endogenous Growth Fluctuations in Unionized Economy with Productive Externalities. AU Coimbra, Rui; Lloyd-Braga, Teresa; Modesto, Leonor.

Lockwood, Ben

TI Information Aggregation, Costly Voting and Common Values. AU Ghosal, Sayantan; Lockwood, Ben.

Longo, Alberto

TI The Role of Liability, Regulation and Economic Incentives in Brownfield Remediation and Redevelopment: Evidence From Surveys of Developers. AU Alberini, Anna; Longo, Alberto; Tonin, Stefania; Trombetta, Francesco; Turvani, Margherita.

Longstaff, Francis A.

TI Dynamic Asset Allocation With Event Risk. AU Liu, Jun; Longstaff, Francis A.; Pan, Jun.

Lopes, Paulo Silva

PD October 2002. TI A Comparative Analysis of Government Social Spending Indicators and Their Correlation with Social Outcomes in Sub-Saharan Africa. AA IMF. SR International Monetary Fund Working Paper: WP/02/176; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 14. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE H51, H52, I18, I28. KW Social Expenditure. Social Indicators. Sub-Saharan Africa. Government Expenditure. Social Development. Social Policy. International Assistance. Poverty.

AB This paper analyzes trends in social indicators in sub-Saharan Africa (SSA) and their correlation with the three most widely used scaled measures of government social spending: in per capita terms, as a percentage of GDP, and as a percentage of total government expenditure. On the basis of a regional data set matching health and education outcome indicators with government spending on those sectors, cross-country statistical analysis shows spending both per capita and as a percent of GDP to be of some relevance to social outcomes, but not the share of social spending in budgetary allocations. The policy implications concern not only governments in the region, but also the international donor community for its role in supporting social programs in SSA.

Lopez-De-Silanes, Florencio

TI Privatization and Labor Force Restructuring Around the World. AU Chong, Alberto; Lopez-De-Silanes, Florencio.

Lorentzen, Jochen

PD December 2002. TI Competition Compliance: Limits to Competition Policy Harmonization in EU Enlargement. AU Lorentzen, Jochen; Mollgaard, H. Peter. AA University of Copenhagen. SR University of Copenhagen, CIE Discussion Paper: 2002/11; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 11. PR no charge. JE F23, K21, L42. KW Antitrust Law. EU Enlargement. Empirical Studies.

AB The paper analyses the extent of and the reasons behind limits to competition policy harmonization in EU enlargement. Our focus is on vertical restraints. First, we compare the relevant legal regimes towards vertical agreements in the EU and in Eastern Europe. We then describe competition policy practice in all ten EU candidate countries and point out

differences both between East and West and among the candidates. Finally, we examine a large database of inter-firm agreements in Eastern Europe's car industry and use insights from case studies of subcontracting to highlight instances of non-conformity between (1) East European competition law and practice and (2) EU rules and East European competition law enforcement. The conclusion recommends how to improve competition policy practice, and thus compliance, post-enlargement.

TI Exclusive Safeguards and Technology Transfer: Subcontracting Agreements in Eastern Europe's Car Component Industry. AU Mollgaard, Peter; Lorentzen, Jochen.

Lunander, Anders

PD March 2003. TI Taking the Lab to the Field: Experimental Tests of Alternative Mechanisms to Procure Multiple Contracts. AU Lunander, Anders; Nilsson, Jan-Eric. AA Lunander: Orebro University. Nilsson: Dalarna University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/28; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 23. PR no charge; available only online. JE D44. KW Multiple Units. Non-Constant Costs. Asymmetric Redemption Values. Alternative Procurement Mechanisms.
AB The first part of the paper reports the results from a sequence of laboratory experiments comparing the bidding behavior for multiple contracts in three different sealed bid auction mechanisms; first-price simultaneous, first-price sequential and first-price combinatorial bidding. The design of the experiment is based on experiences from a public procurement auction of road markings in Sweden. Bidders are asymmetric in their cost functions; some exhibit decreasing average costs of winning more than one contract, whereas other bidders have increasing average cost functions. The combinatorial bidding mechanism is demonstrated to be most efficient. The second part of the paper describes how the lab experiment was followed up by a field test of a combinatorial procurement auction of road markings.

Maasland, Emiel

PD March 2003. TI Auctions With Financial Externalities. AU Maasland, Emiel; Onderstal,Sander. AA Maasland: Erasmus University. Onderstal: CPB Netherlands Bureau for Economic Policy Analysis. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/30; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 22. PR no charge; available only online. JE D44. KW Auctions. Financial Externalities. Reserve Price. Resale Market.
AB We study sealed-bid auctions with financial externalities, i.e., auctions in which losers' utilities depend on how much the winner pays. In the unique symmetric equilibrium of the first-price sealed-bid auction (FPSB), larger financial externalities result in lower bids and in lower expected revenue. The unique symmetric equilibrium of the second-price sealed-bid auction (SPSB) reveals ambiguous effects. We further show that a resale market does not have an effect on the equilibrium bids and that FPSB yields lower expected revenue than SPSB. With a reserve price, we find an equilibrium for FPSB that involves pooling at the reserve price. For SPSB we derive a necessary

and sufficient condition for the existence of a weakly separating equilibrium, and give an expression for the equilibrium.

Mackenzie, G. A.

PD September 2002. TI The Role of Private Sector Annuities Markets in an Individual Accounts Reform of a Public Pension Plan. AA IMF. SR International Monetary Fund Working Paper: WP/02/161; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 43. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE H55, J14. KW Public Pension Reform. Individual Accounts. Annuity Markets.
AB Pension reforms that establish individual accounts will diminish the relative importance of the traditional state pension while creating a significant role for individual accounts in providing income for retirement. This paper surveys the policy issues this new role entails. It offers general advice to countries considering such issues as the restrictions to be placed on the timing, extent, and form of withdrawals from individual accounts and the need for mandatory annuitization (conversion into annuities) of accumulated account balances. The paper also considers the role that private annuity markets should play and related regulatory, social safety net, tax, and administrative questions.

Maddaloni, Angela

TI Do Demographic Changes Affect Risk Premiums? Evidence From International Data. AU Ang, Andrew; Maddaloni, Angela.

TI The Euro Area Financial System: Structure, Integration and Policy Initiatives. AU Hartmann, Philipp; Maddaloni, Angela; Manganelli, Simone.

Madsen, Erik Strojer

TI Green Subsidies and Learning-By-Doing in the Windmill Industry. AU Hansen, Jorgen Drud; Jensen, Camilla; Madsen, Erik Strojer.

TI The Establishment of the Danish Windmill Industry -- Was it Worthwhile? AU Hansen, Jorgen Drud; Jensen, Camilla; Madsen, Erik Strojer.

PD December 2002. TI Are Ownership Structures Risk- & Wealth-Constrained? AU Madsen, Erik Strojer; Smith, Valdemar; Dilling-Hansen, Mogens. AA University of Copenhagen and Aarhus University. SR University of Copenhagen, CIE Discussion Paper: 2002/08; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 15. PR no charge. JE D20, G32, L20. KW Corporate Governance. Ownership Structures.
AB The paper considers the owners of the firms as normal investors who want to optimize the return from their investments in accordance with their wealth constraint and the risk of their investment in the firm. The paper tests this theory on a representative sample of Danish companies including small firms. Concerning the wealth constraint for owners, the study finds evidence of more dispersed ownership in larger and more capital-demanding firms. According to the investors risk aspect, firms operating on foreign markets are more likely to have more than one owner. Concerning the domestic markets

the owner structure is more dispersed in industries with a volatile business cycle.

TI Do R&D Investments Affect Export Performance? **AU** Smith, Valdemar; Madsen, Erik Strojer; Dilling-Hansen, Mogens.

TI Does the New Economy Create Higher Productivity? **AU** Dilling-Hansen, Mogens; Madsen, Erik Strojer; Smith, Valdemar.

Maignan, Carole

PD January 2003. **TI** Economic Growth, Innovation, Cultural Diversity: What Are We All Talking About? A Critical Survey of the State-of-the-Art. **AU** Maignan, Carole; Ottaviano, Gianmarco; Pinelli Dino. **AA** Maignan and Pinelli: FEEM. Ottaviano: Universita di Bologna, CEPR, and FEEM. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/12; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/ Publications/Wpapers/default.htm. **PG** 72. **PR** no charge; available only online. **JE** O31, O40. **KW** Growth. Innovation. Diversity.
AB The special issue on Economic Growth and Innovation in Multicultural Environments (ENGIME) collects a selection of papers presented at the multidisciplinary workshops organized by the ENGIME Network. The ENGIME workshops address the complex relationships between economic growth, innovation and diversity, in the attempt to define the conditions (policy, institutional, regulatory) under which European diversities can promote innovation and economic growth. This paper addresses the need to adopt common definitions in a sort of cross-disciplinary brainstorming.

PD January 2003. **TI** Bio-Ecological Diversity vs. Socio-Economic Diversity: A Comparison of Existing Measures. **AU** Maignan, Carole; Ottaviano, Gianmarco; Pinelli, Dino; Rullani, Francesco. **AA** Maignan, Pinelli, and Rullani: FEEM. Ottaviano: Universita di Bologna, CEPR, and FEEM. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/13; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/ Publications/Wpapers/default.htm. **PG** 30. **PR** no charge; available only on online. **JE** C10, Q57. **KW** Diversity. Growth. Knowledge.
AB The purpose of the paper is to enrich the standard toolbox for measuring diversity in economics. In so doing, we compare the indicators of diversity used by economists with those used by biologists and ecologists. Ecologists and biologists are concerned about biodiversity: the diversity of organisms that inhabit a given area. Concepts of species diversity such as alpha (diversity within community), beta (diversity across communities) and gamma (diversity due to differences among samples when they are combined into a single sample) have been developed (Whittaker, 1960). Biodiversity is more complex than just the species that are present, it includes species richness and species evenness. Those various aspects of diversity are measured by biodiversity indices such as Simpson's Diversity Indices, Species Richness Index, Shannon Weaver Diversity Indices, Patil and Taillie Index, Modified Hill's Ratio. In economics, diversity measures are multi-faceted ranging from inequality (Lorenz curve, Gini coefficient, quintile distribution), to polarization (Esteban and Ray, 1994; Wolfon, 1994; D'Ambrosio, 2001) and heterogeneity (Alesina, Baqir and Hoxby, 2000). We propose an interdisciplinary comparison

between indicators. In particular, we review their theoretical background and applications. We provide an assessment of their possible use and interest according to their specific properties.

Manganelli, Simone

PD November 2002. **TI** Sensitivity Analysis of Volatility: a New Tool for Risk Management. **AU** Manganelli, Simone; Ceci, Vladimiro; Vecchiato, Walter. **AA** Manganelli: European Central Bank. Ceci: Tradinglab Banca S.p.A. Vecchiato: IntesaBCI. **SR** European Central Bank Working Paper: 194; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 38. **PR** no charge. **JE** C32, C53, G11. **KW** Risk Management. Sensitivity Analysis. Dynamic Correlations. GARCH.
AB The extension of GARCH models to the multivariate setting has been fraught with difficulties. In this paper, we suggest working with univariate portfolio GARCH models. We show how the multivariate dimension of the portfolio allocation problem may be recovered from the univariate approach. The main tool we use is the "variance sensitivity analysis", which measures the change in the portfolio variance as a consequence of an infinitesimal change in the portfolio allocation. We derive the sensitivity of the univariate portfolio GARCH variance to the portfolio weights, by analytically computing the derivatives of the estimated GARCH variance with respect to these weights. We suggest a new and simple method to estimate full variance-covariance matrices of portfolio assets. An application to real data portfolios shows how to implement our methodology and compares its performance against that of selected popular alternatives.

TI The Central Bank as a Risk Manager: Quantifying and Forecasting Inflation Risks. **AU** Kilian, Lutz; Manganelli, Simone.

TI The Euro Area Financial System: Structure, Integration and Policy Initiatives. **AU** Hartmann, Philipp; Maddaloni, Angela; Manganelli, Simone.

Manrique, Marta
TI Aggregate Loans to the Euro Area Private Sector. **AU** Calza, Alessandro; Manrique, Marta; Sousa, Joao.

Mantovani, Andrea
PD March 2003. **TI** Advertising and Endogenous Exit in a Differentiated Duopoly. **AU** Mantovani, Andrea; Mion, Giordano. **AA** Mantovani: Universite Catholique de Louvain and University of Bologna. Mion: Universite Catholique de Louvain and University of Bari. **SR** CORE Discussion Paper: 2003/23; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 30. **PR** $5 per paper; $100 per year. **JE** C72, L11, L13, M37. **KW** Advertising. Product Differentiation. Endogenous Exit. Asymmetric Equilibria. Coordination Games.
AB In this paper we consider a two-stage duopoly game where firms first decide whether to invest in advertising and then compete in prices. Advertising has two effects: a market enlargement for both firms and a predatory gain for the investing firm only. Both symmetric and asymmetric equilibria may arise. The two most interesting cases are a coordination

game where both firms investing and non-investing are equilibria, and a chicken game where only one firm invests while the other is possibly driven (endogenously) out of the market. Our results suggest that product differentiation has an ambiguous impact on investment in advertising and that strong product substitutability may induce a coordination problem.

Marchand, Maurice

PD February 2003. TI Optimal Redistributions when Different Workers are Indistinguishable. AU Marchand, Maurice; Pestieau, Pierre; Racionero, Maria del Mar. AA Marchand: Universite Catholique de Louvain. Pestieau: Universite de Liege, Universite Catholique de Louvain, DELTA, and CEPR. Racionero: Australian National University. SR CORE Discussion Paper: 2003/18; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 13. PR $5 per paper; $100 per year. JE H21, H41. KW Optimal Non-Linear Taxation. Quasi-Linear Preferences. Asymmetric Information.
AB Using the standard non-linear income and commodity taxation framework, this paper examines the optimal policy to be adopted when the same labor disutility can receive two opposite interpretations: taste for leisure and activity limitation. In the absence of complete information about individual characteristics, an income tax does not allow to distinguish lazy from handicapped individuals. One may however rely on a combination of commodity and income taxes to redistribute from the former to the latter when they differ in their preferences for commodities.

PD February 2003. TI Optimal Education Subsidy and Taxes in an Endogenous Growth Model with Human Capital. AU Marchand, Maurice; Michel, Philippe; Paddison, Oliver; Pestieau, Pierre. AA Marchand: Universite Catholique de Louvain. Michel: Universite d'Aix-Marseille II. Paddison: United Nations Economic Commission for Africa (UNECA). Pestieau: Universite de Liege, Universite Catholique de Louvain, DELTA, and CEPR. SR CORE Discussion Paper: 2003/19; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 16. PR $5 per paper; $100 per year. JE H20, I20, J24, O40. KW Endogenous Growth. Education Policy. Intergenerational Transfers.
AB This paper considers a three-overlapping-generations model of endogenous growth wherein human capital is the engine of growth. It first contrasts the laissez-faire and the optimality solutions. Then it discusses alternative sets of tax-transfer instruments that allow for decentralization of the social optimum.

TI An Optimal Contract Approach to Hospital Financing. AU Boadway, Robin; Marchand, Maurice; Sato, Motohiro.

Margo, Robert A.

PD February 2002. TI The North-South Wage Gap, Before and After the Civil War. AA Vanderbilt University and NBER. SR National Bureau of Economic Research Working Paper: 8778; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE N31. KW Wage Gap. Civil War. Productivity. Agriculture.
AB In an economy with "national" factor markets, the factor price effects of a permanent, regional specific shock register everywhere, perhaps with a brief lag. The United States in the nineteenth century does not appear to have been such an economy. Using data for a variety of occupations, this paper documents that the Civil War occasioned a dramatic divergence in the regional structure of wages – in particular, wages in the South Atlantic and South Central states relative to the North fell sharply after the War. The divergence was immediate, being apparent as early as 1866. It was persistent: for none of the occupations examined did the regional wage structure return to its antebellum configuration by century's end. The divergence cannot be explained by the changing racial composition of the Southern wage labor force after the War, but does appear consistent with a sharp drop in labor productivity in Southern agriculture. This paper also uses previously neglected data to argue that the South probably experienced a decline in the relative price of non-traded goods after the War.

Marin, Jose

PD November 2002. TI Sustainability of Public Finances and Automatic Stabilisation Under a Rule of Budgetary Discipline. AA European Central Bank. SR European Central Bank Working Paper: 193; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 38. PR no charge. JE E61, H62, H63. KW Fiscal Policy. Automatic Stabilization. Fiscal Policy Rules. Stability and Growth Pact.
AB This paper addresses the question of how a fiscal rule of a general type can preserve the sustainability of public finances and provide automatic stabilization, taking as given interest rates and price stability. This issue can be considered complementary to the analysis of monetary policy rules, whose targets are often price stability and output stabilization, assuming that fiscal policy guarantees the sustainability of public finances. Considering the institutional framework provided by the Stability and Growth Pact, the paper also draws some policy conclusions.

Marion, Nancy P.

TI International Reserve Holdings with Sovereign Risk and Costly Tax Collection. AU Aizenman, Joshua; Marion, Nancy P.

Markowitz, Sara

TI Get High and Get Stupid: The Effect of Alcohol and Marijuana Use on Teen Sexual Behavior. AU Grossman, Michael; Kaestner, Robert; Markowitz, Sara.

Marquez, Jaime

TI An Empirical Analysis of Inflation in OECD Countries. AU Ihrig, Jane; Marquez, Jaime.

PD June 2003. TI IT Investment and Hicks' Composite-Good Theorem: The U.S. Experience. AU Marquez, Jaime; Wang, Shing-Yi. AA Marquez: Board of Governors of the Federal Reserve System. Wang: Yale University. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 767; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors

of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 15. PR no charge. JE C13, C43, C52, C53, E22. KW Aggregation Errors. Fisher Aggregates. Divisia Aggregate. General- to-Specific.
AB We study whether aggregation residuals in U.S. private investment in information technology (IT) exhibit a predictable pattern that is consistent with Hicks' composite-good theorem and that may be used for forecasting. To determine whether one can extract such a pattern, we apply the general to specific strategy developed by Krolzig and Hendry (2001). This strategy combines ordinary least squares with a computer- automated algorithm that selects a specification based on coefficients' statistical significance, residual properties, and parameter constancy. Then, we derive the testable implications from Hicks' theorem and evaluate them with econometric formulations; we find qualified support for these implications. Having obtained these formulations, we evaluate their ex-post predictive accuracy and compare it to that of an autoregressive model. The key finding is that ignoring movement in relative prices results in a loss of information for predicting aggregation residuals.

Marrocu, Emanuela
TI The Performance of SETAR Models: A Regime Conditional Evaluation of Point, Interval and Density Forecasts. AU Boero, Gianna; Marrocu, Emanuela.

Marsiliani, Laura
PD January 2003. TI Environmental Policy and Capital Movements: The Role of Government Commitment. AU Marsiliani, Laura; Renstrom, Thomas I. AA Marsiliani: University of Rochester. Renstrom: University of Rochester and CEPR. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/04; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 17. PR no charge; available only on website. JE F20, H21, H23. KW Environmental Policy. International Capital Movements. Time Consistency. Inequality. Political Economy.
AB This paper explores the relationship between environmental protection and international capital movements, when tax policy is endogenous (through voting). A two-period general equilibrium model of a small open economy is specified to compare the effects of two different constitutions (commitment or no commitment in tax policy), as well as income inequality. Under the commitment regime, the equilibrium is characterized by a lower labor tax, higher environmental tax and less capital moving abroad than in the no commitment equilibrium. Furthermore, given the degree of commitment, more equal societies are characterized by tougher environmental policy and less capital moving abroad.

Martinez, Feli
TI Trade and the Globalization of Patent Rights. AU Falvey, Rodney E.; Martinez, Feli; Reed, Geoffrey.

Martinez-Legaz, Juan-Enrique
TI Representing Games as Coalition Production Economies with Public Goods. AU Meseguer-Artola, Antoni; Martinez-Legaz, Juan-Enrique; Wooders, Myrna H.

Mason, Robin
TI A Global Game with Strategic Substitutes and Complements. AU Karp, Larry; Lee, In Ho; Mason, Robin.

Masso, Jordi
TI Weak Stability and a Bargaining Set for the Marriage Model. AU Klijn, Flip; Masso, Jordi.

Masson, Paul
TI Cotton Sector Strategies in West and Central Africa. AU Badiane, Ousmane; Ghura, Dhaneshwar; Goreux, Louis; Masson, Paul.

Masurel, Enno
TI Diversity in Entrepreneurship: Ethnic and Female Roles in Urban Economic Life. AU Levent, Tuzin Baycan; Masurel, Enno; Nijkamp, Peter.

Matouschek, Niko
PD February 2002. TI Information and the Optimal Ownership Structure of Firms. AA Northwestern University and CEPR. SR CEPR Discussion Paper: 3216; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE D23, D82. KW Vertical Integration. Bargaining Inefficiency. Private Information. Property Rights.
AB This paper develops a property rights theory of the firm in which managers bargain over the sharing of quasi-rents in the presence of private information. The paper analyzes the interdependence between the ownership structure of firms and the bargaining inefficiency that is due to the presence of private information and derives the optimal ownership structure that minimizes the bargaining inefficiency. The paper first assumes that managers can only contract over the ownership structure and show that they optimally choose one that minimizes (maximizes) their aggregate disagreement pay-off if the minimum expected quasi-rents are large (small). It then extends the analysis and allows the managers to contract over the ownership structure and the bargaining game that is played ex-post. The paper shows that the main results continue to hold if and only if ownership structures are deterministic and cannot be made contingent on information that is revealed ex-post.

Mattoo, Aaditya
PD September 2002. TI The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined? AU Mattoo, Aaditya; Roy, Devesh; Subramanian, Arvind. AA Mattoo: World Bank. Roy: University of Maryland. Subramanian: IMF. SR International Monetary Fund Working Paper: WP/02/158; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 18. PR $15; prepayment required for individual copies; $375 annual subscription; make checks payable to IMF. JE F13, F47. KW Trade. Preference. Market Access. Africa.
AB This paper describes the Africa Growth and Opportunity Act (AGOA) that the United States recently enacted and assesses its quantitative impact on African exports. The AGOA expands the scope of preferential access of Africa's exports to the United States in key areas such as clothing. However, its

medium-term benefits -- estimated at about US$100-$140 million, an 8-11 percent addition to current non-oil exports -- would have been nearly five times greater (US$540 million) if no restrictive conditions had been imposed on the terms of market access. The most important of these conditions are the rules of origin with which African exporters of clothing must comply to benefit from duty-free access.

Matusz, Steve
TI   Trade   Liberalization   and   Compensation.
AU   Davidson, Carl; Matusz, Steve.

Maydew, Edward
TI   How Prevalent is Tax Arbitrage? Evidence from the Market for Municipal Bonds.   AU   Erickson, Merle; Goolsbee, Austan; Maydew, Edward.

Mayer-Foulkes, David
TI   R&D, Implementation and Stagnation: A Schumpeterian Theory of Convergence Clubs.   AU   Howitt, Peter; Mayer-Foulkes, David.

McAdam, Peter
TI   Unemployment, Hysteresis and Transition. AU   Leon-Ledesma, Miguel; McAdam, Peter.

McAusland, Carol
PD   October 2002. TI   Harmonizing Emissions Policy in Symmetric Countries: Improve the Environment, Improve Welfare? AA   UCSB. SR   University of California, Santa Barbara, Working Paper in Economics: 2002/21; Working Paper Coordinator, Department of Economics, University of California,   Santa   Barbara,   CA   93106.   Website: www.econ.ucsb.edu. PG   34. PR   no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". JE   D72, F18. KW   Trade. Environment. Harmonization. Political Economy.
AB   We examine how harmonizing emissions policy affects environmental quality and welfare when countries are symmetric, pollution is transboundary, and policy makers are politically motivated. We show that harmonization affects the preferences of governments through two channels: it effectively extends a government's jurisdiction and it amplifies the price effects of stringent environmental policy. Depending on the vested interests of a policy maker's constituents, these channels can work in opposite directions. We derive conditions under which the latter channel dominates such that symmetric countries will choose harmonized policy that is less stringent than what they would set when acting unilaterally; we find this can only occur when the decision makers have constituents with below average vested interests in the polluting industry. We also derive conditions under which harmonization reduces local and global welfare; we find that welfare declines only when harmonization improves the environment.

McCallum, Bennett T.
PD   September   2002.   TI   Consistent   Expectations, Rational Expectations, Multiple-Solution Indeterminacies, and Least-Squares Learnability. AA   Carnegie Mellon University and NBER. SR   National Bureau of Economic Research Working Paper: 9218; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website:

www.nber.org. PG   22. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   C32, C63, E13. KW   Rational Expectations. Minimum State Variable.
AB   After some historical discussion of the rational expectations (RE) solution procedures of John Muth, Alan Walters, and Robert Lucas, this paper considers the relevance for actual economies of issues stemming from the existence of multiple RE equilibria. In all linear models, the minimum state variable (MSV) solution -- as defined by the author (JME, 1983) -- is unique by construction. While it might be argued that the MSV solution warrants special status as the bubble-free solution, the focus in this paper is on its adaptive, least-squares learnability by individual agents, as discussed extensively in important recent publications by George Evans and Seppo Honkapohja. Although the MSV solution is learnable and the main alternatives are not in most standard models, Evans and Honkapohja have stressed an example in which the opposite is true. The present paper shows, however, that parameter values yielding that result are such that the model is not well formulated. More generally, analysis of a pair of prominent univariate specifications, featured by Evans and Honkapohja, shows that the MSV solution is invariably learnable in these structures, if they are well formulated.

McCarthy, Jonathan
PD   January 2003. TI   Inventory Dynamics and Business Cycles: What Has Changed? AU   McCarthy, Jonathan; Zakrajsek, Egon. AA   McCarthy: Federal Reserve Bank of New York. Zakrajsek: Federal Reserve Board. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/26; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG   48. PR   no charge. JE   D24, E22, E32. KW   Inventories. Inventory Management. Business Cycles. GDP Volatility.
AB   The U.S. economy has experienced a period of remarkable stability since the mid-1980s. One explanation attributes the diminished variability of economic activity to information-technology   led   improvements   in   inventory management. Our results, however, indicate that the changes in inventory dynamics since the mid-1980s played a reinforcing -- rather than a leading -- role in the volatility reduction. The reduction in the volatility of manufacturing output almost entirely reflects a decline in the variance of the growth contribution of shipments. And although the volatility of inventory investment has fallen, the decline occurred well before the mid-1980s and was driven by the reduced variability of materials and supplies. Our analysis does show that since the mid-1980s inventory dynamics have played a role in stabilizing production: Inventory "imbalances" are corrected more rapidly, and the quicker response of inventories to shocks buffers production from fluctuations in sales to a greater extent. But more extensive production smoothing and faster dissolution of inventory imbalances appear to be a consequence of changes in the way industry sales and aggregate economic activity respond to shocks, rather than a cause of changes in macroeconomic behavior.

McDaniel, Tanga
PD   March 2003. TI   Use of Long-Term Auctions for Network Investment. AU   McDaniel, Tanga; Neuhoff, Karsten. AA   University of Cambridge. SR   Fondazione

AB Short-term auctions for access to entry terminals of the British gas-network appear to successfully allocate scarce resources and capture scarcity rent. Now long-term auctions are being introduced to guide future capacity expansion decisions. In our model the fraction of rights issued in the long-term auction turns out to be a crucial design parameter. Even a "hypothetically" optimal parameter choice can in general only satisfy one of three aims: unbiased provision of capacity, full revelation of private information and minimization of distortions from network effects. The results suggest that long-term auctions for transmission capacity are not necessarily preferable to regulatory approved capacity expansion.

McKnight, Abigail
TI Sheer Class? The Impact of Degree Performance on Graduate Labor Market Outcomes. **AU** Naylor, Robin; Smith, Jeremy; McKnight, Abigail.

McMillan, Margaret
AB Mozambique liberalized its cashew sector in the early 1990s in response to pressure from the World Bank. Opponents of the reform have argued that the policy did little to benefit poor cashew farmers while bankrupting factories in urban areas. Using a welfare-theoretic framework, we analyze the available evidence and provide an accounting of the distributional and efficiency consequences of the reform. We estimate that the direct benefits from reducing restrictions on raw cashew exports were of the order $6.6 million annually, or about 0.14% of Mozambique GDP. However, these benefits were largely offset by the costs of unemployment in the urban areas. The net gain to farmers was probably no greater than $5.3 million, or $5.30 per year for the average cashew-growing household. Inadequate attention to economic structure and to political economy seems to account for these disappointing outcomes.

McMillan, Robert
TI What Drives Racial Segregation? New Evidence Using Census Microdata. **AU** Bayer, Patrick; McMillan, Robert; Rueben, Kim.

TI An Equilibrium Model of Sorting in an Urban Housing Market: The Causes and Consequences of Residential Segregation. **AU** Bayer, Patrick; McMillan, Robert; Rueben, Kim.

Medda, Giuseppe
AB This study uses firm level data from two detailed surveys of Italian manufacturing firms to study the relationship between R&D expenditures and productivity growth. The analysis considers the different contributions of various forms of R&D (product, process, internal, external in collaboration with universities, research centers and other firms) to Total Factor Productivity (TFP). Thus, this paper answers the call for more research on the links between a firm's external R&D and its productivity. In the cross-section econometric analysis, we estimate a Treatment Effects model based on the assumption that the decision to carry out R&D is endogenous. We found evidence supporting such a methodological approach. The main results reveal a positive and statistically significant relationship between the detailed measures of R&D and TFP. It is noteworthy that among external R&D investments, only expenditures for projects run in collaboration with other firms turn out to be highly significant, while cooperation in R&D with universities does not seem to lead to productivity enhancements.

Melenberg, Bertrand
TI Nonparametric Modeling of the Anchoring Effect in an Unfolding Bracket Design. **AU** Alvarez, Rosalia Vazquez; Melenberg, Bertrand; van Soest, Arthur.

Mendeloff, John
TI The Declining Effects of OSHA Inspections on Manufacturing Injuries: 1979 to 1998. **AU** Gray, Wayne B.; Mendeloff, John.

Menkhoff, Lukas
TI The Use of Flow Analysis in Foreign Exchange: Explanatory Analysis. **AU** Gehrig, Thomas; Menkhoff, Lukas.

Menzly, Lior
AB In this paper we propose a general equilibrium model that successfully reproduces the historical experience of the cross section of US stock prices as well as the realized history

of the market portfolio. The model achieves this while addressing traditional concerns in the asset pricing literature: A high equity premium and volatility of returns, the long horizon predictability, and a low volatility of the risk free rate. The model combines a rich payoff structure with a habit persistence discount factor, which allows us to identify the effect on prices of idiosyncratic cash flow shocks versus business cycle components.

Mercereau, Benoit

PD January 2003. TI Real Exchange Rate in an Inter-Temporal N-Country-Model with Incomplete Markets. AA European Central Bank. SR European Central Bank Working Paper: 205; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 52. PR no charge. JE F31, F32, F41. KW Real Exchange Rate. Stock Markets. Risky Assets. Balassa-Samuelson Effect.

AB We develop an N-country model with stock markets in which a closed- form solution for the real exchange rate is derived. Our model allows for a given number of risky-assets, which form an incomplete market. Risky asset prices and allocations of risky assets among countries are determined endogenously. The risk-free rate is exogenous, so our model is an intermediate step towards a full general equilibrium. Working in such a framework permits an analysis of how fundamental parameters, such as the variance and covariance of the risky assets or demographic variables, affect the real exchange rate. We contrast the predictions of the model to the Balassa-Samuelson effect. We also suggest a new transmission channel of the real exchange rate for parameters such as income on net foreign assets, risk-aversion and risk-hedging opportunities.

Meseguer-Artola, Antoni

PD March 2003. TI Representing Games as Coalition Production Economies with Public Goods. AU Meseguer-Artola, Antoni; Martinez-Legaz, Juan-Enrique; Wooders, Myrna H. AA Meseguer-Artola: Universitat Oberta de Catalunya. Martinez-Legaz: Universitat Autonoma de Barcelona. Wooders: University of Warwick. SR The Warwick Economics Working Paper Series: 669; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 18. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE C70, H41. KW Game Theory. Coalition Production Economy. Public Goods.

AB In this paper we introduce a new approach to representing both TU- games and NTU-games as special economic structures. Instead of representing a game as a market -- an exchange economy with concave utility functions -- as in the extant literature, we represent an arbitrary game as a coalition production economy with a public good. The economy provides an indirect description of the game. Our model uses the idea of a social planner or arbitrager who, through arbitrage on productive activities, seeks to minimize the net cost of providing the public good subject to the constraint that the society satisfies its reservation welfare level. Our approach to representing a game as an economic structure uses techniques from consumer demand theory and, in particular, the notion of a compensated demand correspondence. The main results of this paper exhibit a

relationship between cooperative game theory and consumer demand theory.

Messina, Julian

PD March 2003. TI The Role of Product Market Regulations in the Process of Structural Change. AA European Central Bank. SR European Central Bank Working Paper: 217; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 38. PR no charge. JE L51, O11, O41. KW Unbalanced Growth. Product Market Regulations.

AB The sectoral allocation of labour differs considerably across developed economies, even in the presence of similar patterns of structural change. A general equilibrium model that captures the stylized facts of structural change is presented. In this framework, product market regulations raise barriers to entry that hinder the development of sectors with income elastic demand such as service industries. Thus, the paper suggests that differences in the regulations of product markets might help explain cross-country differences in the sectoral allocation of employment. Cross-country evidence discussed in the paper shows that this proposition is supported by the data for a sample of OECD countries. Additionally, the model shows that higher service prices and rents in regulated economies reduce labour supply, providing a rationale for the negative association between product market regulations and the employment rate previously found in the literature.

Metcalf, Gilbert E.

TI Tax Distortions and Global Climate Policy. AU Babiker, Mustafa H.; Metcalf, Gilbert E.; Reilly, John.

Mete, Cem

PD June 2002. TI Health and Labor Force Participation of the Elderly in Taiwan. AU Mete, Cem; Schultz, T. Paul. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 846; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 33. PR $2.00 plus postage. JE I19, J14, J22, J26. KW Labor Force Participation. Elderly. Health Status. National Health Insurance. Taiwan.

AB Estimates are reported of the consequences of health on participation in the labor force of elderly men and women in Taiwan from 1989 to 1996. Three survey indicators of individual health are examined, and two are estimated by instrumental variables (IV), using as instruments parental longevity, birthplace, and childhood conditions. IV estimates of health's effect on participation are in most cases significant and always positive, and about twice the magnitude of the ordinary least squares estimates, and the hypothesis that health is exogenous and measured without error is rejected. Implementation in 1995 of National Health Insurance (NHI) shifted to the state the growing cost of elderly health care, and reduced the incentive for elderly to work to receive employer-provided health insurance. However, this change in health care financing does not appear to have contributed to a reduction in elderly participation rates in 1996.

Mezzetti, Claudio

PD March 2003. TI Auction Design With Interdependent

Valuations: The Generalized Revelation Principle, Efficiency, Full Surplus Extraction and Information Acquisition. **AA** University of North Carolina at Chapel Hill and University of Venice. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/21; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 41. **PR** no charge; available only online. **JE** D44, D80. **KW** Auctions. Interdependent Valuations. Information. Revelation Principle.
AB Agents' valuations are interdependent if they depend on the signals of all agents. Previous literature has claimed that with interdependent valuations and multidimensional, but independent, signals, efficient auction design is impossible. This paper shows that, on the contrary, it is always possible to find efficient auction mechanisms. Furthermore, it characterizes the conditions under which it is possible to extract the full surplus from the agents. Finally, it shows that it is also possible to provide agents with the incentives for the efficient, ex-ante acquisition of information. All these results rest on the application of a generalized version of the revelation principle, which requires that the designer uses two reporting stages.

Michel, Philippe
PD January 2003. **TI** Self-Control and Savings. **AU** Michel, Philippe; Vidal, Jean-Pierre. **AA** Michel: GREQAM. Vidal: European Central Bank. **SR** European Central Bank Working Paper: 211; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 36. **PR** no charge. **JE** D91, E21. **KW** Savings. Patience. Intertemporal Choice.
AB We reconsider the well-established paradigm of a rational individual's choice of a consumption schedule, building on the idea that people devote resources to withstand their desire for immediate consumption, thereby becoming more patient. We construct an infinite- horizon model of a small open economy, in which individuals accumulate a stock of personal capital reducing the discount on future consumption. Personal capital captures the effect of consumers' past experience and choices on their future utilities. Our results are: i) when individuals are heterogeneous with respect to ability to become patient, all individuals exhibit the same rate of time preference in the long run; ii) effort is rewarded in the long run to the extent that individuals who need to make more effort to become patient are wealthier and enjoy a higher level of utility in the steady state. The latter result stems from the complementary between personal capital and deferred consumption.

TI Optimal Education Subsidy and Taxes in an Endogenous Growth Model with Human Capital. **AU** Marchand, Maurice; Michel, Philippe; Paddison, Oliver; Pestieau, Pierre.

Miller, Douglas
TI An Information Theoretic Approach to Ecological Estimation and Inference. **AU** Judge, George G.; Miller, Douglas; Cho, Wendy K.

Miller, Marcus
TI Growth Expectations, Capital Flows and International Risk Sharing. **AU** Castren, Olli; Miller, Marcus; Stiegert, Roger.

Milner, Chris
PD June 2002. **TI** Protection by Tariff Barriers and International Transport Costs Compared. **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/01; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/Tlezec/research/dp/. **PG** 16. **PR** no charge. **JE** F13, F15. **KW** EU. Protection. Transaction Costs.
AB Using estimates of protection in the EU market against US exports, this paper illustrates the relative importance of natural and policy sources of protection and the measurement errors induced in the measurement of effective protection by omitting transactions costs. It also considers protection in the EU "domestic" and export market, and the implications of the elimination of tariff barriers only on relative rates of protection in "domestic" and export markets.

TI Regionalism and Gravity. **AU** Greenaway, David; Milner, Chris.

TI Effective Protection, Policy Appraisal and Trade Policy Reform. **AU** Greenaway, David; Milner, Chris.

Mion, Giordano
TI Advertising and Endogenous Exit in a Differentiated Duopoly. **AU** Mantovani, Andrea; Mion, Giordano.

Mirza, Daniel
TI International Trade and Rent Sharing in Developed and Developing Countries. **AU** Fontagne, Lionel; Mirza, Daniel.

TI The Role of Demand in the Adjustment of Employment to Trade. **AU** Fontagne, Lionel; Mirza, Daniel.

PD February 2003. **TI** How Much Trade Contributes to the Formation of Market Structure? **AA** University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2003/04; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/Tlezec/research/dp/. **PG** 24. **PR** no charge. **JE** F12, F14, L13, L60. **KW** Trade. Openness. Market Structure.
AB Market structure is usually considered to be exogenous to trade flows in most empirical studies. This paper challenges this view by showing that the formation of market structure in an open economy is very closely related to trade quantities. We provide an original method, based on bilateral flows and activity data, that estimates the contribution of imports to national market structures in homogenous good industries. The method is based on a generalized Brander-Krugman framework. The results suggest that foreign contribution to concentration is around 30-50% for small European economies and 20-30% for bigger European countries. Market structure is less affected by openness however in the U.S. and Japanese markets.

Mitchell, Olivia S.
TI The Role of Economic Policy in Social Security Reform: Perspectives from the President's Commission. **AU** Cogan, John F.; Mitchell, Olivia S.

TI Understanding Individual Account Guarantees.

AU Lanchance, Marie-Eve; Mitchell, Olivia S.

Mittelhammer, Ron C.
PD 2003. TI Empirical Evidence Concerning the Finite Sample Performance of EL- Type Structural Equation Estimation and Inference Methods. AU Mittelhammer, Ron C.; Judge, George G.; Schoenberg, Ron. AA Mittelhammer: Washington State University. Judge: UC Berkeley. Schoengerg: Aptech Systems, Inc. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 945; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/945. PG 36. PR $9.00 domestic; $18.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE C10, C24. KW Moment Based Estimation. Empirical Likelihood. Semiparametric Models. Conditional Estimating Equations. Finite Sample Bias. AB This paper presents empirical evidence concerning the finite sample performance of conventional and generalized empirical likelihood-type estimators that utilize instruments in the context of linear structural models characterized by endogenous explanatory variables. There are suggestions in the literature that traditional and non-traditional asymptotically efficient estimators based on moment equations may, for the relatively small sample sizes usually encountered in econometric practice, have relatively large biases and/or variances and provide an inadequate basis for estimation and inference. Given this uncertainty we use a range of data sampling processes and Monte Carlo sampling procedures to accumulate finite sample empirical evidence concerning these questions for a family of generalized empirical likelihood-type estimators in comparison to conventional 2SLS and GMM estimators. Solutions to EL-type empirical moment-constrained optimization problems present formidable numerical challenges. We identify effective optimization algorithms for meeting these challenges.

TI A Semiparametric Basis for Combining Estimation Problems Under Quadratic Loss. AU Judge, George G.; Mittelhammer, Ron C.

PD May 2003. TI Combining Estimators to Improve Structural Model Estimation Under Quadratic Loss. AU Mittelhammer, Ron C.; Judge, George G. AA Mittelhammer: Washington State University. Judge: UC Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 944; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/. PG 46. PR $11.50 domestic; $23.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE C10, C24. KW Combined Estimators. Quadratic Loss. Semiparametric Estimation. Data Dependent Shrinkage. Instrumental Variables. AB Asymptotically, semiparametric estimators of the parameters in linear structural models have the same sampling properties. In finite samples the sampling properties of these estimators vary and large biases may result for sample sizes often found in practice. With a goal of improving asymptotic risk performance and finite sample efficiency properties, we

investigate the idea of combining correlated structural equation estimators with different finite and asymptotic sampling characteristics. Based on a quadratic loss measure, we provide a risk domination result and present evidence that the finite sample performance of the resulting combination estimator is superior to that of a leading traditional moment based estimator. A basis for interval estimation and inference for the combination estimator is demonstrated.

Mlekov, Katarina
TI A Stage Model of Developing an Inclusive Community. AU Vaughn, Billy E.; Mlekov, Katarina.

Mocan, H. Naci
PD September 2002. TI Catholic Schools and Bad Behavior. AU Mocan, H. Naci; Scafidi, Benjamin; Tekin, Erdal. AA Mocan: University of Colorado at Denver and NBER. Scafidi and Tekin: Georgia State University. SR National Bureau of Economic Research Working Paper: 9172; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 18. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I21, J13. KW School Choice. Catholic Schools. Teens. AB Although there is a sizeable literature of the effect of private school attendance on academic student outcomes, there is a dearth of studies on the impact of the school sector on non-academic outcomes. Using a rich data set, we analyze the impact of Catholic school attendance on the likelihood that teens use or sell drugs, commit property crime, have sex, join gangs, attempt suicide, and run away from home. Controlling for a host of personal and family background characteristics and adjusting for the endogeneity of sector choice, we cannot find evidence that Catholic schooling leads to a lower incidence of these risky behaviors among teenagers.

Modesto, Leonor
TI Endogenous Growth Fluctuations in Unionized Economy with Productive Externalities. AU Coimbra, Rui; Lloyd-Braga, Teresa; Modesto, Leonor.

Moehling, Carolyn M.
TI The Fertility of the Irish in America in 1910. AU Guinnane, Timothy W.; Moehling, Carolyn M.; O Grada, Cormac.

Moel, Alberto
TI Selling Company Shares to Reluctant Employees: France Telecom's Experience. AU Degeorge, Francois; Jenter, Dirk; Moel, Alberto; Tufano, Peter.

Moffitt, Robert
PD September 2002. TI Welfare Programs and Labor Supply. AA Johns Hopkins University and NBER. SR National Bureau of Economic Research Working Paper: 9168; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 42. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I38, J22. KW Welfare Programs. Labour Supply. Welfare Reform. AB The labor supply and other work incentive effects of welfare programs have long been a central concern in economic research. Work has also been an increasing focus of policy

reforms in the U.S., culminating with a number of major policy changes in the 1990s whose intent was to increase employment and earnings levels of welfare recipients and other disadvantaged individuals. This paper reviews the economic research on this topic, covering both the theoretical models that have been developed as well as the empirical findings from econometric studies of the effects of existing welfare programs on labor supply.

Molana, Hassan

PD September 2002. TI Cumulative Causation, Capital Mobility and the Welfare State. AU Molana, Hassan; Montagna, Catia. AA University of Dundee. SR University of Nottingham, GEP Research Paper: 2002/17; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 22. PR no charge. JE F02, F15, F20, F41. KW Open Economies, Capital Mobility. Globalization. Income Redistribution.
AB Within a small open economy with vertical linkages, welfare state policies trigger a virtuous circle of cumulative causation that will lead to higher levels of economic activity by improving the exploitation of potential aggregate scale economies. Capital mobility is typically found to reinforce this mechanism and the use of capital taxation to finance redistribution policies is not found to alter these conclusions. These results, consistent with the evidence that welfare states and tax burden have not significantly reduced in OECD countries, challenge the conventional wisdom that globalization undermines governments' ability to pursue income redistribution.

Mollgaard, H. Peter

PD May 2001. TI Market Transparency and Competition Policy. AU Mollgaard, H. Peter; Overgaard, Per Baltzer. AA Mollgaard: University of Copenhagen. Overgaard: University of Copenhagen and Aarhus University. SR University of Copenhagen, CIE Discussion Paper: 2001/03; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 34. PR no charge. JE D18, D43, L13, L41. KW Market Transparency. Repeated Oligopoly. Secret Price-Cutting. Customer Switching.
AB We survey some of the literature on the effects of improved market transparency on competition in oligopoly. Generally, improved transparency from the perspective of firms makes detection of deviations from tacitly collusive agreements easier, thus facilitating oligopolistic coordination. On the other hand, improved transparency from the perspective of consumers, particularly in terms of easier comparability of goods characteristics, has ambiguous effects: More elastic demands make deviations from collusive prices more profitable to firms in the short run, but they also make future retaliation by rivals more severe. Which of these forces will dominate in a dynamic oligopoly competition is shown to depend on the markets-specifics. In light of the theoretical results, we discuss the likely effects on inter-firm competition of information exchange and online trading institutions as well as the American and European competition policy attitude towards market transparency.

TI Meaningful and Measurable Market Domination. AU la Cour, Lisbeth F.; Mollgaard, H. Peter.

TI Competition Compliance: Limits to Competition Policy Harmonization in EU Enlargement. AU Lorentzen, Jochen; Mollgaard, H. Peter.

Mollgaard, Peter

PD December 2002. TI Exclusive Safeguards and Technology Transfer: Subcontracting Agreements in Eastern Europe's Car Component Industry. AU Mollgaard, Peter; Lorentzen, Jochen. AA University of Copenhagen. SR University of Copenhagen, CIE Discussion Paper: 2002/12; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 15. PR no charge. JE F23, L42, L62. KW Vertical Restraints. Technology Transfer. Automotive Supply Networks. Competition Policy.
AB We study the rationale for the use of exclusivity to protect transfer of technology in subcontracting agreements. The legal possibility arises through the EU Notice on Subcontracting. Empirically, the link between exclusive agreements and technology transfer among firms in the automotive supply industry in EU candidate countries is surprisingly weak, although with exclusive-supply or exclusive-buying clauses in subcontracting agreements upstream transfer of technology is more likely. Exclusive agreements are often reciprocal, and are typically passed on. Downstream firms are more likely to face and use vertical restraints. Technology trickles upstream: Multinational final assemblers transfer more technology than lower-tier suppliers.

Monacelli, Tommaso

PD April 2003. TI Monetary Policy in a Low Pass-Through Environment. AA IGIER, Universita' Bocconi. SR European Central Bank Working Paper: 227; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 50. PR no charge. JE E31, E52, F41. KW Law of One Price. Policy Trade-Off. Gains from Commitment. Exchange Rate Channel.
AB We study the effects on the optimal monetary policy design problem of allowing for deviations from the law of one price in import goods prices. We reach three basic results. First, incomplete pass-through renders the analysis of monetary policy of an open economy fundamentally different from the one of a closed economy, unlike canonical models with perfect pass-through which emphasize a type of isomorphism. Second, and in response to efficient productivity shocks, incomplete pass-through has the effect of generating endogenously a short-run tradeoff between the stabilization of inflation and of the output gap. Third, in studying the optimal program under commitment relative to discretion, we show that the former entails a smoothing of the deviations from the law of one price, in stark contrast with the established empirical evidence. In addition, an optimal commitment policy always requires, relative to discretion, more stable nominal and real exchange rates.

Monnet, Cyril

TI The Welfare Effects of Incentive Schemes. AU Copeland, Adam; Monnet, Cyril.

Montagna, Catia

TI Cumulative Causation, Capital Mobility and the Welfare State. AU Molana, Hassan; Montagna, Catia.

TI Employment Protection and Globalization in Dynamic Oligopoly. AU Dewit, Gerda; Leahy, Dermot; Montagna, Catia.

Moors, J. J. A.

TI Simple Expressions for Safety Factors in Inventory Control. AU Strijbosch, L. W. G.; Moors, J. J. A.

Morana, Claudio

TI Volatility of Interest Rates in the Euro Area: Evidence From High Frequency Data. AU Cassola, Nuno; Morana, Claudio.

Moretti, Enrico

PD August 2002. TI Estimating the Social Return to Higher Education: Evidence From Longitudinal and Repeated Cross-Sectional Data. AA UCLA and NBER. SR National Bureau of Economic Research Working Paper: 9108; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 38. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I21, J31. KW Education. Social Return. Wages.

AB Economists have speculated for at least a century that the social return to education may exceed the private return. This paper estimates spillovers from college education by comparing wages for otherwise similar individuals who work in cities with different shares of college graduates in the labor force. OLS estimates show a large positive relationship between the share of college graduates in a city and individual wages, over and above the private return to education. A key issue in this comparison is the presence of unobservable individual characteristics, such as ability, that may raise wages and be correlated with college share. This paper estimates a model of non- random selection of workers among cities. By observing the same individual over time, this paper can control for differences in unobserved ability across individuals and differences in the return to skills across cities. The paper then investigates the hypothesis that the correlation between college share and wages is due to unobservable city-specific shocks that may raise wages and attract more highly educated workers to different cities. To control for this source of potential bias, this paper uses two instrumental variables: the lagged city demographic structure and the presence of a land -- grant college.

TI Can Free Entry be Inefficient? Fixed Commissions and Social Waste in the Real Estate Industry. AU Hsieh, Chang-Tai; Moretti, Enrico.

Moretto, Michele

PD March 2003. TI Competition and Irreversible Investments Under Uncertainty. AA University of Brescia. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/32; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/ Wpapers/default.htm. PG 40. PR no charge; available only online. JE C73, D81, G13, O31. KW Competition. Network Effect. Real Options.

AB This paper examines the effect of competition on the irreversible investment decisions under uncertainty as a generalization of the "real option" approach. We examine this issue with reference to an industry where each firm has only one investment opportunity which is completely irreversible and the product market reveals an inverted U-shape relationship between firm profits and industry size. That is, there are positive externalities for low level of the market size and negative externalities at high level of the market size. In the latter case, which corresponds to the traditional competitive industries, firms invest sequentially as market profitability develops. In the former case, which corresponds to industries in which investments are mutually beneficial, firms invest simultaneously after profitability of the market has developed sufficiently to capture all network benefits and to recover the option value of waiting. Put together, these extensions of the "real option" analysis, with strategic interactions, may help to explain both the cases of rapid and sudden developments such as the recent internet investments and the cases of prolonged start-up problems while waiting for the market to develop as the story of fax machines shows.

Morgan, Julian

TI Aggregation and Euro Area Phillips Curves. AU Fabiani, Silvia; Morgan, Julian.

Morrison, Thomas K.

TI Statistical Legislation: Toward a More General Framework. AU Khawaja, Sarmad; Morrison, Thomas K.

Mukand, Sharun

PD September 2002. TI In Search of the Holy Grail: Policy Convergence, Experimentation, and Economic Performance. AU Mukand, Sharun; Rodrik, Dani. AA Mukand: Tufts University. Rodrik: Harvard University. SR National Bureau of Economic Research Working Paper: 9134; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 37. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE O10, O40. KW Policy Convergence. Corruption.

AB We consider a model of policy choice in which appropriate policies depend on a country's own circumstances, but the presence of a successful leader generates an informational externality and results in too little "policy experimentation." Corrupt governments are reined in while honest governments are disciplined inefficiently. Our model yields distinct predictions about the patterns of policy imitation, corruption, and economic performance as a function of a country's location vis-a-vis successful leaders. In particular, it predicts a U- shaped pattern in economic performance as we move away from the leader in the relevant space of characteristics: close neighbors should do very well, distant countries moderately well on average with considerable variance, and intermediate countries worst of all. An empirical test with the experience of post-socialist countries provides supportive results.

Mukherjee, Arijit

PD February 2003. TI Foreign Market Entry and Host-Country Welfare: A Theoretical Analysis. AA University of Nottingham. SR University of Nottingham, GEP Research Paper: 2003/08; Research Paper Coordinator, School of Economics, University of Nottingham, University Park,

Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/lezec/research/dp/. PG 24. PR no charge. JE F21, F23. KW Joint Venture. Licensing. Welfare.

AB Many developing countries are liberalizing their economies to allow higher equity participation by the foreign firms. We argue that the possibility of joint venture can reduce the number of technology transfers. Hence, joint venture can reduce the welfare of a host- country by creating higher market-concentration. However, higher profit generation under joint venture encourages the foreign firm to transfer relatively better technology and may make the host-country and the firms better-off under joint venture than licensing. For sufficiently large efficiency-gain, the host-country allows fully owned subsidiary of the foreign firm.

Mulligan, Casey B.

PD February 2002. TI A Century of Labor-Leisure Distortions. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8774; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 43. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H20, H30, J22. KW Labor. Leisure. Taxes. Distortions.

AB This paper constructs direct measures of labor-leisure distortions for the American economy during the period 1889-1996, using a new method for empirically evaluating competitive equilibrium models and extending that method to some noncompetitive situations. The paper then compares measured labor-leisure distortions to proxies for potential restraints of trade: distortionary taxes and subsidies, labor market regulation, monopoly unionism, and search frictions. Distortions have grown steadily over the century, with the exception of the Great Depression (when distortions were above trend), WWII (below trend), and the 1980's (below trend). Marginal tax rates are well correlated with labor-leisure distortions at low frequencies, but cannot explain Depression, wartime, or 1980's distortions. Monopoly unionism might explain a small part of the Depression distortions, and the decline of unions might explain some of the reduced distortions in the 1980's. In general, the paper finds the decade-to-decade aggregate fluctuations in consumption, wages, and work to be hard to reconcile with simple quantitative models of labor supply and demand.

PD February 2002. TI A Dual Method of Empirically Evaluating Dynamic Competitive Equilibrium Models with Market Distortions, Applied to the Great Depression and World War II. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8775; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 45. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE C68, H30, J22. KW Competitive Equilibria. Market Distortions. Dynamic Economies.

AB This paper proves some theorems for competitive equilibria in the presence of market distortions, and uses those theorems to motivate an algorithm for (simply and exactly) computing and empirically evaluating competitive equilibria for dynamic economies. Although a competitive equilibrium models interactions between all sectors, all consumer types, and all time periods, this paper shows how the constructed

algorithm permits separate empirical evaluation of these pieces of the model and hence is practical even when very little data is available. The paper then computes a neoclassical growth model with distortionary taxes that fits aggregate U.S. time series for the period 1929-50 and concludes that, if it is to explain aggregate behavior during the period, government policy must have heavily taxed labor income during the Great Depression and lightly taxed it during the war. In other words, the challenge for the competitive equilibrium approach is not so much why output might change over time, but why the marginal product of labor and the marginal value of leisure diverged so much and why that wedge persisted so long. In this sense, explaining aggregate behavior during the period has been reduced to a public finance question.

Munger, Michael C.

TI Move to Markets? An Empirical Analysis of Privatization in Developing Countries. AU Banerjee, Sudeshna Ghosh; Munger, Michael C.

Nayda, William I.

TI Economic and Regulatory Capital Allocation for Revolving Retail Exposures. AU Perli, Roberto; Nayda, William I.

Naylor, Robin

PD December 2002. TI Sheer Class? The Impact of Degree Performance on Graduate Labor Market Outcomes. AU Naylor, Robin; Smith, Jeremy; McKnight, Abigail. AA Naylor and Smith: University of Warwick. McKnight: London School of Economics. SR The Warwick Economics Working Paper Series: 659; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 22. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE I20, J30, J40. KW Graduate Earnings. Degree Class. Subject.

AB We exploit individual-level administrative data for whole populations of UK university students for the leaving cohorts of 1985- 1993 to investigate the determinants of graduate occupational earnings. Among other results, we find that there are significant differences in the occupational earnings of leavers, according to university attended, subject studied, and degree class awarded, ceteris paribus. We also find that the premium associated with the award of a high degree class increased between 1985/6 and 1993/4, a period of substantial expansion in the graduate population. We suggest that this is consistent with a signaling model of the returns to higher education qualifications.

Neal, Derek

PD September 2002. TI The Measured Black-White Wage Gap Among Women is Too Small. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 9133; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE J16, J31, J70. KW Gender. Race. Wages.

AB Taken as a whole, the literature on black-white wage inequality suggests that racial gaps in potential wages are much larger among men than women, and further that one can

accurately assess black-white gaps in potential wages among women without accounting for black-white differences in patterns of female labor supply. This paper challenges both pieces of this conventional wisdom. It provides several estimates of the black-white gap in potential wages for the year 1990 using data from the National Longitudinal Survey of Youth (NLSY), a panel data set that includes persons born between 1957 and 1964. The paper exploits data on wages and income sources for years before and after 1990 to develop imputation methods that allow to adjust measures of the black-white wage gap among women for racial differences in selection patterns. Among young adult employed women in 1990, the Census, Current Population Surveys, and NLSY data yield median log wage gaps of -.11, - 16, and -.18 respectively. Based on several different imputation procedures, the paper estimates that the median black-white gap in log potential wages among women in the NLSY is approximately -.25.

Neal, Larry
AB   This paper examines the historical record of the financial crises that have often accompanied surges of globalization in the past. The issue of contagion, the spread of financial turbulence from the crisis center to its trading partners, is confronted with historical and statistical evidence on the causes and consequences of well-known crises. In general, contagion seems often confused with prior interdependence, and crises are less widespread and shorter in duration than anecdotal evidence would indicate. Special attention is given to the gold standard period of 1880-1913, which we find useful to divide into the initial period of deflation, 1880-1896, and the following period of mild inflation, 1897-1913. We find evidence of changes in the pattern of 'contagion' from core to periphery countries between the two periods, but in both periods apparent contagions can more readily be interpreted as responses to common shocks. Lessons for the present period can only be tentative, but the similarities in learning experiences are striking.

Nelson, Douglas
AB   The purpose of this paper is to provide a normative analysis of some migration issues. Our main objective is to develop a social-choice theoretical framework to evaluate alternative immigration policies of a country. For illustrative purposes, we present some simple results that are characterizations of some policy evaluation functions that have some specific features.

Nelson, Jonathan Katz
AB   Catholic churches in Renaissance Florence supported themselves overwhelmingly from the contributions of wealthy citizens. The sale of private chapels within churches to individuals was a significant source of church funds, and facilitated a church construction boom. Chapel sales offered three benefits to churches: prices were usually far above cost; donor/purchasers purchased masses and other tie-in services; and they added to the magnificence of the church because donors were required to decorate chapels expensively. Donors purchased chapels for two primary reasons: to facilitate services for themselves and their families, such as masses and church burials, that would speed their departure from Purgatory; and to gain status in the community. Chapels were private property within churches, but were only occasionally used directly by their owners. The expense of chapels and their decorations made them an ideal signal for wealth, particularly since sumptuary laws limited most displays of wealth. To overcome the free-rider problem, these churches sold private benefits not readily available elsewhere, namely status and salvation.

Neuhoff, Karsten

Neumark, David
AB   We estimate the employment effects of changes in national minimum wages using a pooled cross-section time-series data set comprising 17 OECD countries for the period 1975-2000, focusing on the impact of cross-country differences in minimum wage systems and in other labor market institutions and policies that may either offset or amplify the effects of minimum wages. The average minimum wage effects

we estimate using this sample are consistent with the view that minimum wages cause employment losses among youths. However, the evidence also suggests that the employment effects of minimum wages vary considerably across countries. In particular, disemployment effects of minimum wages appear to be smaller in countries that have subminimum wage provisions for youths. Regarding other labor market policies and institutions, we find that more restrictive labor standards and higher union coverage strengthen the disemployment effects of minimum wages, while employment protection laws and active labor market policies designed to bring unemployed individuals into the work force help to offset these effects. Overall, the disemployment effects of minimum wages are strongest in the countries with the least regulated labor markets.

Nichols, Austin
TI The Welfare Implications of Increasing Disability Insurance Benefit Generosity. AU Bound, John; Cullen, Julie Berry; Nichols, Austin; Schmidt, Lucie.

Nicodano, Giovanna
TI Privatization and Stock Market Liquidity. AU Bortolotti, Bernardo; De Jong, Frank; Nicodano, Giovanna; Schindele, Ibolya.

TI Privatization and Financial Market Development: Theoretical Issues. AU Chiesa, Gabriella; Nicodano, Giovanna.

Nielsen, Kurt
TI DEA Based Yardstick Competition in Natural Resource Management. AU Bogetoft, Peter; Nielsen, Kurt.

Nijkamp, Peter
TI Diversity in Entrepreneurship: Ethnic and Female Roles in Urban Economic Life. AU Levent, Tuzin Baycan; Masurel, Enno; Nijkamp, Peter.

Nilsson, Jan-Eric
TI Taking the Lab to the Field: Experimental Tests of Alternative Mechanisms to Procure Multiple Contracts. AU Lunander, Anders; Nilsson, Jan-Eric.

Nyborg, Kjell G.
TI Strategic Behavior and Underpricing in Uniform Price Auctions: Evidence From Finnish Treasury Auctions. AU Keloharju, Matti; Nyborg, Kjell G.; Rydqvist, Kristian.

PD March 2003. TI Multiple Unit Auctions and Short Squeezes. AU Nyborg, Kjell G.; Strebulaev, Ilya A. AA Nyborg: London Business School and CEPR. Strebulaev: London Business School. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/27; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 26. PR no charge; available only online. JE D44, D62, G12, G20. KW Multiple Unit Auction. Uniform Auction. Discriminatory Auction. Short Squeeze. Market Manipulation.
AB This paper develops a theory of multiple unit auctions with short squeezes in the post- auction market. This is especially relevant for financial and commodity markets where players may enter the auction with established forward positions. We study how a potential short squeeze impacts on

bidders' strategies and auction performance. Conversely, we also study how the design of the auction affects the incidence of short squeezes. In particular, we model both uniform price and discriminatory price auctions in a true multiple unit setting, where bidders can submit multiple bids for multiple units. Our model is cast in what appears to be a common value framework. However, we show that the possibility of a short squeeze introduces different valuations of the to-be-auctioned asset between short and long bidders. Equilibrium bidding strategies depend on pre-auction allocations and the size of the auction. Short squeezes are more likely to happen after discriminatory auctions than after uniform auctions, ceteris paribus. Asymptotically, as the auction size becomes arbitrarily large, the two types of auctions lead to equivalent outcomes.

O Grada, Cormac
TI The Fertility of the Irish in America in 1910. AU Guinnane, Timothy W.; Moehling, Carolyn M.; O Grada, Cormac.

O'Rourke, Kevin H.
PD February 2002. TI Culture, Politics and Innovation: Evidence from the Creameries. AA Institute for International Economic Studies, Trinity College, and CEPR. SR CEPR Discussion Paper: 3235; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE O31, Q10. KW Innovation. Agriculture. History.
AB This paper explores the diffusion of two agricultural innovations in late 19th century Denmark and Ireland: the milk separator and the cooperative creamery. It asks whether variables identified as important for innovation and growth by cross-country regressions mattered in this instance: in particular, education, uncertain property rights, and social capital. The paper finds that literacy and conflict regarding property rights impeded the diffusion of milk separators in Ireland, and that the propensity to cooperate there was lower among Catholics than among Protestants. These factors all help explain the superior performance of the Danish dairy industry during this period.

Obstfeld, Maurice
PD August 2002. TI Exchange Rates and Adjustment: Perspectives from the New Open Economy Macroeconomics. AA UC Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9118; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 17. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F31, F32, F41. KW Exchange Rates. New Open Economy Macroeconomics.
AB The New Open Economy Macroeconomics has allowed economists to tackle classical problems with new tools, while also generating new ideas and questions. In their attempts to make the new models capture empirical regularities, researchers have entertained a variety of assumptions about the international pricing of goods, notably, models of pricing to market and destination-currency pricing of exports. Some of the resulting models imply that exchange-rate changes lack international expenditure-switching effects, and they thus

appear to call for a radical rethinking of the role of exchange rates in international adjustment. This paper argues that the recent resurgence of exchange-rate pessimism stems from oversimplified modeling strategies rather than from evidence. Like earlier episodes starting with the extreme "elasticity pessimism" of the early postwar era, it is based on a misinterpretation of the empirical record.

Odell, Kerry A.

PD September 2002. TI Real Shock, Monetary Aftershock: The San Francisco Earthquake and the Panic of 1907. AU Odell, Kerry A.; Weidenmier, Marc D. AA Odell: Scripps College. Weidenmier: Claremont McKenna College and NBER. SR National Bureau of Economic Research Working Paper: 9176; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E32, E58. KW Real Shocks. Natural Disasters. San Francisco. Earthquakes.
AB Economists have long studied the relationship between the real and monetary sectors. We examine the macroeconomic effects of the 1906 San Francisco earthquake, a shock that immediately reduced United States. GNP by 1.5-1.8 percentage points. The quake's impact manifested itself in gold flows, as British insurance companies paid their San Francisco claims out of home funds in the fall of 1906. The capital outflow prompted the Bank of England to raise interest rates and discriminate against American finance bills. British bank policy pushed the US into recession and set the stage for the 1907 financial crisis. The 1907 panic led to the formation of the National Monetary Commission whose proposals recommended the creation of the Federal Reserve. In this study, we identify the San Francisco earthquake as the shock that triggered the chain of events that culminated in the panic of 1907.

Olesen, Henrik B.

TI Influence Costs in Heterogeneous Cooperatives: A Formal Model of Sales Distortion. AU Bogetoft, Peter; Olesen, Henrik B.

Oliveira, Alessandro V. M.

PD April 2003. TI The Impacts of Liberalization on a Brazilian Air Shuttle Market. AA University of Warwick. SR The Warwick Economics Working Paper Series: 676; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 24. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE L50, L93. KW Air Shuttle. Airline Industry. Competition. Deregulation. Product Differentiation.
AB This paper aims at assessing the impacts of recent economic liberalization on an important subset of the Brazilian airline industry: the air shuttle market on the route Rio de Janeiro -- Sao Paulo, a pioneer service created in 1959. In order to estimate structural relationships of the competition model, a product differentiated setting with conduct parameter was designed. Results permitted inferring about a rupture in the degree of firms' heterogeneity and in the extent of the deviation from Nash behavior due to regulatory reform, as well as estimation of pertinent route-level cost information.

Omrane, Walid Ben

TI News Announcements, Market Activity and Volatility in the Euro/Dollar Foreign Exchange Market. AU Bauwens, Luc; Giot, Pierre; Omrane, Walid Ben.

Onderstal,Sander

TI Auctions With Financial Externalities. AU Maasland, Emiel; Onderstal,Sander.

Orphanides, Athanasios

PD December 2002. TI Robust Monetary Policy Rules with Unknown Natural Rates. AU Orphanides, Athanasios; Williams, John C. AA Orphanides: Federal Reserve Board. Williams: Federal Reserve Bank of San Francisco. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/11; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 35. PR no charge. JE E31, E52, J60. KW Inflation Targeting. Policy Rules. Natural Rate of Unemployment. Natural Rate of Interest. Misperceptions.
AB We examine the performance and robustness properties of alternative monetary policy rules in the presence of structural change that renders the natural rates of interest and unemployment uncertain. Using a forward-looking quarterly model of the U.S. economy, we show that the cost of underestimating the extent of misperceptions regarding the natural rates significantly exceeds the costs of overestimating such errors. Naive adoption of policy rules optimized under the false presumption that misperceptions regarding the natural rates are likely to be small proves particularly costly. Our results suggest that a simple and effective approach for dealing with ignorance about the degree of uncertainty in estimates of the natural rates is to adopt difference rules for monetary policy, in which the short-term nominal interest rate is raised or lowered from its existing level in response to inflation and changes in economic activity. These rules do not require knowledge of the natural rates of interest or unemployment for setting policy and are consequently immune to the likely misperceptions in these concepts. To illustrate the differences in outcomes that could be attributed to the alternative policies we also examine the role of misperceptions for the stagflationary experience of the 1970s and the disinflationary boom of the 1990s.

TI Price Stability and Monetary Policy Effectiveness When Nominal Interest Rates are Bounded at Zero. AU Coenen, Guenter; Orphanides, Athanasios; Wieland, Volker.

PD June 2003. TI Historical Monetary Policy Analysis and the Taylor Rule. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/36; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 50. PR no charge. JE B22, E30, E50. KW Federal Reserve. Policy Rule. Real-Time Data.
AB This study examines the usefulness of the Taylor-rule framework as an organizing device for describing the policy debate and evolution of monetary policy in the United States. Monetary policy during the 1920s and since the 1951

Treasury-Federal Reserve Accord can be broadly interpreted in terms of this framework with rather surprising consistency. In broad terms, during these periods policy has been generally formulated in a forward-looking manner with price stability and economic stability serving as implicit or explicit guides. As early as the 1920s, measures of real economic activity relative to "normal" or "potential" supply appear to have influenced policy analysis and deliberations. Confidence in such measures as guides for activist monetary policy proved counterproductive at times, resulting in excessive activism, such as during the Great Inflation and at the brink of the Great Depression. Policy during the past two decades is broadly consistent with natural-growth targeting variants of the Taylor rule that exhibit less activism.

Orzach, Ram

AB   This paper presents a signaling model where both price and advertising expenditures are used as signals of the initially unobservable quality of a newly introduced experience good. Consumers can be either "fastidious" or "indifferent". Fastidious individuals place a greater value on a high-quality product and a lesser value on the low-quality product than do indifferent individuals. It is shown that a sensible separating equilibrium exists where both firms set their full information prices. However, the high-quality firm cuts advertising expenditures below the full information level of the low- quality firm, even if the full information advertising expenditures of the high-quality firm are larger than those of the low-quality firm. Consumers respond positively to advertising cuts and correctly identify the product quality. Hence, modest advertising may signal high quality.

Osbat, Chiara

AB   This paper examines the long-run determinants of the euro-yen exchange rate. Using cointegration analysis, we find a consistent and significant relationship between the real exchange rate and relative productivity, the net foreign asset position, relative government spending and terms of trade shocks, as well as fairly rapid mean reversion of the exchange rate to its equilibrium. The "equilibrium" rate tracks the trends in the actual exchange rate quite well, accounting for a large part of the yen appreciation from the mid-1970s to 2001. Our findings suggest that the euro appreciation against the yen in

2001 represented an equilibrium correction of its previous depreciation. Moreover, the width of the error bands highlights the difficulties arising when attempting to determine the precise equilibrium value of a currency.

Oscarsson, Eva

Ossowski, Rolando

Otchere, Isaac

AB   We examine the stock price reaction of rival firms to privatization announcements to infer information about industry effects of privatization. We find that the rival firms reacted negatively to privatization announcements, thus suggesting that the announcement effects reflect competitive considerations rather than positive industry-wide effects. In comparison, we find that the adverse reaction of the rival firms to privatization announcements in developing countries is stronger than that in the developed countries. Interestingly also, we find that full privatization announcements generate larger negative abnormal returns for rival firms than partial privatization announcements where the firm gains only partial autonomy from the government. We present some, albeit weak evidence that the rival firms' reaction to privatization announcement is increasing in the degree of government ownership of the privatized firm. Thus as the proportion of government ownership reduces, subsequent partial privatization elicits stronger market reaction from rival firms. We further demonstrate that the negative abnormal returns earned by shareholders of the rival firms are not due to price pressure effects.

Ottaviano, Gianmarco

Oueslati, Walid

Overgaard, Per Baltzer
TI Prices as Signals of Quality in Duopoly. AU Hertzendorf, Mark N.; Overgaard, Per Baltzer.

TI Modest Advertising Signals Strength. AU Orzach, Ram; Overgaard, Per Baltzer; Tauman, Yair.

TI Market Transparency and Competition Policy. AU Mollgaard, H. Peter; Overgaard, Per Baltzer.

Paddison, Oliver
TI Optimal Education Subsidy and Taxes in an Endogenous Growth Model with Human Capital. AU Marchand, Maurice; Michel, Philippe; Paddison, Oliver; Pestieau, Pierre.

Padula, Mario
TI Inflation Dynamics and Subjective Expectations in the United States. AU Adam, Klaus; Padula, Mario.

Pagano, Marco
PD February 2002. TI The Political Economy of Finance. AU Pagano, Marco; Volpin, Paolo. AA Pagano: Universita di Salerno. Volpin: London Business School and CEPR. SR CEPR Discussion Paper: 3231; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE G28, G38, K22, K42. KW Political Economy. Shareholder Protection. Corporate Governance. Bankruptcy Law. Financial Development.
AB The regulations that shape the design and the operations of corporations, credit and securities markets differ vastly from country to country. In addition, similar regulations are often unequally enforced in different countries. Economists still have an imperfect understanding of why these international differences exist and of whether they tend to persist over time. A recent strand of research has shown that some progress on these issues can be made using the approach of the new political economy, which models regulation and its enforcement as the result of the balance of power between social and economic constituencies. In this paper we offer a first assessment of the results and potential of this approach in three fields: corporate finance, banking and securities markets.

Page, Frank H., Jr.
PD November 2002. TI Networks and Farsighted Stability. AU Page, Frank H., Jr.; Wooders, Myrna H.; Kamat, Samir. AA Page: University of Alabama. Wooders: University of Warwick. Kamat: Wachovia Corporation. SR The Warwick Economics Working Paper Series: 660; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers.
PG 32. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE C79. KW Directed Networks. Farsighted Stability.
AB This paper provides a framework in which the notion of farsighted stability for games, introduced by Chwe (1994), can be applied to directed networks. In particular, we introduce the notion of supernetwork. A supernetwork is made up of a collection of directed networks (the nodes) and uniquely represents (via the arcs connecting the nodes) agent preferences and the rules governing network formation. By reformulating Chwe's basic result on the nonemptiness of farsightedly stable sets, we show that for any supernetwork (i.e., for any collection of directed networks and any collection of rules governing network formation), there exists a farsightedly stable directed network. We also introduce the notion of a Nash network relative to a given supernetwork, as well as the notions of symmetric, nonsimultaneous, and decomposable supernetworks. To illustrate the utility of our framework, we present examples of supernetworks, compute the farsightedly stable networks, and Nash networks.

TI Budget Balancedness and Optimal Income Taxation. AU Berliant, Marcus; Page, Frank H., Jr..

Page, Marianne E.
PD February 2002. TI Will You Miss Me When I Am Gone? The Economic Consequences of Absent Parents. AU Page, Marianne E.; Stevens, Ann Huff. AA Page: University of California, Davis. Stevens: Yale University and NBER. SR National Bureau of Economic Research Working Paper: 8786; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 31. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE J31, J12, J13, J30. KW Family Structure. Income. Food Consumption. Children.
AB This paper examines the effects of family structure on the economic resources available to children, using family fixed-effects to control for unobservable characteristic of the family. The effects of divorce on the income and consumption of children born to two-parent households, and the effects of marriage on children born into single-parent households are both considered. In the long-run (six or more years after the most recent divorce) family income falls by 40 to 45% after divorce, and food consumption is reduced by 17%. Six or more years after the most recent marriage, income of children born to single parents rises by 50 to 57%, but there is no statistically significant increase in food consumption. These estimates are substantially less than the difference in income implied by cross-sectional comparisons of different family types. When income changes are measured according to time since the parents first divorce, there is substantial recovery in income, virtually all of which is explained by subsequent remarriages. Similarly, when we look at income several years after a parent's first marriage, the gain is 28 to 33%, reflecting the short-lived nature of many of these marriages.

Pain, Nigel
TI Fiscal Incentives, European Integration and the Location of Foreign Direct Investment. AU Hubert, Florence; Pain, Nigel.

Palfrey, Thomas R.
TI Spatial Competition Between Two Candidates of Different Quality: The Effects of Candidate Ideology and Private Information. AU Aragones, Enriqueta; Palfrey, Thomas R.

Pan, Jun
TI Dynamic Asset Allocation With Event Risk. AU Liu, Jun; Longstaff, Francis A.; Pan, Jun.

Panunzi, Fausto
TI Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei.

TI . Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei.

Papyrakis, Elissaios
TI Natural Resources: A Blessing or a Curse? AU Gerlagh, Reyer; Papyrakis, Elissaios.

Parker, Jonathan
PD September 2002. TI Precautionary Saving and Consumption Fluctuations. AU Parker, Jonathan; Preston, Bruce. AA Parker: Princeton University and NBER. Preston: Princeton University. SR National Bureau of Economic Research Working Paper: 9196; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 31. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D91, E21. KW Precautionary Saving. Consumption. Fluctuations.
AB This paper uses data on the expenditures of households to explain movements in the average growth rate of consumption in the U.S. from the beginning of 1982 to the end of 1997. We propose and implement a decomposition of consumption growth into series representing four proximate causes. These are new information, and three causes of predictable consumption growth: intertemporal substitution, changes in the preferences for consumption, and incomplete markets for consumption insurance. Incomplete markets for trading consumption in future states leads to statistically significant and countercyclical movements in expected consumption growth. The economic importance of precautionary saving rivals that of the real interest rate, but the relative importance of each source of movement in the volatility of consumption is not precisely measured.

Parlour, Christine A.
PD March 2003. TI Rationing in IPOs. AU Parlour, Christine A.; Rajan, Uday. AA Carnegie Mellon University. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/26; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 33. PR no charge; available only online. JE D44, D45, G20. KW IPOs. Rationing. Winner's Curse.
AB We provide a model of bookbuilding in IPOs, in which the issuer can choose to ration shares. We consider two allocation rules. Under share dispersion, before informed investors submit their bids, they know that, in the aggregate, winning bidders will receive only a fraction of their demand. We demonstrate that this mitigates the winner's curse, that is, the incentive of bidders to shade their bids. It leads to more aggressive bidding, to the extent that rationing can be revenue-enhancing. In a parametric example, we characterize bid and revenue functions, and the optimal degree of rationing. We show that, when investors' information is diffuse, maximal rationing is optimal. Conversely, when their information is concentrated, the seller should not ration shares. We determine the optimal degree of rationing in a class of credible mechanisms. Our model reconciles the documented anomaly that higher bidders in IPOs do not necessarily receive higher allocations.

Pavan, Alessandro
TI Monopoly With Resale. AU Calzolari, Giacomo; Pavan, Alessandro.

TI Tilting the Supply Schedule to Enhance Competition in Uniform-Price Auctions. AU LiCalzi, Marco; Pavan, Alessandro.

Paxson, Christina
TI Orphans in Africa. AU Case, Anne; Paxson, Christina; Ableidinger, Joseph.

Pence, Karen M.
PD January 2003. TI Foreclosing on Opportunity: State Laws and Mortgage Credit. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/16; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 50. PR no charge. JE D18, G21, K11. KW Foreclosure. Mortgages.
AB Foreclosure laws govern the rights of borrowers and lenders when borrowers default on mortgages. Many states protect borrowers by imposing restrictions on the foreclosure process; these restrictions, in turn, impose large costs on lenders. Lenders may respond to these higher costs by reducing loan supply; borrowers may respond to the protections imbedded in these laws by demanding larger mortgages. This paper examines empirically the effect of the laws on equilibrium loan size. The paper exploits the rich geographic information available in the 1994 and 1995 Home Mortgage Disclosure Act data to compare mortgage applications for properties located in census tracts that border each other, yet are located in different states. Using semiparametric estimation methods, this paper finds that defaulter-friendly foreclosure laws are correlated with a four percent to six percent decrease in loan size. This result suggests that defaulter-friendly foreclosure laws impose costs on borrowers at the time of loan origination.

Pereau, J. C.
TI North-South Climate Change Negotiations: A Sequential Game With Asymmetric Information. AU Caparros, A.; Pereau, J. C.; Tazdait, T.

Perez-Quiros, Gabriel
PD November 2002. TI Is the European Central Bank (and the United States Federal Reserve) Predictable? AU Perez-Quiros, Gabriel; Sicilia, Jorge. AA Perez-Quiros: Banco de Espana. Sicilia: European Central Bank. SR European Central Bank Working Paper: 192; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 62. PR no charge. JE E52, E58. KW Predictability. Monetary Policy Shocks. Principal Components. Transmission Mechanism.
AB The objective of this paper is to examine the predictability of the monetary policy decisions of the Governing Council of the ECB and the transmission of the unexpected component of the monetary policy decisions to the yield curve. We find, using new methods, that markets do not fully predict the ECB decisions but the lack of perfect predictability is comparable with the results found for the United States Federal Reserve. We also find that the impact of monetary policy shocks on bond yields declines with the maturity of the bonds, and that this impact is significantly lower

when the shock stems from a monetary policy meeting of the ECB. Using implicit rates instead of bond yields, we find evidence that the market views the ECB as credible.

Perli, Roberto
PD May 2003. TI Economic and Regulatory Capital Allocation for Revolving Retail Exposures. AU Perli, Roberto; Nayda, William I. AA Perli: Federal Reserve Board. Nayda: Capital One Financial Corp. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/39; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 25. PR no charge. JE E22, G21. KW Capital Allocation. Credit Risk. Revolving Retail Exposure. One- Factor Risk Models. Basel.
AB The latest revision of the Internal Ratings Based approach of the Basel Committee on Banking Supervision's New Capital Accord Proposal for retail portfolios contains a significant innovation relative to previous versions: the recognition that, for revolving credits, future margin income will be available to cover losses before a bank's capital is threatened. We assemble a mini-portfolio of revolving exposures and we compare the capital charges generated by the latest Basel's formula with the capital charges generated by two possible earnings-at-risk internal capital allocation models. We find that in general, Basel's capital ratios are closer to those generated by our models for the groups with lower credit risk. We attribute the discrepancies to the different ways Basel and our models account for future margin income, to Basel assumptions about asset correlations, and to our models taking macroeconomic conditions explicitly into account.

Perloff, Jeffrey M.
PD December 2001. TI Collinearity in Linear Structural Models of Market Power. AU Perloff, Jeffrey M.; Shen, Edward Z. AA Perloff: UC Berkeley. Shen: Wells Fargo Bank. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 949; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.cdlib.org/are_ucb/949. PG 15. PR $5.00 domestic; $10.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE C10, L13. KW Market Power. Estimation.
AB The well-known structural model used to estimate market structure suffers from a severe collinearity problem if the marginal cost and demand equations are linear.

TI Effects of Government Policies on Income Distribution and Welfare. AU Wu, Ximing; Perloff, Jeffrey M.; Golan, Amos.

Perotti, Enrico C.
PD December 2002. TI Pricing Initial Public Offerings in Premature Capital Markets: The Case of Hungary. AU Perotti, Enrico C.; Schindele, Ibolya. AA Perotti: University of Amsterdam and CEPR. Schindele: University of Amsterdam and Tinbergen Institute Amsterdam. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2002/116; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123

Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 18. PR no charge; available only on website. JE G14, L33. KW Initial Public Offerings. Underpricing. Privatization.
AB This paper investigates the determinants of underpricing at initial public offerings in the Hungarian Initial Public Offerings (IPO) market in 1990-1998, a period of transition from socialist to market economy and immaturity of the domestic capital market. The evidence suggests that political issues played a significant role in the process: we have found greater discount at privatization IPOs than at private issues, and a positive relation between underpricing and the proportion of shares offered for compensation coupons. These findings reinforce the hypothesis that governments in transition may pursue political objectives by selling shares at discount. Besides, the results show larger initial returns at early IPOs compared to later issues, which implies a negative relation between the discount and the maturing of the capital market. Most of the asymmetric information theories, empirically justified for well-developed stock markets, receive no support. Some results suggest that the transition related determinants of underpricing disappear as the securities market becomes more mature.

Perozek, Maria
TI Wealth Effects and the Consumption of Leisure: Retirement Decisions During the Stock Market Boom of the 1990s. AU Coronado, Julia Lynn; Perozek, Maria.

Perri, Fabrizio
TI Does Income Inequality Lead to Consumption Inequality? Evidence and Theory. AU Krueger, Dirk; Perri, Fabrizio.

Pesenti, Paolo
TI Self-Validating Optimum Currency Areas. AU Corsetti, Giancarlo; Pesenti, Paolo.

TI Self-Validating Optimum Currency Areas. AU Corsetti, Giancarlo; Pesenti, Paolo.

Pestieau, Pierre
TI Optimal Redistributions when Different Workers are Indistinguishable. AU Marchand, Maurice; Pestieau, Pierre; Racionero, Maria del Mar.

TI Optimal Education Subsidy and Taxes in an Endogenous Growth Model with Human Capital. AU Marchand, Maurice; Michel, Philippe; Paddison, Oliver; Pestieau, Pierre.

TI Intergenerational Transfer of Human Capital and Optimal Education Policy. AU Cremer, Helmuth; Pestieau, Pierre.

Piazzesi, Monika
TI Bond Risk Premia. AU Cochrane, John H.; Piazzesi, Monika.

Picard, Pierre M.
PD March 2003. TI Agricultural Sector and Industrial Agglomeration. AU Picard, Pierre M.; Zeng, Dao-Zhi. AA Picard: University of Manchester and Universite Catholique de Louvain. Zeng: Kagawa University. SR CORE Discussion Paper: 2003/22; CORE/Stat Library, Center for Operations Research and Econometrics, Universite

Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 24. **PR** $5 per paper; $100 per year. **JE** O18, Q10, R12, R13. **KW** Agricultural Sector. Agglomeration. Migration. Labor Market.
AB We investigate an economic geography model in which agricultural goods are costly to transport and in which manufactures hire labor from the local agricultural sector as unskilled labor. We show that agricultural transport costs and local-unskilled labor requirements in firms act as a dispersion force. Location equilibria are compared with the first and second best outcomes and we show that their structure crucially depends on the parameters of agricultural sector.

Piga, Claudio
TI On the Relationship Between R&D and Productivity: A Treatment Effect Analysis. **AU** Medda, Giuseppe; Piga, Claudio; Siegel, Donald.

Pilegaard, Rasmus
TI Estimating Risk Premia in Money Market Rates. **AU** Durre, Alain; Evjen, Snorre; Pilegaard, Rasmus.

Pilloff, Steven J.
PD November 2002. **TI** What's Happened at Divested Bank Offices? An Empirical Analysis of Antitrust Divestitures in Bank Mergers. **AA** Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2002/60; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 29. **PR** no charge. **JE** D40, G21, G28, G34, L40. **KW** Divestiture. Banking. Merger. Acquisition. Antitrust.
AB In their competitive analysis of proposed bank mergers, the Federal Reserve Board, Department of Justice, and other agencies accept branch divestitures as an antitrust remedy in local markets where there is substantial overlap between the acquirer and target. The results of this study, which examines the performance of 751 branches that were divested between June 1989 and June 1998 in conjunction with a merger that raised possible competition issues, suggest that the policy of accepting branch divestitures as an antitrust remedy has been successful. Divested branches operate for lengths of time that are comparable to all branches, and even though they experience substantial deposit runoff around the time of the merger, divested branches subsequently exhibit deposit growth rates that are comparable to those of other similar branches. Cross-sectional analysis does not find any significant relationships between either deposit runoff or subsequent growth and various characteristics of the branch being sold or the firm that purchased it, except for some evidence that post-divestiture growth may increase with the size of the purchaser.

Pinelli Dino
TI Economic Growth, Innovation, Cultural Diversity: What Are We All Talking About? A Critical Survey of the State-of-the-Art. **AU** Maignan, Carole; Ottaviano, Gianmarco; Pinelli Dino.

Pinelli, Dino
TI Bio-Ecological Diversity vs. Socio-Economic Diversity:

A Comparison of Existing Measures. **AU** Maignan, Carole; Ottaviano, Gianmarco; Pinelli, Dino; Rullani, Francesco.

Pinto, Brian
TI Sargent-Wallace Meets Krugman-Flood-Garber, or: Why Sovereign Debt Swaps Don't Avert Macroeconomic Crises. **AU** Aizenman, Joshua; Kletzer, Kenneth M.; Pinto, Brian.

Pintoff, Randi
TI Building Criminal Capital Behind Bars: Social Learning in Juvenile Corrections. **AU** Bayer, Patrick; Pintoff, Randi; Pozen, David E.

Platt, Leah
PD July 2002. **TI** What's a Dropout to Do? Coping with the Deterioration of the Low- Skilled Labor Market. **AU** Platt, Leah; Farber, Henry S. **AA** Platt: Harvard University. Farber: Princeton University. **SR** Princeton University, Industrial Relations Section Working Paper: 467; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. **PG** 30. **PR** $1.50. **JE** I20, J24. **KW** Education. High School Dropouts. Return to School.
AB We use data from the National Longitudinal Survey of Young Men (NLS- YM) and the National Longitudinal Survey of Youth (NLSY-79) to examine the labor market and post-dropout educational attainment of high school dropouts between the late 1960s and the early 1990s. The evidence is clear that high school dropouts in the 1980s and 1990s fared far worse in the labor market than did dropouts in the 1960s and 1970s. Perhaps as a consequence, dropouts in the later cohort returned to school at a higher rate than did dropouts in the earlier cohort. In fact, these patterns are interrelated. We find that the likelihood that an individual dropout returns to school is related to his recent labor market experience. Dropouts with stable employment histories are less likely to return to school than those who experience unemployment.

Pollard, Patricia S.
PD April 2003. **TI** Pass-Through Estimates and the Choice of an Exchange Rate Index. **AU** Pollard, Patricia S.; Coughlin, Cletus C. **AA** Pollard: Federal Reserve Bank of St. Louis. Cletus: Federal Reserve Bank of St. Louis and University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2003/12; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/7lezec/research/dp/. **PG** 40. **PR** no charge. **JE** F14, F31. **KW** Pass-Through. Index Choice. Exchange Rates.
AB This paper examines exchange rate pass-through into U.S. import prices in 29 manufacturing industries focusing on the choice of the exchange rate index. We create eight different exchange rate indexes. These vary by the number of countries whose currencies are included, whether the weight given to each currency is based on total trade with the United States or U.S. imports only, and whether the weights vary by industry. Our results support previous findings that pass-through is generally incomplete but varies across industries. Moreover, we find that pass-through estimates are sensitive to the choice of the exchange rate index. Using bootstrapped J tests we show that major currency indexes perform better than their broad

currency counterparts. In addition, when using a major currency index, industry-specific exchange rate indexes are preferred to aggregate indexes.

Poterba, James M.
PD February 2002. **TI** Exchange Traded Funds: A New Investment Option for Taxable Investors. **AU** Poterba, James M.; Shoven, John B. **AA** Poterba: MIT and NBER. Shoven: Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8781; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 10. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** G23, G24, H24. **KW** Mutual Funds. Exchange Traded Funds.

AB Exchange traded funds (ETFs) are a new variety of mutual fund that first became available in 1993. ETFs have grown rapidly and now hold nearly $80 billion in assets. ETFs are sometimes described as more "tax efficient" than traditional equity mutual funds, since in recent years, some large ETFs have made smaller distributions of realized and taxable capital gains than most mutual funds. This paper provides an introduction to the operation of exchange traded funds. It also compares the pre-tax and post-tax returns on the largest ETF, the SPDR trust that invests in the S&P500, with the returns on the largest equity index fund, the Vanguard Index 500. The results suggest that between 1994 and 2000, the before- and after-tax returns on the SPDR trust and this mutual fund were very similar. Both the after-tax and the pre-tax returns on the fund were slightly greater than those on the ETF. These findings suggest that ETFs offer taxable investors a method of holding broad baskets of stocks that deliver returns comparable to those of low-cost index funds.

Powdthavee, Nattavudh
PD April 2003. **TI** Happiness and the Standard of Living: The Case for South Africa. **AA** University of Warwick. **SR** The Warwick Economics Working Paper Series: 675; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. **PG** 29. **PR** no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. **JE** D10, I31, J10, O10, O55. **KW** Happiness. Living Standard. South Africa. Poverty.

AB Are happiness patterns structurally the same when comparing poor and rich countries? Using cross-sectional data from the SALDRU93 survey, we show that the relationships between subjective well-being and socioeconomic variables have a similar structure and is U-shaped in age in South Africa as in developed countries. Well-being rises with income. Unemployment is detrimental to reported well-being, both at the individual- and household-level. Living standard indicators such as durable assets ownership seem to determine happiness levels as well as income. Relative income also matters to well-being, after controlling for community wealth.

Pozen, David E.
TI The Effectiveness of Juvenile Correctional Facilities: Public Versus Private Management. **AU** Bayer, Patrick; Pozen, David E.

TI Building Criminal Capital Behind Bars: Social Learning in Juvenile Corrections. **AU** Bayer, Patrick; Pintoff, Randi; Pozen, David E.

Preston, Bruce
TI Precautionary Saving and Consumption Fluctuations. **AU** Parker, Jonathan; Preston, Bruce.

Prokopenko, Vassili
TI Microfinance Institutions and Public Policy. **AU** Hardy, Daniel C.; Holden, Paul; Prokopenko, Vassili.

Pryce, Gwilym
TI Household Leverage and the Deductibility of Home Mortgage Interest: Evidence from UK House Purchasers. **AU** Hendershott, Patric H.; Pryce, Gwilym; White, Michael.

Puga, Diego
TI From Sectoral to Functional Urban Specialization. **AU** Duranton, Gilles; Puga, Diego.

PD September 2002. **TI** Knowledge Creation and Control in Organizations. **AU** Puga, Diego; Trefler, Daniel. **AA** University of Toronto and NBER. **SR** National Bureau of Economic Research Working Paper: 9121; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 42. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** D23, L22, O31. **KW** Innovations. Economic Growth.

AB The incremental innovations that underlie much of modern economic growth typically involve changes to one or more components of a complex product. This creates a tension. On the one hand, a principal would like an agent to contribute innovative components. On the other hand, ironing out incompatibilities between interdependent components can be a drain on the principal's energies. The principal can conserve her energies by tightly controlling the innovation process, but this may inadvertently stifle the agent's incentive to innovate. We show precisely how this tension between creating knowledge and controlling knowledge shapes organizational forms. The novel concepts introduced are illustrated with case studies of the flat panel cathode ray tube industry and Boeing's recent location decisions.

Qin, Cheng-Zhong
PD June 2002. **TI** The Walras Core of an Economy and Its Limit Theorem. **AU** Qin, Cheng-Zhong; Shapley, Lloyd S.; Shimomura, Ken-Ichi. **AA** Qin: UCSB. Shapley: UCLA. Shimomura: Osaka University. **SR** University of California, Santa Barbara, Working Paper in Economics: 2002/15; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. **PG** 15. **PR** no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". **JE** C71, D50. **KW** Market Game. Exchange Economy. Competitive Allocation. Coalition.

AB A Walras core allocation of an economy is a feasible allocation that is supported by a price schedule, such that each trader's budget is balanced at the price schedule, but no price schedule exists for any coalition of traders that allows them all to trade to something better. As compared to the Edgeworth market game and the Edgeworth core, both coalitional improvements and being a candidate allocation in the Walras core becomes harder in the Walras market game. The

intersection of the Edgeworth and the Walras cores contains competitive allocations, but no inclusion between the two may be expected in general. Like the strict Edgeworth core, the strict Walras core has an equal treatment property and converges under mild conditions to the set of competitive allocations in the process of replication.

TI The Value of Multilateral Trade Liberalization and the Need for Third-Party Sanction. **AU** Chen, Kong-Pin; Qin, Cheng-Zhong; Qiu, Larry D.

PD September 2002. **TI** Penalties and Rewards as Inducements to Cooperate. **AA** UCSB. **SR** University of California, Santa Barbara, Working Paper in Economics: 2002/13; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. **PG** 28. **PR** no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". **JE** C72, K12. **KW** Mutual Cooperation. Prisoner's Dilemma. Penalty. Reward. Subgame- Perfect Equilibrium.
AB This paper considers two mechanisms for promoting cooperation in prisoner's dilemma, one penalizes defection and the other rewards cooperation. The paper characterizes defection-penalties and cooperation-rewards inducing the players to cooperate. Payoffs for prisoner's dilemma can be partitioned according to whether both mechanisms promote cooperation, one but not both mechanisms promotes cooperation, and neither of the two mechanisms promotes cooperation.

Qiu, Larry D.
PD June 2002. **TI** Multilateral Environmental Agreements and Environmental Technology Transfer. **AU** Qiu, Larry D.; Yu, Zhihao. **AA** Qiu: Hong Kong University. Yu: University of Nottingham. **SR** University of Nottingham, GEP Research Paper: 2002/03; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/1ezec/research/dp/. **PG** 25. **PR** no charge. **JE** Q50, Q55. **KW** Environmental Agreements. Technology Transfer. Pollution.
AB We develop a North-South model of international trade and transboundary pollution to analyze the relationship between environmental technology transfer and the South's incentive to sign a multilateral environmental agreement (MEA). First, we show that technology transfer could either increase or reduce the South's incentive to sign the MEA. Second, we show that the South's participation in the MEA would reduce the market incentive of technology transfer. Both results have very clear policy implications for (i) the sequence of technology transfer and the South's MEA membership and (ii) the legitimacy of South's subsidies for technology transfer.

TI The Value of Multilateral Trade Liberalization and the Need for Third-Party Sanction. **AU** Chen, Kong-Pin; Qin, Cheng-Zhong; Qiu, Larry D.

Quintin, Erwan
PD June 2003. **TI** Firm Specific Human Capital vs. Job Matching: A New Test. **AU** Quintin, Erwan; Stevens, John J. **AA** Quintin: Federal Reserve Bank of Dallas. Stevens: Federal Reserve Board. **SR** Board of Governors of the

Federal Reserve System, Finance and Economics Discussion Paper: 2003/33; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 13. **PR** no charge. **JE** J24, J31, J63. **KW** Firm Survival. Employee Turnover. Human Capital.
AB We use a unique data set on employee turnover by industry in Arizona to test competing theories of turnover. We find that industries with lower establishment survival rates have more employee turnover, even after controlling for differences in the distribution of employee tenure. This result is consistent with a model of turnover where employees choose how much firm specific human capital to accumulate, but it is inconsistent with job matching models.

Quintyn, Marc
TI Crisis Prevention and Crisis Management: The Role of Regulatory Governance. **AU** Das, Udaibir S.; Quintyn, Marc.

Quirion, Philippe
PD April 2003. **TI** Relative Quotas: Correct Answer to Uncertainty or Case of Regulatory Capture. **AA** CIRED (CNRS/EHESS). **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/33; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm.
PG 15. **PR** no charge; available only online. **JE** D81, Q25, Q28. **KW** Uncertainty. Policy Choice. Environmental Taxes. Tradable Permits. Regulatory Capture.
AB There is a tendency among policy-makers and industry lobbyists toward "specific," "relative" or "output-based" quotas, i.e., freely distributed to firms proportionally to their output. With a stochastic analytical model, we demonstrate that relative quotas are dominated either by absolute quotas or by price instruments as regards expected social cost. Furthermore, price instruments entail a lower expected compliance cost than relative quotas. Why, then, do industry lobbyists favor quantity instruments over price instruments? A possible explanation is that if the industry anticipates that the State will underestimate output and overestimate the MAC curve slope, it has an interest in defending relative quotas. The problem is that in such a case, both the environmental damage and the social cost are higher with relative quotas than with absolute ones. The choice of relative quotas over price instruments or absolute quotas may thus be a case of regulatory capture, to use Stigler's vocabulary.

Racionero, Maria del Mar
TI Optimal Redistributions when Different Workers are Indistinguishable. **AU** Marchand, Maurice; Pestieau, Pierre; Racionero, Maria del Mar.

Rajan, Uday
TI Rationing in IPOs. **AU** Parlour, Christine A.; Rajan, Uday.

Ramlogan, Carlyn
TI Why do Rates of Convergence Differ? A Meta-Regression Analysis. **AU** Dobson, Steve; Ramlogan, Carlyn; Strobl, Eric.

Rangel, Antonio
PD September 2002. **TI** How to Protect Future

Generations Using Tax Base Restrictions. AA Stanford University and NBER. SR National Bureau of Economic Research Working Paper: 9179; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H20, H30, H40, H50, H60. KW Tax Base. IPGs. Income Tax Base. Land Tax Base.

AB This paper studies constitutional restrictions on the tax base that protect future generations from expropriation and improve the optimality of investment in Intergenerational Public Goods (IPGs). The choice of the tax base matters because it affects how intergenerational (IG) spillovers are capitalized into assets that are owned by current generations, and thus the IG politics. We show that with an income tax base, present generations expropriate future generations and produce inefficiently low levels of IPGs. By contrast, with a land tax base, IG expropriation using debt is impossible, the level of investment in IPGs is higher and, for some types of IPGs, Pareto optimal.

Rasmussen, Tobias N.

TI Economic Transition. Entrepreneurial Capacity, and Intergenerational Distribution. AU Jensen, Svend E. Hougaard; Rasmussen, Tobias N.; Rutherford, Thomas F.

Rausser, Gordon C.

TI Does Community Involvement Matter? How Collective Choice Affects Forests in Mexico? AU Antinori, Camille; Rausser, Gordon C.

Razin, Assaf

PD September 2002. TI A Brazilian Debt-Crisis. AU Razin, Assaf; Sadka, Efraim. AA Tel Aviv University. SR National Bureau of Economic Research Working Paper: 9160; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 7. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F34, G15. KW Sovereign Debt. Country Risk Spreads. Default.

AB We develop a stylized model of multiple equilibria, with country risk spreads at the focus of the analysis. Fears that the country will default on its debt triggers a reversal in the direction of inflows of international financial capital raise interest-rate spreads and thus the cost of servicing the public debt. The analytical framework is standard: creditors observe the output of borrowing only at a cost.

PD September 2002. TI FDI Contribution to Capital Flows and Investment in Capacity. AA Tel Aviv University and NBER. SR National Bureau of Economic Research Working Paper: 9204; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F21, F23. KW Foreign Direct Investment. Managerial Skills. Growth.

AB The paper surveys a theory of FDI that captures a unique feature: hands-on management standards that enable investors to react in real time to a changing economic environment. Equipped with superior managerial skills, foreign direct investors are able to outbid portfolio investors for the top productivity firms in a particular industry in which they have specialized in the source country. Consequently, FDI investors make both larger and better quality investments than the

domestic investors. The theory can explain both two-way FDI flows among developed countries and one-way FDI flows from developed to developing countries. Gains to the host country from FDI stem from the informational value of FDI. The predictions of the theory are consistent with evidence from panel data: larger FDI coefficients in the domestic investment and output growth regressions relative to the portfolio equity flow and international loan coefficients reflect a more significant role for FDI in the domestic investment process than other types of capital inflows.

PD September 2002. TI A Brazilian Debt-Crisis Model. AU Razin, Assaf; Sadka, Efraim. AA Razin: Tel Aviv University and NBER. Sadka: Tel Aviv University. SR National Bureau of Economic Research Working Paper: 9211; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 7. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F34, H63. KW Debt Crisis. Brazil.

AB We develop a model that captures important features of debt crises of the Brazilian type. Its applicability to Brazil lies in the fact that (1) in Brazil, the macro fundamentals were sound (e.g., a primary surplus, a relatively low debt/GDP ratio, etc.); and (2) in the Brazilian case, the trigger appears to be the forthcoming elections and the concomitant expected regime change.

Rebelo, Sergio

TI Government Finance in the Wake of Currency Crises. AU Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio.

Redoano, Michela

PD March 2003. TI Does Centralization Affect the Number and Size of Lobbies? AA University of Warwick. SR The Warwick Economics Working Paper Series: 674; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 37. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE D72, H23, H77. KW Lobby Formation. Pressure Group. Centralization.

AB Previous research has shown that if countries "merge", (i.e. move to centralize policy choices) the effect is to reduce lobbying. However empirical evidence suggests that this is not the case. This paper explains the empirical evidence in a two-jurisdiction political economy model of public good provision under policy centralization and policy decentralization, where the policy choice can be affected by the pressure of endogenously formed lobbies. We measure lobbying in three ways: (i) the number of lobbies formed under the two settings, (ii) their impact on policy decisions and (iii) the amount of resources transferred to the policy makers. We show that preference heterogeneity and lobby formation are positively related. We develop some examples and we show how the majority groups try to offset lobbying by strategic voting for a candidate of a different group.

PD June 2003. TI Fiscal Interactions Among European Countries. AA University of Warwick. SR The Warwick Economics Working Paper Series: 680; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 17. PR no charge; all

hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE D70, H20, H70. KW Spatial Correlation. Yardstick Competition. Tax Competition.
AB In this paper we investigate whether there is empirical evidence that EU Countries set their public expenditure and their taxes interdependently. We use a panel of data across European countries, years and fiscal variables to estimate countries' reactions functions. We find evidence of interdependences consistent with the literature on tax and yardstick competition.

Reed, Geoffrey
TI Trade and the Globalization of Patent Rights. AU Falvey, Rodney E.; Martinez, Feli; Reed, Geoffrey.

TI Trade and Rising Wage Inequality in the UK: Results from a CGE Model. AU Greenaway, David; Reed, Geoffrey; Winchester, Niven.

Reilly, John
TI Tax Distortions and Global Climate Policy. AU Babiker, Mustafa H.; Metcalf, Gilbert E.; Reilly, John.

Reinikka, Ritva
PD February 2002. TI Explaining Leakage of Public Funds. AU Reinikka, Ritva; Svensson, Jakob. AA Reinikka: World Bank. Svensson: Institute for International Economic Studies, Stockholm. SR CEPR Discussion Paper: 3227; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE D73, H52, I22. KW Leakage. Public Expenditure Tracking Survey. Corruption. School Funding.
AB Using panel data from a unique survey of public primary schools in Uganda we assess the degree of leakage of public funds in education. The survey data reveal that on average, during the period 1991-95, schools received only 13% of what the central government contributed to the schools' non-wage expenditures. The bulk of the allocated spending was either used by public officials for purposes unrelated to education or captured for private gain (leakage). Moreover, we find that resource flows and leakages are endogenous to schools socio-political endowment. Rather than being passive recipients of flows from government, schools use their bargaining power vis-a-vis other parts of government to secure greater shares of funding. These results have clear implications for research. The survey findings also had a direct impact on policy.

Remler, Dahlia K.
PD September 2002. TI Modeling Health Insurance Expansions: Effects of Alternate Approaches. AU Remler, Dahlia K.; Zivin, Joshua Graff; Glied, Sherry A. AA Remler and Zivin: Columbia University. Glied: Columbia University and NBER. SR National Bureau of Economic Research Working Paper: 9130; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE C15, C50, H51, I18. KW Health Insurance. Public Policy. Simulation Modeling.
AB Estimates of the costs and consequences of many types of public policy proposals play an important role in the development and adoption of particular policy programs. Estimates of the same, or similar, policies that employ different modeling approaches can yield widely divergent results. Such divergence often undermines effective policy- making. These problems are particularly prominent for health insurance expansion programs. Concern focuses on predictions of the numbers of individuals that will be insured and the costs of the proposals. Several different simulation modeling approaches are used to predict these effects, making the predictions difficult to compare. In this paper, we do the following: (1) We categorize and describe the different approaches used; (2) we explain the conceptual and theoretical relationships between the methods; (3) we demonstrate empirically an example of the (quite restrictive) conditions under which all approaches can yield quantitatively identical predictions; and (4) we empirically demonstrate conditions under which the approaches diverge and the quantitative extent of that divergence. All modeling approaches implicitly make assumptions about functional form that impose restrictions on unobservable heterogeneity. Those assumptions can dramatically affect the quantitative predictions made.

Rengifo, Erick
TI Multivariate Modelling of Time Series Count Data: An Autoregressive Conditional Poisson Model. AU Heinen, Andreas; Rengifo, Erick.

Renstrom, Thomas I.
TI Environmental Policy and Capital Movements: The Role of Government Commitment. AU Marsiliani, Laura; Renstrom, Thomas I.

Restuccia, Diego
PD September 2002. TI Intergenerational Persistence of Earnings: The Role of Early and College Education. AU Restuccia, Diego; Urrutia, Carlos. AA Restuccia: University of Toronto. Urrutia: Centro de Investigacion Economica, ITAM and Universidad Carlos III de Madrid. SR University of Western Ontario, RBC Financial Group EPRI Working Paper: 2002/04; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/. PG not available. PR Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE E60, I20, J62. KW Human Capital. Education. Intergenerational Mobility. Ability.
AB Recent empirical studies show the intergenerational persistence of economic status in the U.S. is much higher than previously thought. We develop a quantitative theory of inequality and intergenerational transmission of human capital where parents invest in early and college education of their children subject to borrowing constraints. An important feature of the environment is that the quality of early education determines the probability of college completion. We calibrate a stationary equilibrium of this economy to relevant statistics in aggregate U.S. data, and use it to investigate the sources of inequality and persistence in earnings. In our benchmark model, about half of the intergenerational persistence and one fourth of the inequality in earnings are accounted for by endogenous investments in education. We find that early investments in education account for most of the endogenous persistence in earnings, while college education generates most

of the endogenous inequality in earnings. Our theory is suited to study the effects of educational policies on the persistence of inequality. We show that public resources devoted to early education have the largest impact on earnings mobility. Moreover, non-progressive college subsidies generate more intergenerational persistence of earnings.

Ricci, Luca
TI International Financial Integration and Economic Growth. **AU** Edison, Hali J.; Levine, Ross; Ricci, Luca; Slok, Torsten.

Rich, Georg
PD June 2003. **TI** Swiss Monetary Targeting 1974-1996: The Role of Internal Policy Analysis. **AA** University of Bern. **SR** European Central Bank Working Paper: 236; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 50. **PR** no charge. **JE** E31, E32, E41,. E52, E58. **KW** Monetary Policy. Monetary Targets. Policy Rules. Price Stability.
AB After the switch to a floating exchange rate in 1973, the Swiss National Bank at first adopted annual monetary targets and in the 1990s shifted to a medium-term targeting strategy. In this paper I review the SNB's internal policy analysis, an aspect of Swiss monetary targeting that has received little attention in the existing literature. I show that money played a key role in setting monetary policy and in communicating the SNB's decisions to the public. Due to the adoption of monetary targets, the SNB was able to reduce the inflation trend to low levels. However, it was less successful in preserving price stability during business-cycle expansions because the monetary targets did not call for a sufficiently pre-emptive policy stance. At the end of 1999, the SNB abandoned monetary targeting in favor of an approach based on inflation forecasts.

Richardson, Thomas
TI Recentralization in China? **AU** Ahmad, Ehtisham; Keping, Li; Richardson, Thomas; Singh, Raju.

Rickman, Neil
TI Market Entry and Roll-Out With Product Differentiation. **AU** Levine, Paul L.; Rickman, Neil; Tzavara, Dionisia.

Ries, John
TI Vertical Networks and US Auto Parts Exports: Is Japan Different? **AU** Head, Keith; Ries, John; Spencer, Barbara J.

Rigobon, Roberto
TI Using Heteroscedasticity to Estimate the Returns to Education. **AU** Hogan, Vincent; Rigobon, Roberto.

PD March 2003. **TI** Spillovers Across U.S. Financial Markets. **AU** Rigobon, Roberto; Sack, Brian. **AA** Rigobon: MIT and NBER. Sack: Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/13; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 30. **PR** no charge. **JE** E44, E47, E52. **KW** Identification.

Heteroskedasticity. GARCH.
AB Movements in the prices of different assets are likely to directly influence one another. This paper identifies the contemporaneous interactions between asset prices in U.S. financial markets by relying on the heteroskedasticity in their movements. In particular, we estimate a "structural-form GARCH" model that includes the short-term interest rate, the long-term interest rate, and the stock market. The results indicate that there are strong contemporaneous interactions between these variables. Accounting for this behavior is critical for interpreting daily changes in asset prices and for predicting the future paths of their variances and correlations. We demonstrate the importance of this consideration in a risk-management application.

PD March 2003. **TI** The Effects of War Risk on U.S. Financial Markets. **AU** Rigobon, Roberto; Sack, Brian. **AA** Rigobon: MIT and NBER. Sack: Federal Reserve Board. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/18; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board; Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 15. **PR** no charge. **JE** G12, G14. **KW** War. Heteroskedasticity. Identification.
AB This paper measures the effects of the risks associated with the war in Iraq on various U.S. financial variables using a heteroskedasticity- based estimation technique. The results indicate that increases in what we call the "war risk" factor caused declines in Treasury yields and equity prices, a widening of lower-grade corporate spreads, a fall in the dollar, and a rise in oil prices. This factor accounted for a considerable portion of the variances of these financial variables over the three months leading up to the arrival of coalition forces in central Baghdad.

Rivkin, Steven
TI What is the Tradeoff Between Smaller Classes and Teacher Quality? **AU** Jepsen, Christopher; Rivkin, Steven.

Robinson, James
TI Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James; Thaicharoen, Yunyong.

Robinson, James A.
TI An African Success Story: Botswana. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

Rochet, Jean-Charles
PD February 2002. **TI** Coordination Failures and the Lender of Last Resort: Was Bagehot Right After All? **AU** Rochet, Jean-Charles; Vives, Xavier. **AA** Rochet: London School of Economics, Universite des Sciences Sociales de Toulouse, and CEPR. Vives: INSEAD. **SR** CEPR Discussion Paper: 3233; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** E58, G28. **KW** Central Bank Policy. Interbank Market. Liquidity Ratio. Solvency Ratio. Transparency.

AB The classical doctrine of the Lender of Last Resort, elaborated by Thornton (1802) and Bagehot (1873), asserts that the Central Bank should lend to "illiquid but solvent" banks under certain conditions. Several authors have argued that this view is now obsolete: when interbank markets are efficient, a solvent bank cannot be illiquid. This paper provides a possible theoretical foundation for rescuing Bagehot's view. Our theory does not rely on the multiplicity of equilibria that arises in classical models of bank runs. We build a model of banks' liquidity crises that possesses a unique Bayesian equilibrium. In this equilibrium, there is a positive probability that a solvent bank cannot find liquidity assistance in the market. We derive policy implications about banking regulation (solvency and liquidity ratios) and interventions of the Lender of Last Resort as well as on the disclosure policy of the Central Bank.

Rodrik, Dani

TI When Economic Reform Goes Wrong: Cashews in Mozambique. AU McMillan, Margaret; Rodrik, Dani; Welch, Karen Horn.

PD September 2002. TI Feasible Globalizations. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 9129; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F02, F15. KW Globalization. Politics. Economic Integration.
AB The nation-state system, democratic politics, and full economic integration are mutually incompatible. Of the three, at most two can be had together. The Bretton Woods/GATT regime was successful because its architects subjugated international economic integration to the needs and demands of national economic management and democratic politics. A renewed "Bretton-Woods compromise" would preserve some limits on integration, while crafting better global rules to handle the integration that can be achieved. Among "feasible globalizations," the most promising is a multilaterally negotiated visa scheme that allows expanded (but temporary) entry into the advanced nations of a mix of skilled and unskilled workers from developing nations. Such a scheme would likely create income gains that are larger than all of the items on the WTO negotiating agenda taken together, even if it resulted in a relatively small increase in cross-border labor flows.

TI In Search of the Holy Grail: Policy Convergence, Experimentation, and Economic Performance. AU Mukand, Sharun; Rodrik, Dani.

Roffia, Barbara

TI Empirical Estimates of Reaction Functions for the Euro Area. AU Gerdesmeier, Dieter; Roffia, Barbara.

Rombouts, Jeroen V. K.

TI Multivariate GARCH Models: A Survey. AU Bauwens, Luc; Laurent, Sebastien; Rombouts, Jeroen V. K.

Rose, Andrew K.

TI Is Trade Good or Bad for the Environment? Sorting Out the Causality. AU Frankel, Jeffrey A.; Rose, Andrew K.

Rosen, Harvey S.

TI Financial Aid Packages and College Enrollment Decisions: An Econometric Case Study. AU Linsenmeier, David M.; Rosen, Harvey S.; Rouse, Cecilia Elena.

Rosenbloom, Joshua L.

PD September 2002. TI Path Dependence and the Origins of Cotton Textile Manufacturing in New England. AA University of Kansas and NBER. SR National Bureau of Economic Research Working Paper: 9182; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 27. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE N41, N61. KW Manufacturing. Cotton Textiles. Protection.
AB During the first half of the nineteenth century the United States emerged as a major producer of cotton textiles. This paper argues that the expansion of domestic textile production is best understood as a path dependent process that was initiated by the protection provided by the Embargo Act of 1807 and the War of 1812. This initial period of protection ended abruptly in 1815 with the conclusion of the war and the resumption of British imports, but the political climate had been irreversibly changed by the temporary expansion of the industry. After 1815 nascent manufacturers sought to protect the investments they had made by lobbying Congress. Their efforts had an important impact on the provisions concerning cotton textiles in the tariff bill of 1816, and during the 1820s manufacturers won increasingly strong protection, culminating in the passage of the "Tariff of Abominations" in 1828.

Rota, Paola

TI Non-Convexities in the Adjustment of Different Capital Inputs: A Firm-Level Investigation. AU Del Boca, Alessandra; Galeotti, Marzio; Rota, Paola.

Rouse, Cecilia Elena

TI Financial Aid Packages and College Enrollment Decisions: An Econometric Case Study. AU Linsenmeier, David M.; Rosen, Harvey S.; Rouse, Cecilia Elena.

Roy, Devesh

TI The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined? AU Mattoo, Aaditya; Roy, Devesh; Subramanian, Arvind.

Roy, Jaideep

PD June 2002. TI Unrestricted Duopoly Competition: Equilibrium and Survival. AU Roy, Jaideep; Tranaes, Torben. AA Roy: Trinity College, Dublin. Tranaes: Danish National Institute of Social Research, University of Copenhagen, and CESifo. SR University of Copenhagen, CIE Discussion Paper: 2002/01; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 15. PR no charge. JE D40, D43, L11, L13. KW Homogenous Duopoly. Cournot vs. Bertrand. Price and Quantity Competition.
AB This paper is inspired by the ever lasting discussions over Bertrand's (1883) price-deviation critique of Cournot's (1838) duopoly analysis. We consider a homogenous good duopoly with constant marginal costs and no capacity constraints, but we allow firms to set either a quantity, a price, or both. We

derive two main results. First, this model has two duopoly equilibria, one where firms commit only to prices (Bertrand behavior) and one where they commit only to quantities (Cournot behavior), and it has equilibria supporting a perfect contestable market where one firm supplies the entire market at a price equal to marginal costs. Second, the Cournot behavior is best fit for survival in terms of evolutionary stability. This provides an argument for the existence of quantity-commitment institutions like auctions in oligopolistic markets for homogenous goods.

Rueben, Kim
TI   What Drives Racial Segregation? New Evidence Using Census Microdata. AU   Bayer, Patrick; McMillan, Robert; Rueben, Kim.

TI   An Equilibrium Model of Sorting in an Urban Housing Market: The Causes and Consequences of Residential Segregation. AU   Bayer, Patrick; McMillan, Robert; Rueben, Kim.

Ruffer, Rasmus
TI   The Rise of the Yen Vis-a-Vis the ("Synthetic") Euro: Is It Supported by Economic Fundamentals? AU   Osbat, Chiara; Ruffer, Rasmus; Schnatz, Bernd.

Rullani, Francesco
TI   Bio-Ecological Diversity vs. Socio-Economic Diversity: A Comparison of Existing Measures. AU   Maignan, Carole; Ottaviano, Gianmarco; Pinelli, Dino; Rullani, Francesco.

Rundshagen, Bianca
TI   A Non-Cooperative Foundation of Core-Stability in Positive Externality NTU-Coalition Games. AU   Finus, Michael; Rundshagen, Bianca.

Ruta, Michele
PD   April 2003. TI   The Allocation of Competencies in an International Union: A Positive Analysis. AA   Columbia University. SR   European Central Bank Working Paper: 220; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG   46. PR   no charge. JE   D72, F02, H77, P16. KW   Political Economy. International Unions. Fiscal Federalism. Lobbying.
AB   This paper presents a positive theory of centralization of political decisions in an international union. My central claim is that lobbies play a role in determining the assignment of competencies to the union because their influence can increase or decrease under centralization. I show that in this setting a misallocation of prerogatives between the international union and national governments can be an outcome, both leading to excessive decentralization and/or unnecessary centralization. This result reconciles a partial inconsistency that recent studies pointed out between the allocation of prerogatives in the EU and normative criteria, as laid out in the theoretical literature.

Rutherford, Thomas
TI   Economic Transition. Entrepreneurial Capacity, and Intergenerational Distribution. AU   Jensen, Svend E. Hougaard; Rasmussen, Tobias N.; Rutherford, Thomas F.

Rydqvist, Kristian
TI   Strategic Behavior and Underpricing in Uniform Price Auctions: Evidence From Finnish Treasury Auctions. AU   Keloharju, Matti; Nyborg, Kjell G.; Rydqvist, Kristian.

Ryu, Keunkwan
TI   The Recall and New Job Search of Laid-off Workers: A Bivariate Proportional Hazard Model with Unobserved Heterogeneity. AU   Fallick, Bruce; Ryu, Keunkwan.

Sacerdote, Bruce
PD   September 2002. TI   Slavery and the Intergenerational Transmission of Human Capital. AA   Dartmouth College and NBER. SR   National Bureau of Economic Research Working Paper: 9227; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   26. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   J15, J24, N31, N32. KW   Slavery. Descendants. Human Capital.
AB   How much do sins visited upon one generation harm that generation's descendants? I study this question by comparing outcomes for former slaves and their children and grandchildren to outcomes for free blacks (pre-1865), and their children and grandchildren. The outcome measures include literacy, whether a child attends school, whether a child lives in a female headed household, and two measures of adult occupation. Using a variety of different comparisons (e.g., within versus across regions), I find that it took roughly two generations for the descendants of slaves to catch up to the descendants of free black men and women. This finding is consistent with modern estimates and interpretations of father-son correlations in income and socioeconomic status. The data used are from the 1880 and 1920 1 percent (IPUMS) samples, a 100 percent sample of the 1880 Census, and a smaller data set in which I link families in the 1920 IPUMS back to the father's family in a 100% sample of the 1880 Census. These latter data sets are derived from an electronic version of the 1880 Census recently compiled and released by the Mormon Church with assistance from the Minnesota Population Center.

Sacerdote, Bruce I.
TI   The Social Multiplier. AU   Glaeser, Edward L.; Sacerdote, Bruce I.; Scheinkman, Jose A.

Sack, Brian
PD   November 2002. TI   A Monetary Policy Rule Based on Treasury Yields. AA   Federal Reserve Board. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/07; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG   15. PR   no charge. JE   E58, G10. KW   Monetary Policy Rule. Inflation-Indexed Debt.
AB   The yields on nominal and inflation-indexed Treasury debt securities can be used to derive a proxy for the inflation expectations of market participants. This paper investigates whether such a measure has provided a useful guide for monetary policy decisions by the Federal Reserve. The results indicate that since 1999, U.S. monetary policy decisions can be effectively characterized by a simple policy rule in which changes in the federal funds rate respond to the forward rate of inflation compensation.

TI Spillovers Across U.S. Financial Markets.
AU Rigobon, Roberto; Sack, Brian.

TI The Effects of War Risk on U.S. Financial Markets.
AU Rigobon, Roberto; Sack, Brian.

Sadka, Efraim
TI A Brazilian Debt-Crisis. AU Razin, Assaf; Sadka, Efraim.

TI A Brazilian Debt-Crisis Model. AU Razin, Assaf; Sadka, Efraim.

Saijo, Tatsuyoshi
TI Secure Implementation Experiments: Do Strategy-Proof Mechanisms Really Work? AU Cason, Timothy N.; Saijo, Tatsuyoshi; Sjostrom, Tomas; Yamato, Takehiho.

Santos, Tano
TI The Time Series of the Cross Section of Asset Prices.
AU Menzly, Lior; Santos, Tano; Veronesi, Pietro.

Sanz, Ismael
PD February 2003. TI Has the European Integration Approximated the Composition of Government Expenditures? A Comparative Analysis Between the EU and Non- EU Countries of the OECD. AU Sanz, Ismael; Velazquez, Francisco J. AA Universidad Complutense de Madrid. SR University of Nottingham, GEP Research Paper: 2003/09; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 23. PR no charge. JE F15, H11, H50, H60. KW Government Expenditures. European Economic Integration. Globalization. Convergence.
AB Globalization and growth-maximizing governments may cause countries to converge towards a similar composition of government expenditures. These convergent forces may be even more intensive in the case of EU Member States engaged in the European integration process. The results obtained, through calculation of a constructed dissimilarity index and by adapting the usual indicators of convergence (?, ? and ?-convergence), reveal that there has been a harmonization process. In addition, this approach of structures of government expenditures has been greater in the EU than in the Non-EU countries of the OECD. Nevertheless, EU member states are converging towards a different steady state composition of government expenditures.

Sarkissian, Sergei
TI Spurious Regressions in Financial Economics?
AU Ferson, Wayne E.; Sarkissian, Sergei; Simin, Timothy.

Sarno, Lucio
PD February 2002. TI The Dynamic Relationship Between the Federal Funds Rate and the Treasury Bill Rate: An Empirical Investigation. AU Sarno, Lucio; Thornton, Daniel M. AA Sarno: University of Warwick and CEPR. Thornton: United State of America Research Department. SR CEPR Discussion Paper: 3225; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE E43. KW Interest Rates. Term Structure. Equilibrium Correction. Non-Linear Dynamics.
AB This article examines the dynamic relationship between two key US money market interest rates -- the federal funds rate and the 3-month Treasury bill rate. Using daily data over the period from 1974-99, we find a long-run relationship between these two rates that is remarkably stable across monetary policy regimes of interest rate and monetary aggregate targeting. Employing a non-linear asymmetric vector equilibrium correction model, which is novel in this context, we find that most of the adjustment toward the long-run equilibrium occurs through the federal funds rate. In turn, there is strong evidence for the existence of significant asymmetries and non-linearities in interest rate dynamics that have implications for the conventional view of interest rate behavior.

Sarr, Abdourahmane
TI A New Financial System for Poverty Reduction and Growth. AU Bossone, Biagio; Sarr, Abdourahmane.

Sato, Motohiro
TI An Optimal Contract Approach to Hospital Financing.
AU Boadway, Robin; Marchand, Maurice; Sato, Motohiro.

Sault, Joanne
PD January 2003. TI Market Structure and Entry in Fast Food. AU Sault, Joanne; Toivanen, Otto; Waterson, Michael. AA Sault and Waterson: University of Warwick. Toivanen: Helsinki School of Economics. SR The Warwick Economics Working Paper Series: 661; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 7. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE L10, L80. KW Market Structure. Entry. Fast Food.
AB One of the phenomena of the twentieth century, chainstores, are remarkably little studied by economists. Amongst open questions are the following: What factors influence the pattern of their openings? Does the spread of one constrain others having broadly the same retail offer? Do they locate close to competitors? To answer such questions, one must examine a time path of development -- put simply one must observe actual entry. This is precisely what is done in a series of papers (Toivanen and Waterson, 2000; 2001; Sault, Toivanen and Waterson -- hereafter STW, 2002; forthcoming) we are working on concerning the spread of restaurant outlets in the UK. This paper sketches the main elements of our program, then examines a particular issue, the micro-geography of location, in detail.

Scafidi, Benjamin
TI Catholic Schools and Bad Behavior. AU Mocan, H. Naci; Scafidi, Benjamin; Tekin, Erdal.

Scheicher, Martin
TI Modelling the Implied Probability of Stock Market Movements. AU Glatzer, Ernst; Scheicher, Martin.

Scheinkman, Jose A.
TI The Social Multiplier. AU Glaeser, Edward L.; Sacerdote, Bruce I.; Scheinkman, Jose A.

Schindele, Ibolya

TI Privatization and Stock Market Liquidity. **AU** Bortolotti, Bernardo; De Jong, Frank; Nicodano, Giovanna; Schindele, Ibolya.

TI Pricing Initial Public Offerings in Premature Capital Markets: The Case of Hungary. **AU** Perotti, Enrico C.; Schindele, Ibolya.

PD January 2003. **TI** Theory of Privatization in Eastern Europe: Literature Review. **AA** University of Amsterdam. **SR** Fondazione Eni Enrico Mattei Note di Lavoro: 2003/02; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. **PG** 13. **PR** no charge; available only on website. **JE** L33, P31. **KW** Privatization. Securities Markets. Emerging Economies. Welfare.
AB This paper provides a discussion of the most important theoretical contributions to the literature on privatization, focusing on emerging economies, and gives a summary on recent research concerning the ways privatization might affect the development of securities markets. In addition, the paper provides a number of policy implications, emphasizing the trade-off between privatization and the reduction in social welfare and the possibility that the privatization process itself may have conflicting objectives (creation of incentive mechanisms, fairness, fast privatization).

Schlenker, Wolfram

PD February 2003. **TI** Will U.S. Agriculture Really Benefit from Global Warming? Accounting for Irrigation in the Hedonic Approach. **AU** Schlenker, Wolfram; Hanemann, W. Michael; Fisher, Anthony C. **AA** UC Berkeley. **SR** University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 941; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.edlib.org/are_ucb/941. **PG** 20. **PR** $5.00 domestic; $10.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". **JE** Q10, Q15, Q24, Q25. **KW** Agriculture. Climate Changes. Farm Lands. Irrigation. Land Valuation.
AB In this paper we focus on the role of irrigation. Previous comments have raised theoretical concerns about potential sources of misspecification related to irrigation. We provide an empirical test. Once irrigation is accounted for, we show that results also become robust across weighting schemes or models.

Schmidt, Christoph M.

TI The Perception of Foreigners and Jews in Germany -- A Structural Analysis of a Large Opinion Survey. **AU** Fertig, Michael; Schmidt, Christoph M.

Schmidt, Lucie

TI The Welfare Implications of Increasing Disability Insurance Benefit Generosity. **AU** Bound, John; Cullen, Julie Berry; Nichols, Austin; Schmidt, Lucie.

Schmitt-Grohe, Stephanie

PD September 2002. **TI** Optimal Fiscal and Monetary Policy Under Sticky Prices. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University, NBER, and CEPR. Uribe: University of Pennsylvania and

NBER. **SR** National Bureau of Economic Research Working Paper: 9220; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E52, E61, E63. **KW** Optimal Fiscal Policy. Optimal Monetary Policy. Sticky Prices.
AB This paper studies optimal fiscal and monetary policy under sticky product prices. The theoretical framework is a stochastic production economy without capital. The government finances an exogenous stream of purchases by levying distortionary income taxes, printing money, and issuing one-period nominally risk-free bonds. The main findings of the paper are: First, for a miniscule degree of price stickiness (i.e., many times below available empirical estimates) the optimal volatility of inflation is near zero. This result stands in stark contrast with the high volatility of inflation implied by the Ramsey allocation when prices are flexible. The finding is in line with a recent body of work on optimal monetary policy under nominal rigidities that ignores the role of optimal fiscal policy. Second, even small deviations from full price flexibility induce near random walk behavior in government debt and tax rates, as in economies with real non-state-contingent debt only. Finally, sluggish price adjustment raises the average nominal interest rate above the one called for by the Friedman rule.

PD January 2003. **TI** Anticipated Ramsey Reforms and the Uniform Taxation Principle: The Role of International Financial Markets. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin. **AA** Schmitt-Grohe: Rutgers University, CEPR and NBER. Uribe: University of Pennsylvania and NBER. **SR** European Central Bank Working Paper: 210; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 62. **PR** no charge. **JE** E52, E61, E63, F41. **KW** Monetary and Fiscal Policy. Open Economies. Anticipated Ramsey Policy.
AB This paper studies the role of asset-market completeness for the properties of optimal fiscal and monetary policy. A suitable framework for this purpose is the small open economy with complete international asset markets for, in this environment, changes in policy represent country-specific risk diversifiable in world markets. Our main finding is that the fundamental public finance principle whereby when taxes on all final goods are available, it is optimal to tax final goods uniformly fails to hold. In general, uniform taxation is optimal because it amounts to a non-distorting tax on fixed factors of production. In the open economy this principle fails because when households can insure against the risk of a policy reform, initial private asset holdings are contingent on expected policy and not an inelastically supplied source of income. Furthermore, we find that the Friedman rule is optimal only if the Ramsey planner has access to consumption taxes.

Schnabel, Isabel

TI Moral Hazard and International Crisis Lending: A Test. **AU** Dell'Ariccia, Giovanni; Schnabel, Isabel; Zettelmeyer, Jeromin.

Schnatz, Bernd

TI The Rise of the Yen Vis-a-Vis the ("Synthetic") Euro: Is It Supported by Economic Fundamentals? **AU** Osbat, Chiara; Ruffer, Rasmus; Schnatz, Bernd.

PD April 2003. TI Productivity and the ("Synthetic") Euro-Dollar Exchange Rate. AU Schnatz, Bernd; Vijselaar, Focco; Osbat, Chiara. AA European Central Bank. SR European Central Bank Working Paper: 225; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 36. PR no charge. JE F31, F41, O47. KW Real Exchange Rate. Euro. US Dollar. Average Labor Productivity. BEER. Cointegration.
AB This paper analyses the impact of productivity developments in the United States and the euro area on the euro-dollar exchange rate. The paper presents a new measure of relative average labour productivity (ALP), which does not suffer from the biases implicit in readily available relative ALP data. Importantly, the patterns of these series differ widely. Employing the Johansen cointegration framework, four Behavioural Equilibrium Exchange Rate models are estimated using four different productivity proxies. Our results indicate that the extent to which productivity can explain the euro depreciation varies with the productivity proxy used: readily available measures explain most, while our new, preferred measure explains the least. If foreign exchange traders used the former to assess productivity developments, this might thus have contributed to the weakness of the euro in 2000/2001. In all models, however, productivity can explain only a fraction of the actual euro depreciation experienced in 1999/2000.

Schneider, Martin
TI IID: Independently and Indistinguishably Distributed. AU Epstein, Larry; Schneider, Martin.

TI Learning Under Ambiguity. AU Epstein, Larry; Schneider, Martin.

Schoar, Antoinette
TI The Illiquidity Puzzle: Theory and Evidence from Private Equity. AU Lerner, Josh; Schoar, Antoinette.

Schoenberg, Ron
TI Empirical Evidence Concerning the Finite Sample Performance of EL- Type Structural Equation Estimation and Inference Methods. AU Mittelhammer, Ron C.; Judge, George G.; Schoenberg, Ron.

Schoenwald, Steffi
TI A General Model of Fair Wages in an Open Economy. AU Kreickemeier, Udo; Schoenwald, Steffi.

Schott, Peter K.
TI Survival of the Best Fit: Competition from Low Wage Countries and the (Uneven) Growth of US Manufacturing Plants. AU Bernard, Andrew B.; Jensen, J. Bradford; Schott, Peter K.

Schuknecht, Ludger
TI The Fiscal Costs of Financial Instability Revisited. AU Eschenbach, Felix; Schuknecht, Ludger.

Schultz, Christian
PD May 2001. TI Transparency and Tacit Collusion. AA University of Copenhagen. SR University of Copenhagen, CIE Discussion Paper: 2001/04; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 25. PR no charge. JE L13, L40. KW Transparency. Tacit Collusion. Competition Policy. Internet.
AB This paper investigates the effects on tacit collusion of increased market transparency on the consumer side as well as on the producer side of a market. Increasing market transparency on the consumer side increases the benefits to a firm from undercutting the collusive price. It also decreases the punishment profit (whether the punishment is Nash-reversion or optimal punishment). The net effect is that collusion becomes harder to sustain. Increasing market transparency on the producer side facilitates collusion. When transparency is increased on both sides, the net effect is that collusion becomes harder to sustain.

TI Price or Quantity in Tacit Collusion? AU Lambertini, Luca; Schultz, Christian.

PD November 2002. TI Market Transparency and Product Differentiation. AA University of Copenhagen. SR University of Copenhagen, CIE Discussion Paper: 2002/02; Centre for Industrial Economics, Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk/cie/. PG 8. PR no charge. JE L11, L13, L15, L40. KW Market Transparency. Product Differentiation. Competition Policy.
AB In a Hotelling market with endogenous choice of product characteristics increasing market transparency on the consumer side leads to less product differentiation, and lower prices and profits. This is welfare improving for all consumers and total surplus increases.

Schultz, T. Paul
TI Health and Labor Force Participation of the Elderly in Taiwan. AU Mete, Cem; Schultz, T. Paul.

PD April 2003. TI Human Capital, Schooling and Health Returns. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 853; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 26. PR $2.00 plus postage. JE I12, I21, J24. KW Health. Productivity. Human Capital. Schooling. Returns.
AB A consensus has been forged in the last decade that recent periods of sustained growth in total factor productivity and reduced poverty are closely associated with improvements in a population's child nutrition, adult health, and schooling, particularly in low-income countries. Estimates of the productive returns from these three forms of human capital investment are nonetheless qualified by a number of limitations in our data and analytical methods. This paper reviews the problems that occupy researchers in this field and summarizes accumulating evidence of empirical regularities. Social experiments must be designed to assess how randomized policy interventions motivate families and individuals to invest in human capital, and then measure the changed wage opportunities of those who have been induced to make these investments.

PD April 2003. TI Human Resources in China: The Birth Quota, Returns to Schooling, and Migration. AA Yale University. SR Yale Economic Growth Center Discussion

Paper: 855; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 35. PR $2.00 plus postage. JE J13, J14, J24. KW Human Capital Returns. Rural-Urban Migration. Elderly Poverty. China.
AB Rural elderly have 40% of the income of those in urban areas, spend a larger share of their income on food, are in worse health, work later into their lives, and depend more on their children, lacking pensions and public services. The birth quota since 1980 has particularly restricted the childbearing of rural less educated women, who now face retirement with fewer children for support. Inequality in China is also be traced to increasing returns to schooling, especially beyond secondary school. Government restrictions on rural-urban migration reduce national efficiency, add to the urban-rural wage gap, and increase inequality.

PD September 2003. TI Wage Rentals for Reproducible Human Capital: Evidence from Ghana and the Ivory Coast. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 868; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 48. PR $2.00 plus postage. JE I12, J24, J31, O15. KW Human Capital Returns. Health. Migration. Schooling. Africa. Physical Stature.
AB Education, child nutrition, adult health/nutrition, and labor mobility are critical factors in achieving sustained growth in factor productivity. To compare the contribution of these four human capital inputs, an expanded specification of the wage function is estimated from household (LSMS) surveys of The Ivory Coast and Ghana. Specification tests assess whether the human capital inputs are exogenous, and instrumental variable techniques are used to estimate the wage function. Smaller panels from the Ivory Coast imply the magnitude of measurement error in the human capital inputs and provide more efficient instruments to estimate the wage equation. The conclusion emerges that weight-for-height and height are endogenous, particularly prone to measurement error, and heterogeneous in their effects on wages. Overall returns to these four forms of human capital are similar within each country for men and women, but education and migration returns are higher in the more rapidly growing Ivory Coast, while the wage effects of child nutrition proxied by height are greater in poorer, more malnourished Ghana.

Schwab, Robert S.
TI Changing Labor Market Opportunities for Women and the Quality of Teachers 1957-1992. AU Corcoran, Sean P.; Evans, William N.; Schwab, Robert S.

Scotchmer, Suzanne
PD August 2002. TI The Political Economy of Intellectual Property Treaties. AA UC Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 9114; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F13, L50, O34. KW Intellectual Property. R&D.
AB Intellectual property treaties have two main types of provisions: national treatment of foreign inventors, and

harmonization of protections. This paper addresses the positive question of when countries would want to treat foreign inventors the same as domestic inventors, and how their incentive to do so depends on reciprocity. This paper also investigates an equilibrium in which regional policy makers choose IP policies that serve regional interests, conditional on each other's policies. This paper compares these policies with a notion of what is optimal, and argues that harmonization will involve stronger IP protection than independent choices. Harmonization can either enhance or reduce global welfare. Levels of public and private R&D spending will be lower than if each country took account of the uncompensated externalities that its R&D spending confers on other countries. The more extensive protection engendered by attempts at harmonization are a partial remedy.

Selaive, Jorge
PD May 2003. TI Net Foreign Assets and Imperfect Pass-Through: The Consumption Real Exchange Rate Anomaly. AU Selaive, Jorge; Tuesta, Vicente. AA New York University. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 764; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 43. PR no charge. JE F31, F32, F41. KW Net Foreign Assets. Imperfect Pass-Through. Incomplete Markets. Uncovered Interest Rate Parity.
AB An unresolved issue in international macroeconomics is the apparent lack of risk-sharing across countries, which contradicts the prediction of models based on the assumption of complete markets. We assess the importance of financial frictions in this issue by constructing an incomplete market model with stationary net foreign assets (NFA) and imperfect pass-through (IPT). In this paper, there is a cost of bond holdings that allows us to incorporate the dynamics of NFA into the risk-sharing condition. On theoretical grounds, our results suggest that the dynamics of NFA may account for the lack of risk-sharing across countries. In addition, the IPT mechanism, by closing the current account channel, does not help to explain this feature of the data. On empirical grounds, we test the risk-sharing condition derived in the paper, and we find that growth factors of consumption and real exchange rates behave in a manner that may be consistent with a significant role for the net foreign asset position.

Sembenelli, Alessandro
TI Does Ownership Affect Firms' Efficiency? Panel Data Evidence on Italy. AU Bottasso, Anna; Sembenelli, Alessandro.

Shadbegian, Ronald J.
TI "Optimal" Pollution Abatement -- Whose Benefits Matter, and How Much? AU Gray, Wayne B.; Shadbegian, Ronald J.

Shang-Jin, Wei
TI Transparency and International Investor Behavior. AU Gelos, R. Gaston; Shang-Jin, Wei.

Shapley, Lloyd S.
TI The Walras Core of an Economy and Its Limit Theorem. AU Qin, Cheng-Zhong; Shapley, Lloyd S.; Shimomura,

Ken-Ichi.

Sharpe, Steven A.
TI Did Pension Plan Accounting Contribute to a Stock Market Bubble? AU Coronado, Julia Lynn; Sharpe, Steven A.

Shen, Edward Z.
TI Collinearity in Linear Structural Models of Market Power. AU Perloff, Jeffrey M.; Shen, Edward Z.

Sheppard, Kevin
TI Asymmetric Dynamics in the Correlations of Global Equity and Bond Returns. AU Cappiello, Lorenzo; Engle, Robert F.; Sheppard, Kevin.

Shimomura, Ken-Ichi
TI The Walras Core of an Economy and Its Limit Theorem. AU Qin, Cheng-Zhong; Shapley, Lloyd S.; Shimomura, Ken-Ichi.

Shleifer, Andrei
TI Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei.

TI Family Firms. AU Burkart, Mike; Panunzi, Fausto; Shleifer, Andrei.

TI The Injustice of Inequality. AU Glaeser, Edward L.; Shleifer, Andrei.

Shoven, John B.
TI Exchange Traded Funds: A New Investment Option for Taxable Investors. AU Poterba, James M.; Shoven, John B.

Sicilia, Jorge
TI Is the European Central Bank (and the United States Federal Reserve) Predictable? AU Perez-Quiros, Gabriel; Sicilia, Jorge.

Sickles, Robin C.
TI Scale Economies, Scope Economies, and Technical Change in Federal Reserve Payment Processing. AU Adams, Robert M.; Bauer, Paul W.; Sickles, Robin C.

Sicular, Terry
PD December 2002. TI Earnings and Labor Mobility in Rural China: Implications for China's WTO Entry. AU Sicular, Terry; Zhao, Yaohui. AA Sicular: University of Western Ontario. Zhao: Beijing University. SR University of Western Ontario, RBC Financial Group EPRI Working Paper: 2002/08; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/. PG 28. PR Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE F16, J61, O15. KW Trade Liberalization. Development. World Trade Organization (WTO).
AB The impact of trade liberalization in China depends not only on the aggregate sectoral and price shifts that follow liberalization, but also on the microeconomic response of households and individuals to those shifts. In this paper we analyze the microeconomics of household earnings and employment in rural China.

Siegel, Andrew F.
TI Stochastic Discount Factor Bounds with Conditioning Information. AU Ferson, Wayne E.; Siegel, Andrew F.

Siegel, Donald
TI On the Relationship Between R&D and Productivity: A Treatment Effect Analysis. AU Medda, Giuseppe; Piga, Claudio; Siegel, Donald.

Simin, Timothy
TI Spurious Regressions in Financial Economics? AU Ferson, Wayne E.; Sarkissian, Sergei; Simin, Timothy.

Singh, Raju
TI Recentralization in China? AU Ahmad, Ehtisham; Keping, Li; Richardson, Thomas; Singh, Raju.

Sinha, Nistha
PD July 2003. TI Fertility, Child Work and Schooling Consequences of Family Planning Programs: Evidence from an Experiment in Rural Bangladesh. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 867; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. PG 51. PR $2.00 plus postage. JE I21, J13, J22. KW Fertility. Child Labor. School Enrollment. Program Evaluation.
AB Despite the attractiveness of experiments from the perspective of program evaluation, there have been very few program experiments in the area of family planning. This paper evaluates an ongoing family planning program experiment in rural Bangladesh. The paper estimates the effect of mothers' program exposure on fertility and children's time allocation. The results show that while the program was effective in reducing fertility, it had no significant impact on children's school enrollment. However, the program appears to have significantly raised boys' participation in the labor force.

Sjostrom, Tomas
TI Secure Implementation Experiments: Do Strategy-Proof Mechanisms Really Work? AU Cason, Timothy N.; Saijo, Tatsuyoshi; Sjostrom, Tomas; Yamato, Takehiho.

Skuterud, Mikal
TI Internet Job Search and Unemployment Durations. AU Kuhn, Peter; Skuterud, Mikal.

Slemrod, Joel
TI Why World Redistribution Fails. AU Kopczuk, Wojciech; Slemrod, Joel; Yitzhaki, Shlomo.

PD September 2002. TI Trust in Public Finance. AA University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 9187; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 27. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H10, O40, P10. KW Public Finance. Tax Cheating. Size of Government. Prosperity.

AB This paper first investigates a model of the extent of tax cheating and the size of government that recognizes the interdependence of the two. The results reveal that tax cheating is lower in countries that exhibit more (not-government-related) trustworthiness. However, holding that constant, tax cheating becomes more acceptable as government grows. All in all, there is some weak evidence that the strong positive cross-country correlation between the size of government and tax cheating masks the fact that big government induces tax cheating while, at the same time, tax cheating constrains big government. This paper then adds to the structural model an equation determining the level of prosperity, allowing prosperity to depend, inter alia, on the level of government and on trust in others. The paper finds some evidence that both prosperity and government involvement are higher in more trusting societies. Moreover, holding these measures of trust constant, the association of government size with prosperity is positive until a level of government spending somewhere between 31% and 38% of GDP, after which its marginal effect is negative. Thus, although a trusting citizenry allows larger government, the tax burden this entails erodes the rule obedience taxpayers exhibit toward government.

PD September 2002. TI Do Trust and Trustworthiness Pay Off? AU Slemrod, Joel; Katuscak, Peter. AA Slemrod: University of Michigan and NBER. Katuscak: University of Michigan. SR National Bureau of Economic Research Working Paper: 9200; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 51. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE H40, J30. KW Trustworthiness. Investment. Income. Individual Prosperity.
AB Are individuals who trust others better off than those who do not? Do trustworthy people prosper more than untrustworthy ones? We first pose these questions in a search model where individuals face repeated choices between trusting (initiating an investment transaction) and not trusting, and between being trustworthy (not stealing the investment) and cheating. We then derive predictions for the relationship between observed individual behavior, aggregate attitudes, and individual prosperity. Finally, we evaluate these predictions empirically using household-level data for eighteen (mostly developed) countries from the World Values Survey. We find that, on average, a trusting attitude has a positive impact on income, while trustworthiness has a negative impact on income. In addition, we find evidence of complementarity between these two attitudes and the aggregate levels of the complementary attitudes. Most strikingly, the payoff to being trustworthy depends positively on the aggregate amount of trust in a given country.

Slok, Torsten

TI International Financial Integration and Economic Growth. AU Edison, Hali J.; Levine, Ross; Ricci, Luca; Slok, Torsten.

Smith, Christopher L.

TI Within State Transitions from 2-Year to 4-Year Public Institutions. AU Ehrenberg, Ronald G.; Smith, Christopher L.

Smith, David C.

PD June 2003. TI Loans to Japanese Borrowers.

AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 769; Publications, International Finance Discussion Papers, Mail Stop 127, Board of Governors of the Federal Reserve System, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 37. PR no charge. JE G21. KW Japanese Banks. Bank Loans. Syndicated Lending.
AB This paper examines the characteristics of loans to Japanese borrowers using a relatively unexplored, contract-specific data set. It is found that Japanese banks charge less on loans to Japanese borrowers than do foreign banks, holding constant many of the risk characteristics of the borrower. Moreover, Japanese banks vary pricing less across these risks than do foreign banks, suggesting that Japanese banks tend not to distinguish good risks from bad. Taken together, the results suggest that problems at Japanese banks stem from the behavior of the banks themselves, not simply from poor economic conditions. This paper also documents a significant shortening in the maturity structure of Japanese loans in the late 1990s.

Smith, James P.

TI Wealth Portfolios in the UK and the US. AU Banks, James; Blundell, Richard; Smith, James P.

TI The Effects of Subjective Survival on Retirement and Social Security Claiming. AU Hurd, Michael D.; Smith, James P.; Zissimopoulos, Julie M.

TI Expected Bequests and Their Distribution. AU Hurd, Michael D.; Smith, James P.

Smith, Jeremy

TI Sheer Class? The Impact of Degree Performance on Graduate Labor Market Outcomes. AU Naylor, Robin; Smith, Jeremy; McKnight, Abigail.

Smith, Trenton G.

PD August 2002. TI The McDonald's Equilibrium: Advertising, Empty Calories, and the Endogenous Determination of Dietary Preferences. AA UCSB. SR University of California, Santa Barbara, Working Paper in Economics: 2002/17; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. PG 56. PR no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". JE B40, D18, D60, D83, D91. KW Self-Control. Health. Evolution. Consumer Protection.
AB A comparison of accepted nutritional advice with actual American dietary practice suggests that many people fail to eat well in spite of well-documented health consequences. Popular culture often labels the worst offenders as lacking in "self-control," and many blame the aggressive advertising campaigns of the fast-food and snack-food industries for manipulating consumers into poor diets, but these conclusions are not easily reconciled with a neoclassical approach to economic decision theory. This essay considers the consumer's "diet problem" in light of emerging evidence from a number of behavioral sciences. In particular, it is argued that human evolution in the distant past resulted in an elegant solution to this problem (of search for a suitable diet in an uncertain environment), which any neoclassical economist would recognize. In modern

environments, however, the signals that formerly provided information in the consumer's search problem are subject to manipulation by food-producing firms. Confirmation by molecular biologists that many human responses to these signals are firmly encoded in our genes suggest a need to re-evaluate the welfare economics of the food industry.

AB The modern prevalence and negative consequences of obesity suggest that many people have a tendency to eat more than is optimal. This paper examines the biological underpinnings of mammalian feeding behavior in an attempt to reconcile the "self-control problem" with the normative tradition of neoclassical economics. Medical, genetic, and molecular evidence suggest that overeating is a manifestation of the fundamental mismatch between ancient environments-in which preferences for eating evolved-and modern environments. The phenomenon can be described with a simple optimal foraging model in which both the utility function and the Bayesian prior are generated endogenously in the distant past. The implied disparity between subjective probabilities and actual probabilities has potentially broad implications for welfare economics.

Smith, Valdemar

TI Are Ownership Structures Risk- & Wealth-Constrained? AU Madsen, Erik Strojer; Smith, Valdemar; Dilling-Hansen, Mogens.

AB This paper analyses the role of R&D in the export behavior of Danish firms. Export behavior is defined as the likelihood of a firm being an exporter. In the theoretical part of the paper it is argued that export and being R&D active are endogenous with respect to each other, and an empirical model is formulated in order to estimate which factors affect the firm's export. It is argued that besides R&D, firm size, wages and a number of other firm-specific factors controlling for risks are highly important for the export performance. In the empirical part of the paper the model is tested on a sample of 3,500 Danish firms. Using a FIML estimation form in order to deal with endogeneity problems between the R&D and export decisions of the firms, the computation clearly verifies the theoretical model put forward. Moreover, R&D is an important factor for being an exporting firm.

TI Does the New Economy Create Higher Productivity? AU Dilling-Hansen, Mogens; Madsen, Erik Strojer; Smith, Valdemar.

Snyder, Stephen E.

AB There is widespread and longstanding agreement that life expectancy and income are positively correlated. However, it has proven much more difficult to establish a causal relationship since income and health are jointly determined. We use a major change in the Social Security law as exogenous variation in income to examine the impact of income on mortality in an elderly population. The legislation created a "notch" in Social Security benefits based upon date of birth; those born before January 1, 1917 generally receive higher benefits than those born afterwards. We compare mortality rates after age 65 for males born in the second half of 1916 and the first half of 1917. Data from restricted-use versions of the National Mortality Detail File combined with Census data allows us to count all deaths among elderly Americans between 1979 and 1993. We find that the higher income group has a statistically significantly higher mortality rate, contradicting the previous literature. We also find that the younger cohort responded to lower incomes by increasing post-retirement work effort. These results suggest that moderate employment has beneficial health effects for the elderly.

Soikkeli, Jarkko

TI How Competitive is Irish Manufacturing? AU Cerra, Valerie; Soikkeli, Jarkko.

Solymosi, Tamas

TI On the Nucleolus of Neighbor Games. AU Hamers, Herbert; Klijn, Flip; Solymosi, Tamas; Tijs, Stef; Vermeulen, Dries.

Sousa, Joao

TI Aggregate Loans to the Euro Area Private Sector. AU Calza, Alessandro; Manrique, Marta; Sousa, Joao.

Sousa, Nuno

TI Do Domestic Firms Learn to Export from Multinationals? AU Greenaway, David; Sousa, Nuno; Wakelin, Katharine.

Spencer, Barbara J.

TI Vertical Networks and US Auto Parts Exports: Is Japan Different? AU Head, Keith; Ries, John; Spencer, Barbara J.

Spiegel, Matthew I.

TI Sharpening Sharpe Ratios. AU Goetzmann, William; Ingersoll, Jonathan; Spiegel, Matthew I.; Welch, Ivo.

Spolaore, Enrico

PD September 2002. TI Borders and Growth. AU Spolaore, Enrico; Wacziarg, Romain. AA Spolaore: Brown University. Wacziarg: Stanford University and NBER. SR National Bureau of Economic Research Working Paper: 9223; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 27. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F15, F17, O40, P16. KW Political Borders. Economic Growth.

AB This paper presents a framework to understand and measure the effects of political borders on economic growth and per capita income levels. We present a model providing a theoretical foundation to estimate empirically the effects of political borders on growth. In our model, political integration between two countries results in a positive country size effect and a negative effect through reduced openness vis-a-vis the rest of the world. We estimate the growth effects that would have resulted from the hypothetical removal of national borders between pairs of adjacent countries. We also identify country pairs where political integration would have been mutually beneficial.

Steinmeier, Thomas L.

TI Social Security, Pensions and Retirement Behavior Within the Family. AU Gustman, Alan L.; Steinmeier, Thomas L.

TI The Social Security Early Entitlement Age in a Structural Model of Retirement and Wealth. AU Gustman, Alan L.; Steinmeier, Thomas L.

Stephens, Melvin, Jr.

PD September 2002. TI "3rd of the Month": Do Social Security Recipients Smooth Consumption Between Checks? AA Carnegie Mellon University. SR National Bureau of Economic Research Working Paper: 9135; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E21, H55. KW Social Security. Consumption Smoothing.

AB This paper examines the response of consumption expenditures to the monthly receipt of Social Security checks. Since the amount and arrival date of these checks are known to the recipients, the basic Life- Cycle/Permanent Income Hypothesis (LCPIH) predicts that consumption should not respond to the receipt of these checks. Using daily diary data from the Consumer Expenditure Survey, this paper finds evidence that both the dollar amount and probability of expenditures increase immediately following the receipt of this check. Most relevant to testing the LCPIH, categories of instantaneous consumption expenditure such as food away from home increase on the check arrival date. The response is found primarily amongst households for whom Social Security is the primary source of income. However, the magnitude of the estimated responses are relatively small and do not suggest that the utility losses are large from this non-smoothing behavior.

TI Abortion Legalization and Adolescent Substance Use. AU Charles, Kerwin Kofi; Stephens, Melvin, Jr..

Stevens, Ann Huff

TI How Does Job Loss Affect the Timing of Retirement?

AU Chan, Sewin; Stevens, Ann Huff.

TI Will You Miss Me When I Am Gone? The Economic Consequences of Absent Parents. AU Page, Marianne E.; Stevens, Ann Huff.

Stevens, John J.

TI Firm Specific Human Capital vs. Job Matching: A New Test. AU Quintin, Erwan; Stevens, John J.

Steyaert, Chris

TI Theories of Diversity Within Organization Studies: Debates and Future Trajectories. AU Janssens, Maddy; Steyaert, Chris.

Stiegert, Roger

TI Growth Expectations, Capital Flows and International Risk Sharing. AU Castren, Olli; Miller, Marcus; Stiegert, Roger.

Stiglitz, Joseph

PD September 2002. TI Integration of Unemployment Insurance with Retirement Insurance. AU Stiglitz, Joseph; Yun, Jungyoll. AA Stiglitz: Stanford University and NBER. Yun: not available. SR National Bureau of Economic Research Working Paper: 9199; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE G23, J64, J65. KW Unemployment Insurance. Pension Program.

AB This paper analyzes a social insurance system that integrates unemployment insurance with a pension program through an individual account, allowing workers to borrow against their future wage income to finance consumption during an unemployment episode and thus improving their search incentives while reducing risks. This paper identifies factors which determine the optimal degree of integration. A fully integrated system is one in which no reliance is placed at all on a separate tax-funded unemployment insurance program. We show that when the duration of unemployment is very short compared to the period of employment or retirement, the optimal system involves an exclusive reliance on pension-funded self-insurance. This system imposes a negligible risk burden for workers while avoiding attenuating search incentives. We also argue that a joint integration of several social insurance programs with a pension program through an individual account is desirable unless the risks are perfectly correlated to each other.

Stock, James H.

PD September 2002. TI Has the Business Cycle Changed and Why? AU Stock, James H.; Watson, Mark W. AA Stock: Harvard University and NBER. Watson: Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 9127; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 43. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE E32. KW Business Cycle. Volatility.

AB From 1960-1983, the standard deviation of annual growth rates in real GDP in the United States was 2.7%. From 1984-2001, the corresponding standard deviation was 1.6%. This paper investigates this large drop in the cyclical volatility of

real economic activity. The paper has two objectives. The first is to provide a comprehensive characterization of the decline in volatility using a large number of U.S. economic time series and a variety of methods designed to describe time-varying time series processes. In so doing, the paper reviews the literature on the moderation and attempts to resolve some of its disagreements and discrepancies. The second objective is to provide new evidence on the quantitative importance of various explanations for this "great moderation." Taken together, we estimate that the moderation in volatility is attributable to a combination of improved policy (20-30%), identifiable good luck in the form of productivity and commodity price shocks (20-30%), and other unknown forms of good luck that manifest themselves as smaller reduced-form forecast errors (40- 60%).

Stracca, Livio
TI   Myopic Loss Aversion, Disappointment Aversion, and the Equity Premium Puzzle. AU   Fielding, David; Stracca, Livio.

Strebulaev, Ilya A.
TI   Multiple Unit Auctions and Short Squeezes. AU   Nyborg, Kjell G.; Strebulaev, Ilya A.

Strijbosch, L. W. G.
PD   November 1999. TI   Simple Expressions for Safety Factors in Inventory Control. AU   Strijbosch, L. W. G.; Moors, J. J. A. AA   Tilburg University. SR   Tilburg CentER Discussion Paper: 99112; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands.   Website: http://center.uvt.nl   or http://greywww.kub.nl:2080/greyfiles/.   PG   21.   PR   no charge. JE   C53, D24. KW   Inventory Control. Forecasting. Gamma Demand. (R, S)-Control Policy. Safety Factor.
AB   The literature on inventory control discusses many methods to establish the level of decision parameters-like reorder levels or safety factors-, necessary to attain a prescribed service level. In general, however, these methods are not easily applicable. In this paper, we consider a periodic review fully back-ordered order up-to level (R, S)-system with stationary gamma distributed demand, and constant lead time. Two service level constraints are treated simultaneously: the stock-out probability and the fill rate. For the case that, in addition, the demand distribution parameters are known, we (i) calculate exact safety factors, depending on three model parameters, (ii) present simple expressions that give nearly exact safety factors. The latter expressions are valid for a wide range of parameter values; since implementation is straightforward, our method is appropriate for routine operational use. For unknown demand parameters, estimates obtained from past observations can be plugged in. The behavior of the resulting order up-to levels is studied by simulation and appears to be quite satisfactory. Our most important message, however, is that this two-step procedure turns out to be applicable to a much wider range of inventory problems; to illustrate this remark, preliminary results on a specific (R,s,S)-system are mentioned.

Strobl, Eric
TI   Spillovers From Foreign Firms Through Worker Mobility: An Empirical Investigation. AU   Gorg, Holger; Strobl, Eric.

TI   Why Do Foreign-Owned Firms Pay More? The Role of On-the-Job Training. AU   Gorg, Holger; Strobl, Eric; Walsh, Frank.

TI   Multinationals'   Location   Choice,   Agglomeration Economies and Public Incentives. AU   Barrios, Salvador; Goerg, Holger; Strobl, Eric.

TI   Why do Rates of Convergence Differ? A Meta-Regression Analysis. AU   Dobson, Steve; Ramlogan, Carlyn; Strobl, Eric.

Subramanian, Arvind
TI   The Africa Growth and Opportunity Act and Its Rules of Origin: Generosity Undermined? AU   Mattoo, Aaditya; Roy, Devesh; Subramanian, Arvind.

TI   The Missing Globalization Puzzle. AU   Bhavnani, Rikhil; Coe, David T.; Subramanian, Arvind; Tamirisa, Natalia T.

Surico, Paolo
PD   May 2003. TI   How does the ECB Target Inflation? AA   Universita Bocconi. SR   European Central Bank Working Paper: 229; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/.   PG   44.   PR   no charge. JE   E52, E58. KW   ECB Monetary Policy Rule. Inflation Target.
AB   The announced primary objective of the European Central Bank is price stability. While no restrictive reference is given to how the goal should be reached, such a mandate can be thought of as a concern to stabilize some relevant macroeconomic aggregates. Accordingly, we frame ECB monetary policy in a general set up that allows policy makers to weight differently positive and negative deviations of inflation and output gaps. The empirical analysis on aggregated Euro area data indicates that ECB monetary policy can be characterized by a nonlinear policy rule. While the objective of price stability is symmetric, the one on real activity is not in that output contractions require larger policy responses. Moreover, the actual Euro interest rate highly commoves with the counterfactual rate that the Bundesbank would have followed if charged to set policy rates for the Euro area.

Svensson, Jakob
TI   Explaining Leakage of Public Funds. AU   Reinikka, Ritva; Svensson, Jakob.

Taglioni, Daria
TI   The Impact of Monetary Union on Trade Prices. AU   Anderton, Robert; Baldwin, Richard E.; Taglioni, Daria.

Tamer, Elie
TI   Pairwise   Comparison   Estimation   of   Censored Transformation Models. AU   Khan, Shakeeb; Tamer, Elie.

Tamirisa, Natalia T.
TI   The Missing Globalization Puzzle. AU   Bhavnani, Rikhil; Coe, David T.; Subramanian, Arvind; Tamirisa, Natalia T.

Tauchen, George
TI   Regime-Shifts, Risk Premiums in the Term Structure, and the Business Cycle. AU   Bansal, Ravi; Tauchen, George;

Zhou, Hao.

Tauman, Yair
TI Modest Advertising Signals Strength. AU Orzach, Ram; Overgaard, Per Baltzer; Tauman, Yair.

Tazdait, T.
TI North-South Climate Change Negotiations: A Sequential Game With Asymmetric Information. AU Caparros, A.; Pereau, J. C.; Tazdait, T.

Tchaidze, Robert
TI The Fed and the New Economy. AU Ball, Laurence; Tchaidze, Robert.

Tekin, Erdal
TI Catholic Schools and Bad Behavior. AU Mocan, H. Naci; Scafidi, Benjamin; Tekin, Erdal.

Terrell, Katherine
TI What Drives the Speed of Job Reallocation During Episodes of Massive Adjustment? AU Jurajda, Stepan; Terrell, Katherine.

Teyssiere, Gilles
PD February 2003. TI Interaction Models for Common Long-Range Dependence in Asset Price Volatilities. AA NBG Bank, GREQAM, and Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/26; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 16. PR $5 per paper; $100 per year. JE C12, C22, D40. KW Long-Memory. Field Effects. Interaction Models. Change-Points. Wavelets.
AB We consider a class of microeconomic models with interacting agents which replicate the main properties of asset prices time series: non- linearities in levels and common degree of long-memory in the volatilities and co-volatilities of multivariate time series. For these models, long-range dependence in asset price volatility is the consequence of swings in opinions and herding behavior of market participants, which generate switches in the heteroskedastic structure of asset prices. Thus, the observed long-memory in asset prices volatility might be the outcome of a change-point in the conditional variance process, a conclusion supported by a wavelet analysis of the volatility series. This explains why volatility processes share only the properties of the second moments of long-memory processes, but not the properties of the first moments.

Thaicharoen, Yunyong
TI Institutional Causes, Macroeconomic Symptoms: Volatility, Crises and Growth. AU Acemoglu, Daron; Johnson, Simon; Robinson, James; Thaicharoen, Yunyong.

Thaler, Richard
TI A Survey of Behavioral Finance. AU Barberis, Nicholas; Thaler, Richard.

Tharakan, P. K. Mathew
PD February 2003. TI Exports and Distance in a Digitalized World: Gravity Model Applied to the Indian Exports of Software. AU Tharakan, P. K. Mathew; Van Beveren, Ilke. AA University of Antwerp. SR University of Nottingham, GEP Research Paper: 2003/10; Research Paper Coordinator, School of Economics, University of Nottingham, University Park, Nottingham, NG7 2RD, United Kingdom. Website: http://www.nottingham.ac.uk/~lezec/research/dp/. PG 31. PR no charge. JE F14. KW Software. Gravity Model. Distance.
AB In this study we apply the gravity model to the fast growing Indian exports of software and to the much more slowly growing total Indian commodity exports. In analyzing the results obtained, we pay special attention to: the distance variable, linguistic connections, and trade facilitating networks. The insights gained from our analysis might be relevant in appraising the prospects of the new wave of emerging country exporters of software. Further, the lack of importance of distance as a trade resistance variable in software (which we confirm in our study) has interesting implications for trade liberalization in, and spatial agglomeration of, some industries.

Thomasson, Melissa A.
PD September 2002. TI Did Blue Cross and Blue Shield Suffer from Adverse Selection? Evidence from the 1950s. AA Miami University and NBER. SR National Bureau of Economic Research Working Paper: 9167; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 16. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE I11, N72. KW Adverse Selection. Blue Cross. Blue Shield.
AB This paper uses a unique data set from 1957 to examine whether or not Blue Cross and Blue Shield suffered from an adverse selection death spiral after for-profit commercial insurance companies entered the market for health insurance. Results suggest that moving to experience rating may have helped the Blues counteract adverse selection in the group health insurance market. Adverse selection posed a greater problem for the Blues in the market for individual health insurance, possibly because of differences in the way the Blues screened potential enrollees relative to commercial insurance companies.

Thompson, Steve
TI Merger Activity and Executive Pay. AU Girma, Sourafel; Thompson, Steve; Wright, Peter.

Thorburn, Karin S.
TI Overbidding versus Fire-Sales in Bankruptcy Auctions. AU Eckbo, B. Espen; Thorburn, Karin S.

Thornton, Daniel M.
TI The Dynamic Relationship Between the Federal Funds Rate and the Treasury Bill Rate: An Empirical Investigation. AU Sarno, Lucio; Thornton, Daniel M.

Tijs, Stef
TI On the Nucleolus of Neighbor Games. AU Hamers, Herbert; Klijn, Flip; Solymosi, Tamas; Tijs, Stef; Vermeulen, Dries.

TI On the Nucleolus of Neighbor Games. **AU** Hamers, Herbert; Klijn, Flip; Solymosi, Tamas; Tijs, Stef; Vermeulen, Dries.

Timmins, Christopher
TI A Note on the Equilibrium Properties of Locational Sorting Models. **AU** Bayer, Patrick; Timmins, Christopher.

TI Estimating Equilibrium Models of Sorting Across Locations. **AU** Bayer, Patrick; Timmins, Christopher.

Tirole, Jean
TI Efficient Patent Pools. **AU** Lerner, Josh; Tirole, Jean.

Todd, Steven
TI Performance Evaluation with Stochastic Discount Factors. **AU** Farnsworth, Heber; Ferson, Wayne E.; Jackson, David; Todd, Steven.

Toivanen, Otto
TI Market Structure and Entry in Fast Food. **AU** Sault, Joanne; Toivanen, Otto; Waterson, Michael.

Tol, Richard S. J.
TI Strategic Action in the Liberalized German Electricity Market. **AU** Lise, Wietze; Kemfert, Claudia; Tol, Richard S. J.

Tollens, Eric
TI · Does Market Liberalization Jeopardize Export Quality? Cameroonian Cocoa, 1995-2000. **AU** Gilbert, Christopher L.; Tollens, Eric.

Tonin, Stefania
TI The Role of Liability, Regulation and Economic Incentives in Brownfield Remediation and Redevelopment: Evidence From Surveys of Developers. **AU** Alberini, Anna; Longo, Alberto; Tonin, Stefania; Trombetta, Francesco; Turvani, Margherita.

Topoleski, Julie H.
TI The Social and Economic Impact of Native American Casinos. **AU** Evans, William N.; Topoleski, Julie H.

Tornell, Aaron
PD September 2002. **TI** Boom-Bust Cycles in Middle Income Countries: Facts and Explanation. **AU** Tornell, Aaron; Westermann, Frank. **AA** Tornell: UCLA and NBER. Westermann: University of Munich and CESifo. **SR** National Bureau of Economic Research Working Paper: 9219; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E32, E44, F32. **KW** Currency Crises. Banking Crises. Booms. Tradables. Nontradables. **AB** In this paper we characterize empirically the comovements of macro variables typically observed in middle income countries, as well as the "boom-bust cycle" that has been observed during the last two decades. We find that many countries that have liberalized their financial markets, have witnessed the development of lending booms. Most of the time, the boom gradually decelerates. However, sometimes the boom ends in twin currency and banking crises, and is followed by a protracted credit crunch that outlives a short-lived recession. We also find that during lending booms there is a real appreciation and the nontradables (N) sector grows faster than the tradables (T) sector. Meanwhile, the opposite is true in the aftermath of crisis. We argue that these comovements are generated by the interaction of two characteristics of financing typical of middle income countries: risky currency mismatch and asymmetric financing opportunities across the N- and T-sectors.

Town, Robert
TI Competition, Payers, and Hospital Quality. **AU** Gowrisankaran, Gautam; Town, Robert.

Traeger, Rolf
TI An Account of Geographic Concentration Patterns in Europe. **AU** Bruelhart, Marius; Traeger, Rolf.

Tranaes, Torben
TI Unrestricted Duopoly Competition: Equilibrium and Survival. **AU** Roy, Jaideep; Tranaes, Torben.

Trefler, Daniel
TI Knowledge Creation and Control in Organizations. **AU** Puga, Diego; Trefler, Daniel.

TI The Gains from Trade with Monopolistic Competition: Specification, Estimation, and Mis-Specification. **AU** Lai, Huiwen; Trefler, Daniel.

Troeger, Thomas
PD October 2002. **TI** Double Auctions, Ex-Post Participation Constraints, and the Hold-Up Problem. **AA** UCSB. **SR** University of California, Santa Barbara, Working Paper in Economics: 2002/19; Working Paper Coordinator, Department of Economics, University of California, Santa Barbara, CA 93106. Website: www.econ.ucsb.edu. **PG** 36. **PR** no charge for domestic orders; for non-U.S. orders, $3 per paper, pre-paid check or money order made out to "Regents of the University of California". **JE** C78, D21. **KW** Hold-Up Problem. Double Auction. Participation Constraints. **AB** This paper makes two contributions in the context of seller-buyer relations with bilateral relationship-specific investment. Firstly, we demonstrate how ex-post negotiations via double auctions can be used to alleviate and often resolve the hold-up problem. Secondly, we show that ex-post participation constraints make the hold-up problem unavoidable in environments where (i) production costs are relatively high compared to valuations and (ii) the trade price is independent of the investment levels.

Trombetta, Francesco
TI The Role of Liability, Regulation and Economic Incentives in Brownfield Remediation and Redevelopment: Evidence From Surveys of Developers. **AU** Alberini, Anna; Longo, Alberto; Tonin, Stefania; Trombetta, Francesco; Turvani, Margherita.

TI The Role of Liability, Regulation and Economic Incentives in Brownfield Remediation and Redevelopment: Evidence From Surveys of Developers. **AU** Alberini, Anna; Longo, Alberto; Tonin, Stefania; Trombetta, Francesco; Turvani, Margherita.

Tuesta, Vicente

TI Net Foreign Assets and Imperfect Pass-Through: The Consumption Real Exchange Rate Anomaly. **AU** Selaive, Jorge; Tuesta, Vicente.

Tufano, Peter

TI Selling Company Shares to Reluctant Employees: France Telecom's Experience. **AU** Degeorge, Francois; Jenter, Dirk; Moel, Alberto; Tufano, Peter.

Turrini, Alessandro

PD February 2002. **TI** Traders, Courts and the Home Bias Puzzle. **AU** Turrini, Alessandro; van Ypersele, Tanguy. **AA** Turrini: European Commission and CEPR. van Ypersele: Universite de Namur, CORE, and CEPR. **SR** CEPR Discussion Paper: 3228; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, $5 or 8 euros + postage and handling. **JE** F12. **KW** Cross-Border Trade. Legal Costs. Matching.
AB Recent evidence shows that the "home bias puzzle" in international trade may be associated with the mere presence of national borders (McCallum (1995)). In this paper we provide a theoretical framework to explain why borders may matter so much for trade. Our argument is that even between perfectly integrated and similar countries the legal system differs, so that legal costs are higher when business is done abroad. Using a matching model of trade, we show that the home bias is associated with both less searching foreign sellers in the home market and a lower probability of cross-border matches being accepted. In industries characterized by high turnover legal costs may reduce trade because of reducing the mass of searching foreign sellers and increasing at the same time that of searching domestic sellers.

Tzavara, Dionisia

TI Market Entry and Roll-Out With Product Differentiation. **AU** Levine, Paul L.; Rickman, Neil; Tzavara, Dionisia.

Udell, Gregory F.

TI The Institutional Memory Hypothesis and the Procyclicality of Bank Lending Behavior. **AU** Berger, Allen N.; Udell, Gregory F.

Udry, Christopher

PD June 2003. **TI** Child Labor. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 856; Louise Danishevsky, Publications Office, Economic Growth Center, Yale University, P.O. Box 208269, New Haven, CT 06520-8269. Website: www.library.yale.edu/socsci/egcdisp.html. **PG** 20. **PR** $2.00 plus postage. **JE** J13, J24, O15. **KW** Child Labor. Human Capital. Household Economics.
AB Child labor exists because it is the best response people can find to intolerable circumstances. Poverty and child labor are mutually reinforcing: because their parents are poor, children must work and not attend school, and then grow up poor. Child labor has two important special features. First, when financial markets are imperfect, the separation in time between the immediate benefits and long-delayed costs of sending children to work lead to excessive child labor. Second, the costs and benefits of child labor are borne by different people. Targeted subsidies for school attendance are very effective in reducing child labor because they successfully address both of these problems.

TI Intrahousehold Resource Allocation in Cote D'Ivoire: Social Norms, Separate Accounts and Consumption Choices. **AU** Duflo, Esther; Udry, Christopher.

Upper, Christian

TI Time Variation in the Tail Behaviour of Bund Futures Returns. **AU** Werner, Thomas; Upper, Christian.

Upward, Richard

TI Structural Adjustment and the Sectoral and Geographical Mobility of Labor. **AU** Greenaway, David; Upward, Richard; Wright, Peter.

TI Regional Mobility and Unemployment Transitions in the UK and Spain. **AU** Lindley, Joanne; Upward, Richard; Wright, Peter.

Uribe, Martin

TI Optimal Fiscal and Monetary Policy Under Sticky Prices. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin.

PD September 2002. **TI** A Fiscal Theory of Sovereign Risk. **AA** University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 9221; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** $10.00 per copy (plus $10.00 per order for shipping outside U.S.). **JE** E69, F41. **KW** Sovereign Risk Premia. Default Risk. Fiscal Policy.
AB This paper presents a fiscal theory of sovereign risk and default. Under certain monetary-fiscal regimes, the risk of default, and thus the emergence of sovereign risk premia, are inevitable. The paper characterizes the equilibrium processes of the sovereign risk premium and the default rate under a number of alternative monetary policy arrangements. Under some of the policy environments considered, the expected default rate and the sovereign risk premium are zero although the government defaults regularly. Under other monetary regimes the default rate and the sovereign risk premium are serially correlated and therefore forecastable. Environments are characterized under which delaying default is counterproductive.

TI Anticipated Ramsey Reforms and the Uniform Taxation Principle: The Role of International Financial Markets. **AU** Schmitt-Grohe, Stephanie; Uribe, Martin.

Urrutia, Carlos

TI Intergenerational Persistence of Earnings: The Role of Early and College Education. **AU** Restuccia, Diego; Urrutia, Carlos.

Valla, Natacha

TI The Natural Real Rate of Interest in the Euro Area. **AU** Giammarioli, Nicola; Valla, Natacha.

Van Beveren, Ilke

TI Exports and Distance in a Digitalized World: Gravity Model Applied to the Indian Exports of Software. **AU** Tharakan, P. K. Mathew; Van Beveren, Ilke.

van de Klundert, Theo

PD November 1999. TI On the Viability of Gift Exchange in a Market Environment. AU van de Klundert, Theo; van de Ven, Jeroen. AA van de Klundert: Tilburg University and University of Groningen. van de Ven: Tilburg University. SR Tilburg CentER Discussion Paper: 99113; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: http://center.uvt.nl or http://greywww.kub.nl:2080/greyfiles/. PG 22. PR no charge. JE A13, D51, D62. KW Exchange. Reciprocity. Gifts. Moral and Extended Preferences.

AB Is gift-exchange inevitably to be crowded out by impersonal market exchange? The presence of a thick-market externality indicates that this is indeed likely to be the case. But reciprocity or gift-exchange induces social relations. The utility function is extended in order to take account of social relations in the form of symbolic utility or moral sentiments. As long as moral sentiments are valued high enough it is shown that both market and gift-exchange can coexist. The spontaneous order need not necessarily select the most efficient market size however.

van de Ven, Jeroen

TI On the Viability of Gift Exchange in a Market Environment. AU van de Klundert, Theo; van de Ven, Jeroen.

van Londen, Selma

TI Managing Diversity in a Glocalizing World. AU de Ruijter, Arie; van Londen, Selma.

van Soest, Arthur

TI Nonparametric Modeling of the Anchoring Effect in an Unfolding Bracket Design. AU Alvarez, Rosalia Vazquez; Melenberg, Bertrand; van Soest, Arthur.

van Ypersele, Tanguy

TI Traders, Courts and the Home Bias Puzzle. AU Turrini, Alessandro; van Ypersele, Tanguy.

Vartiainen, Hannu

PD March 2003. TI Auction Design Without Commitment. AA Yrjo Jahnsson Foundation and University of Helsinki. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/24; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 27. PR no charge; available only online. JE C72, D44, D78. KW Auction Theory. Commitment. Stable Sets.

AB We study auction design when parties cannot commit themselves to the mechanism. The seller may change the rules of the game and the buyers choose their outside option at all stages. We assume that the seller has a leading role in equilibrium selection at any stage of the game. Stationary equilibria are characterized in the language of von Neumann-Morgenstern stable sets. This simplifies the analysis remarkably. In the one buyer case, we obtain the Coase conjecture: the buyer obtains all the surplus and efficiency is reached. However, in the multiple buyer case the seller can achieve more: she is able to commit to the English auction. Typically the converse also holds; the English auction is the only stable auction mechanism.

Vaughn, Billy E.

PD January 2003. TI A Stage Model of Developing an Inclusive Community. AU Vaughn, Billy E.; Mlekov, Katarina. AA Vaughn: Alliant International University. Mlekov: Alliant International University and University of Gothenburg. SR Fondazione Eni Enrico Mattei Note di Lavoro: 2003/17; Fondazione Eni Enrico Mattei, Corso Magenta 63, 20123 Milano, Italy. Website: www.feem.it/Feem/Pub/Publications/Wpapers/default.htm. PG 13. PR no charge; available only online. JE Z13. KW Inclusion. Cultural Psychology. Monocultural. Symbolic Difference. Critical Mass.

AB The Community Inclusion model described in this paper characterizes the stages through which a diverse group of people living within the same community develops into an inclusive community. The model is described in terms of its usefulness in the assessment of a community's current stage of inclusion, and determining the interventions needed to address lack of inclusion. Examples from Sweden (EU) and the United States (USA) will be used to demonstrate how the model works. Particular focus will be on the relationship between stage of inclusion and collective community action for economic development.

Vecchiato, Walter

TI Sensitivity Analysis of Volatility: a New Tool for Risk Management. AU Manganelli, Simone; Ceci, Vladimiro; Vecchiato, Walter.

Velazquez, Francisco J.

TI Has the European Integration Approximated the Composition of Government Expenditures? A Comparative Analysis Between the EU and Non- EU Countries of the OECD. AU Sanz, Ismael; Velazquez, Francisco J.

Ventura, Jaume

PD September 2002. TI Towards a Theory of Current Accounts. AA MIT and NBER. SR National Bureau of Economic Research Working Paper: 9163; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE F21, F32, F41. KW Current Account. Intertemporal Theory.

AB The current accounts data of industrial countries exhibits some strong patterns that are inconsistent with the intertemporal approach to the current account. This is the basic model that international economists have been using for more than two decades to think about current account issues. This paper shows that it is possible to go a long way towards reconciling the theory and the data by introducing two additional features to the basic model: investment risk and adjustment costs to investment. Moreover, these extensions generate new and unexpected theoretical predictions that receive substantial support in the data. The overall message is therefore positive: with a couple of reasonable modifications, the intertemporal approach to the current account provides a fairly good description of the industrial country data.

Vereshchagina, Galina

TI Risk Taking by Entrepreneurs. AU Hopenhayn, Hugo A.; Vereshchagina, Galina.

Vergalli, Sergio

TI Learning by Doing vs Learning by Researching in a Model of Climate Change of Policy Analysis. AU Castelnuovo, Efrem; Galeotti, Marzio; Gambarelli, Gretel; Vergalli, Sergio.

Vernasca, Gianluigi

PD July 2003. TI Dynamic Price Competition with Price Adjustment Costs and Product Differentiation. AA University of Warwick. SR The Warwick Economics Working Paper Series: 681; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG 17. PR no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE C72, C73, L13. KW Price Adjustment Costs. Markov Perfect Equilibrium. Open-Loop Equilibrium.

AB We study a discrete time dynamic game of price competition with spatially differentiated products and price adjustment costs. We characterize the Markov perfect and the open-loop equilibrium of our game. We find that in the steady state Markov perfect equilibrium, given the presence of adjustment costs, equilibrium prices are always higher than prices at the repeated static Nash solution, even though, adjustment costs are not paid in steady state. This is due to intertemporal strategic complementarity in the strategies of the firms and from the fact that the cost of adjusting prices adds credibility to high price equilibrium strategies. On the other hand, the stationary open-loop equilibrium coincides always with the static solution. Furthermore, we show that the stationary Markov perfect equilibrium converges to the static Nash equilibrium when adjustment costs tend to zero. Moreover, we obtain the same convergence result when adjustment costs tend to infinity.

Veronesi, Pietro

TI The Time Series of the Cross Section of Asset Prices. AU Menzly, Lior; Santos, Tano; Veronesi, Pietro.

Vidal, Jean-Pierre

TI Self-Control and Savings. AU Michel, Philippe; Vidal, Jean-Pierre.

Vigfusson, Robert

TI What Happens After a Technology Shock? AU Christiano, Lawrence J.; Eichenbaum, Martin; Vigfusson, Robert.

TI How do Canadian Hours Worked Respond to a Technology Shock? AU Christiano, Lawrence J.; Eichenbaum, Martin; Vigfusson, Robert.

Vijselaar, Focco

TI Productivity and the ("Synthetic") Euro-Dollar Exchange Rate. AU Schnatz, Bernd; Vijselaar, Focco; Osbat, Chiara.

Villas-Boas, Sofia Berto

PD October 2002. TI Vertical Contracts Between Manufacturers and Retailers: An Empirical Analysis. AA UC Berkeley. SR University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 943; University of California, Giannini Foundation Library, 248 Giannini Hall #3310, Berkeley, CA 94720-3310. Website: http://repositories.cdlib.org/are_ucb/943. PG 52. PR $13.00 domestic; $26.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE L66, L81. KW Market Power. Vertical Contracts. Manufacturers and Retailers. Non-Nested Tests. Non-Linear Pricing.

AB This paper tests different models of vertical contracting between manufacturers and retailers in the supermarket industry. The paper estimates demand and use the estimates to compute price-cost margins for retailers and manufacturers under different supply models without observing wholesale prices. The paper then tests which set of margins seems to be compatible with the margins obtained from direct estimates of cost and selects the best among the non-nested competing models. The models considered are: (1) a double marginalization pricing model; (2) a vertically integrated model; and (3) a variety of alternative (strategic) supply scenarios, allowing for collusion, non-linear pricing and strategic behavior with respect to private label products. Using data on yogurt sold at several stores in a large urban area of the United States, the paper finds that wholesale prices are close to marginal cost and that retailers have pricing power in the vertical chain. This is consistent with non-linear pricing by the manufacturers or with high bargaining power of the retailers.

Vindigni, Andrea

PD June 2002. TI Income Distribution and Skilled Biased Technological Change. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 464; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/pubs/working_papers.html. PG 35. PR $1.50. JE J31, O15, O33, O40. KW Growth. Capital Accumulation. Technological Change.

AB This paper develops a model of growth based on a critical interplay between human capital accumulation and technological change. The "direction" of technological change is skilled biased by assumption, but its occurrence is endogenous, and determined by an intentional, profit-oriented decision taken by Schumpeterian innovators. A property of the dynamic equilibrium of the model is of featuring an education-technology race, in which the accumulation of human capital triggers the spread of highly efficient but skilled biased technologies. In turn the latter generates potentially deep transformations in the wage structure and in the distribution of income. In particular, consistently with the evidence on the recent experience of many industrialized countries, skilled wages can increase and unskilled wages can fall, both in absolute terms, rather than just relative ones. The pauperization suffered by the unskilled on impact may be long lasting and substantially slow down the pace of the diffusion of the new technologies if, as the model assumes, a market for financing human capital investments does not exist. At the limit, it may be such to impede to a number of dynasties of workers to ever become educated and to forbid a full scale upgrading of the aggregate production structure of the economy.

PD June 2002. TI Uncertainty and the Politics of Employment Protection. AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 465; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098.

AB This paper investigates the role that idiosyncratic
uncertainty, in the form of firm-specific productivity shocks,
plays in shaping social preferences over the degree of labor
market "flexibility". How labor markets respond to shocks is
shaped by institutional factors such as the strength of the
"bargaining power" of labor. A more volatile environment and
a more modest systematic rate of productivity growth ("bad
times") may tend to favor the political support for a (more)
rigid labor market only if the rents appropriated by the
employed are relatively large to start with. However, a similar
type of shock can reinforce the socio-political stability of a
flexible labor market where workers are relatively weak. The
model thus confirms the hypothesis that the exposure to similar
shocks may indeed be a source of institutional divergence
across economies. A second result demonstrated refers to the
possibility of observing "institutional hysterics". If the
institutional structure of the labor market becomes more rigid
following a shock, it may fail to revert to the mean once the
macroeconomic fundamentals have done so. This is so because
of the status quo bias problem associated with labor market
rigidities: (some) insiders are reluctant to give up their
privileges and do oppose reforms.

Vives, Xavier
TI Coordination Failures and the Lender of Last Resort: Was
Bagehot Right After All? AU Rochet, Jean-Charles; Vives,
Xavier.

Vogt, William B.
TI Household Demand for Employer-Based Health
Insurance. AU Abraham, Jean Marie; Vogt, William B.;
Gaynor, Martin.

Volpin, Paolo
PD February 2002. TI Governance with Poor Investor
Protection: Evidence from Top Executive Turnover in Italy.
AA London Business School and CEPR. SR CEPR
Discussion Paper: 3229; Centre for Economic Policy Research,
Discussion Paper Orders, 90-98 Goswell Road, London EC1V
7RR, United Kingdom. Website: www.cepr.org. PG not
available. PR 5 pounds, $5 or 8 euros + postage and
handling. JE G34, J63, L14. KW Executive Turnover.
Corporate Governance. Pyramidal Groups.
AB This paper studies the determinants of executive turnover
and firm valuation as a function of ownership and control
structure in Italy, a country that features low legal protection
for investors, firms with controlling shareholders, and
pyramidal groups. The results suggest that there is poor
governance, as measured by a low sensitivity of turnover to
performance and a low Q ratio, when (i) the controlling
shareholders are also top executives, (ii) the control is fully in
the hands of one shareholder and is not shared by a set of core
shareholders, and (iii) the controlling shareholders own less
than 50% of the firm's cash-flow rights.

TI The Political Economy of Finance. AU Pagano,
Marco; Volpin, Paolo.

Votruba, Mark E.
PD April 2003. TI Social Security and Retirees' Decision
to Work. AA Case Western Reserve University.
SR Princeton University, Industrial Relations Section
Working Paper: 474; Industrial Relations Section, Firestone
Library, Princeton University, Princeton, NJ 08544-2098.
Website: www.irs.princeton.edu/pubs/working_papers.html.
PG 56. PR $2.00. JE H55, J14, J22, J26. KW Social
Security. Retirement. Labor Supply.
AB The current paper addresses whether beneficiaries will
respond to ongoing Social Security benefit reductions by
increasing post-retirement labor supply. Non-linearities in the
benefits formula allow one to estimate the effect of benefit size
on retirees' probability of working while simultaneously
controlling for inputs into the benefits formula. Consistent with
economic theory, larger benefits significantly decrease the
probability of work among married retirees. A 10% increase in
benefit size decreases the probability of work 3-4 percentage
points for recently retired husbands (from a mean of 25.5%)
and 2-3 percentage points for recently retired wives (from a
mean of 12.8%). For both spouses, the effect disappears in the
later years of retirement, suggesting earnings are unlikely to
offset benefit reductions for older retirees.

Vuolteenaho, Tuomo
TI Who Underreacts to Cash-Flow News? AU Cohen,
Randolph B.; Gompers, Paul A.; Vuolteenaho, Tuomo.

Wacziarg, Romain
TI Borders and Growth. AU Spolaore, Enrico; Wacziarg,
Romain.

Wagener, Tom
TI Extracting Risk Neutral Probability Densities by Fitting
Implied Volatility Smiles: Some Methodological Points and an
Application to the 3M Euribor Futures Options Prices.
AU Bodskov Andersen, Allan; Wagener, Tom.

Wakelin, Katharine
TI Do Domestic Firms Learn to Export from Multinationals?
AU Greenaway, David; Sousa, Nuno; Wakelin, Katharine.

Walsh, Frank
TI Why Do Foreign-Owned Firms Pay More? The Role of
On-the-Job Training. AU Gorg, Holger; Strobl, Eric; Walsh,
Frank.

Wang, Ping
TI Dynamic Urban Models: Agglomeration and Growth.
AU Berliant, Marcus; Wang, Ping.

Wang, Shing-Yi
TI IT Investment and Hicks' Composite-Good Theorem:
The U.S. Experience. AU Marquez, Jaime; Wang, Shing-Yi.

Ward, Charles W. R.
TI Valuing and Pricing Retail Leases with Renewal and
Overage Options. AU Hendershott, Patric H.; Ward, Charles
W. R.

Ward, Melanie
TI Perceived Income, Promotion and Incentives Effects.
AU Epstein, Gil S.; Ward, Melanie.

Warnock, Francis E.
TI   Cross-Border Listings, Capital Controls, and Equity Flows to Emerging Markets. AU   Edison, Hali J.; Warnock, Francis E.

TI   U.S. Investors' Emerging Market Equity Portfolios: A Security-Level Analysis. AU   Edison, Hali J.; Warnock, Francis E.

Wascher, William
TI   Minimum Wages, Labor Market Institutions, and Youth Employment: A Cross-National Analysis. AU   Neumark, David; Wascher, William.

Waterson, Michael
TI   Market Structure and Entry in Fast Food. AU   Sault, Joanne; Toivanen, Otto; Waterson, Michael.

TI   Chain-Store Pricing for Strategic Accommodation. AU   Dobson, Paul W.; Waterson, Michael.

PD   May 2003. TI   Consumers and Competition. AA   University of Warwick. SR   The Warwick Economics Working Paper Series: 679; Department of Economics, University of Warwick, Coventry CV4 7AL, United Kingdom. Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG   11. PR   no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE   D11, D83. KW   Diamond Paradox. Search Behavior. Oligopoly Pricing.
AB   This paper shows that even if all consumers face search costs, if these are below a certain level dependent upon the firm numbers and demand elasticity, the Diamond-type equilibrium with all prices at the monopoly level fails to exist.

Watson, Mark W.
TI   Has the Business Cycle Changed and Why? AU   Stock, James H.; Watson, Mark W.

Weidenmier, Marc
TI   Crises in the Global Economy from Tulips to Today: Contagion and Consequences. AU   Neal, Larry; Weidenmier, Marc.

Weidenmier, Marc D.
TI   Real Shock, Monetary Aftershock: The San Francisco Earthquake and the Panic of 1907. AU   Odell, Kerry A.; Weidenmier, Marc D.

Weisbenner, Scott
TI   Investor Behavior and the Purchase of Company Stock in 401(k) Plans -- The Importance of Plan Design. AU   Liang, Nellie; Weisbenner, Scott.

Welch, Ivo
PD   February 2002. TI   Columbus' Egg: The Real Determinant of Capital Structure. AA   Yale University and NBER. SR   National Bureau of Economic Research Working Paper: 8782; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   29. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   G24, G32. KW   Capital Structure. Firm Value Maximization. Stock Returns.
AB   This paper shows that managers fail to readjust their capital structure in response to external stock returns. Thus, the typical firm's capital structure is not caused by attempts to time the market, by attempts to minimize taxes or bankruptcy costs, or by any other attempts at firm-value maximization. Instead, capital structure is almost entirely determined by lagged stock returns (which, when applied to ancient equity values, predict current equity value and with it debt equity ratios). Consequently, one should conclude that capital structure is determined primarily by external stock market influences, and not by internal corporate optimizing decisions.

TI   Predicting the Equity Premium With Dividend Ratios. AU   Goyal, Amit; Welch, Ivo.

TI   Sharpening Sharpe Ratios. AU   Goetzmann, William; Ingersoll, Jonathan; Spiegel, Matthew I.; Welch, Ivo.

Welch, Karen Horn
TI   When Economic Reform Goes Wrong: Cashews in Mozambique. AU   McMillan, Margaret; Rodrik, Dani; Welch, Karen Horn.

Werner, Thomas
PD   December 2002. TI   Time Variation in the Tail Behaviour of Bund Futures Returns. AU   Werner, Thomas; Upper, Christian. AA   Deutsche Bundesbank. SR   European Central Bank Working Paper: 199; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG   32. PR   no charge. JE   C14, G13. KW   Tail Index. Futures Returns. Extreme Value Theory. Risk Management.
AB   The present paper focuses on three questions: (i) Are heavy tails a relevant feature of the distribution of BUND futures returns? (ii) Is the tail behavior constant over time? (iii) If it is not, can we use the tail index as an indicator for financial market risk and does it add value in addition to classical indicators? The answers to these questions are (i) yes, (ii) no, and (iii) yes. The tail index is on average around 3, implying the nonexistence of the fourth moments. A recently developed test for changes in the tail behavior indicated several breaks in the degree of heaviness of the return tails. Interestingly, the tails of the return distribution do not move in parallel to realized volatility. This suggests that the tails of futures returns contain information for risk management that complements those gained from more standard statistical measures.

West, Sarah E.
PD   September 2002. TI   Estimates from a Consumer Demand System: Implications for the Incidence of Environmental Taxes. AU   West, Sarah E.; Williams, Roberton C., III.. AA   West: Macalester College. Williams: University of Texas at Austin and NBER. SR   National Bureau of Economic Research Working Paper: 9152; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG   21. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE   D12, H22, Q48, R48. KW   Environmental Taxes. Welfare. Gasoline.
AB   Most studies suggest that environmental taxes are regressive, and thus are unattractive policy options. We consider the distributional effects of a gasoline tax increase using three welfare measures and under three scenarios for gas tax revenue use. To incorporate behavioral responses we use

Consumer Expenditure Survey data to estimate a consumer demand system that includes gasoline, other goods, and leisure. We find that the gas tax is regressive, but that returning the revenue through a lump-sum transfer more than offsets this, yielding a net increase in progressivity. We also find that ignoring behavioral changes in distributional calculations overstates both the overall burden of the tax and its regressivity.

Westermann, Frank
TI Boom-Bust Cycles in Middle Income Countries: Facts and Explanation. AU Tornell, Aaron; Westermann, Frank.

Weymark, Diana
TI The Cost of Heterogeneity in a Monetary Union. AU Hughes Hallett, Andrew; Weymark, Diana.

Whalley, John
TI Decomposing Wage Inequality Change Using General Equilibrium Models. AU Abrego, Lisandro; Whalley, John.

TI Decomposing Wage Inequality Change Using General Equilibrium Models. AU Abrego, Lisandro; Whalley, John.

TI Border Delays and Trade Liberalization. AU Cudmore, Edgar; Whalley, John.

White, Michael
TI Household Leverage and the Deductibility of Home Mortgage Interest: Evidence from UK House Purchasers. AU Hendershott, Patric H.; Pryce, Gwilym; White, Michael.

Whitesell, William
PD May 2003. TI Tunnels and Reserves in Monetary Policy Implementation. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/28; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 31. PR no charge. JE E43, E52, E58. KW Monetary Policy. Reserve Requirements.
AB In recent years, some central banks have implemented monetary policy without reserve requirements by using a ceiling and floor for overnight interest rates established by central bank lending and deposit facilities. This paper analyzes a theoretical model of such a "tunnel" system and the benefits of adding reserve requirements to it. However, reserve requirements may involve social costs owing to the reserve avoidance activities of banks. The paper also presents a modified model with no reserve avoidance, where banks optimally choose to hold voluntary reserve requirements. The paper highlights the importance for central banks to consider such models in light of idiosyncratic features of their own institutional environment, which may importantly condition the advisability of any particular approach.

Whitmore, Diane
PD July 2002. TI What Are Food Stamps Worth? AA Princeton University. SR Princeton University, Industrial Relations Section Working Paper: 468; Industrial Relations Section, Firestone Library, Princeton University, Princeton, NJ 08544-2098. Website: www.irs.princeton.edu/

pubs/working_papers.html. PG 65. PR $2.00. JE H31, I31. KW Carte-Blanche Principle. Food Stamps. Cash.
AB The carte-blanche principle implies that food stamp recipients would be better off if they were given cash instead of an equivalent amount in food stamps. This paper estimates the cash-equivalent value of food stamps and the lowest price a recipient would accept to sell her "extra" food stamps on the underground market. The paper estimates that between 20 and 30 percent of food stamp recipients spend less on food than their food stamp benefit amount if they receive cash instead of stamps, and therefore would be better off with cash. The paper estimates that on average "distorted" food stamp recipients value their total benefits at 80 percent of their face value. Aggregating over recipients, the annual deadweight loss associated with the food stamp program is one-half billion dollars. Food diary data indicate that providing cash instead of stamps causes some distorted recipients to decrease their food spending -- especially on soda and juice -- but has no negative consequence for nutrition. As predicted by theory, inframarginal food stamp recipients do not alter their behavior if they are given cash instead of food stamps.

Wieland, Volker
TI The Zero-Interest-Rate Bound and the Role of the Exchange Rate for Monetary Policy in Japan. AU Coenen, Guenter; Wieland, Volker.

TI Price Stability and Monetary Policy Effectiveness When Nominal Interest Rates are Bounded at Zero. AU Coenen, Guenter; Orphanides, Athanasios; Wieland, Volker.

Williams, John C.
TI Robust Monetary Policy Rules with Unknown Natural Rates. AU Orphanides, Athanasios; Williams, John C.

Williams, Roberton C., III.
TI Estimates from a Consumer Demand System: Implications for the Incidence of Environmental Taxes. AU West, Sarah E.; Williams, Roberton C., III..

Williamson, Jeffrey G.
TI What Fundamentals Drive World Migration? AU Hatton, Timothy J.; Williamson, Jeffrey G.

PD September 2002. TI Winners and Losers Over Two Centuries of Globalization. AA Harvard University, Center for International Development, and NBER. SR National Bureau of Economic Research Working Paper: 9161; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 39. PR $10.00 per copy (plus $10.00 per order for shipping outside U.S.). JE D39, F02, N10, N30, O50. KW Globalization. Winners. Losers. Political Participation.
AB The world has seen two globalization booms over the past two centuries, and one bust. The first booms ended with World War I and the second started at the end of World War II, while the years in between were ones of anti-global backlash. This lecture reports what we know about the winners and losers during the booms, including aspects almost always ignored in modern debate -- how prices of consumption goods on the expenditure side are affected, and how the economic position of the poor is influenced. It also reports two responses of the winners to the losers' complaints. Some concessions to the losers took the form of anti-global policy manifested by

immigration restriction in the high- wage countries and trade restriction pretty much everywhere. Some concessions to the losers were also manifested by a "race towards the top" whereby legislation strengthened losers' safety nets and increased their sense of political participation. The lecture concludes with four lessons and an agenda for international economists, including more attention to the impact of globalization on commodity price structure, the causes of protection, the impact of world migration on poverty eradication, and the role of political participation in the process.

TI   Why Did the Tariff-Growth Correlation Reverse After 1950? AU   Clemens, Michael A.; Williamson, Jeffrey G.

Winchester, Niven
TI   Trade and Rising Wage Inequality in the UK: Results from a CGE Model. AU   Greenaway, David; Reed, Geoffrey; Winchester, Niven.

Wintrobe, Ronald
PD   July   2003.   TI   The   Canadian   Dictatorship. AA   University of Western Ontario. SR   University of Western Ontario, RBC Financial Group EPRI Working Paper: 2003/01; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/.   PG   32. PR   Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE   D70, D72, P16. KW   Model of Dictatorship. Democracy. Charter of Rights and Freedoms. Canadian Politics. Social Capital.
AB   Canada is not a dictatorship, despite what sometimes appears to be a near -- monopoly of federal power by the Liberal party. The main reason is that human rights are entrenched in Canada, most notably by the Charter of Rights and Freedoms. Other mitigating factors include competition from the provinces and municipalities, and a free press. Most of all, this paper has emphasized the role of groups in obtaining and maintaining and enhancing individual rights and freedoms.

Wonnacott, Ronald J.
PD   April 2002. TI   Graduating Into a Global Economy. AA   University of Western Ontario. SR   University of Western Ontario, RBC Financial Group EPRI Working Paper: 2002/01; EPRI Working Paper Coordinator, Department of Economics, Social Science Centre, University of Western Ontario, London, Ontario, N6A 5C2 Canada. Website: www.ssc.uwo.ca/economics/centres/epri/.   ·   PG   11. PR   Canadian $10 plus a $3 per order handling fee for hard copies; make checks payable to the University of Western Ontario. JE   F02, F12, F13, F15. KW   Free Trade Agreement of the Americas (FTAA). Global Economy. North American Free Trade Agreement (NAFTA). Ronald J. Wonnacott.
AB   On June 8, 2001, the University of Western Ontario awarded Ronald J. Wonnacott an honorary doctorate, recognizing his pathbreaking work on international trade and his many other scholarly contributions over a distinguished career. His speech provided comments on trade agreements and an analysis of the proposed Free Trade Agreement of the Americas (FTAA).

Wooders, Myrna H.
TI   Networks and Farsighted Stability. AU   Page, Frank H., Jr..; Wooders, Myrna H.; Kamat, Samir.

TI   Social Conformity and Bounded Rationality in Arbitrary Games with Incomplete Information: Some First Results. AU   Cartwright, Edward; Wooders, Myrna H.

PD   March 2003.   TI   Hotelling   Tax   Competition. AU   Wooders, Myrna H.; Zissimos, Ben. AA   Wooders: University of Warwick. Zissimos: University of Birmingham. SR   The Warwick Economics Working Paper Series: 668; Department of Economics, University of Warwick, Coventry CV4   7AL,   United   Kingdom.   Website: www2.warwick.ac.uk/fac/soc/economics/research/papers. PG   32. PR   no charge; all hard copy requests should be addressed to F.Brown@warwick.ac.uk. JE   H20, H70. KW   Amenity Competition. Hotelling. Limit Tax. Perfect Tax Discrimination. Tax Competition.
AB   This paper shows how competition among governments for mobile firms can bring about excessive differentiation in levels of taxation and public good provision. Hotelling's Principle of Minimum Differentiation is applied in the context of tax competition and shown to be invalid. Instead, when an equilibrium exists, differentiation of public good provision is maximized. Non-existence of equilibrium, which can occur, is a metaphor for intense tax competition. The paper also shows that, to some extent, perfect tax discrimination presents a solution to the existence problem created by Hotelling tax competition, but that the efficiency problem of Hotelling tax competition is exacerbated.

TI   Representing Games as Coalition Production Economies with Public Goods. AU   Meseguer-Artola, Antoni; Martinez-Legaz, Juan-Enrique; Wooders, Myrna H.

Wright, Peter
TI   Merger Activity and Executive Pay. AU   Girma, Sourafel; Thompson, Steve; Wright, Peter.

TI   Structural Adjustment and the Sectoral and Geographical Mobility of Labor. AU   Greenaway, David; Upward, Richard; Wright, Peter.

TI   Regional Mobility and Unemployment Transitions in the UK and Spain. AU   Lindley, Joanne; Upward, Richard; Wright, Peter.

Wu, Ximing
PD   February 2002. TI   Effects of Government Policies on Income Distribution and Welfare. AU   Wu, Ximing; Perloff, Jeffrey M.; Golan, Amos. AA   Wu and Perloff: UC Berkeley. Golan: American University. SR   University of California, Berkeley, Department of Agricultural and Resource Economics and Policy (CUDARE) Working Paper: 950; University of California, Giannini Foundation Library, 248 Giannini Hall #3310,   Berkeley,   CA   94720-3310.   Website: http://repositories.cdlib.org/are_ucb/950.   PG   44. PR $11.00 domestic; $22.00 international surface rate; not available after publication; make checks payable to "Regents of the University of California". JE   D30, D60. KW   Income Distribution. Public Policy. Mathematical Models. Welfare.
AB   A variety of parametric and semiparametric models produce qualitatively similar estimates of government policies' effects on income distribution and welfare (as measured by the Gini, standard deviation of logarithms, relative mean deviation,

coefficient of variation, and various Atkinson indexes). Taxes and the Earned Income Tax Credit are an effective way to redistribute income to the poor and raise welfare. The minimum wage lowers welfare. Social insurance programs have little effect except for Supplemental Security Income, which raises welfare. Transfer programs (AFDC/TANF and food stamps) either have no statistically significant effect or lower welfare.

Wurtz, Flemming Reinhardt

PD January 2003. TI A Comprehensive Model on the Euro Overnight Rate. AA European Central Bank. SR European Central Bank Working Paper: 207; European Central Bank, Eurotower, Kaiserstrasse 29, D60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 44. PR no charge. JE E43, E52, E58. KW Overnight Rate. Open Market Operating Procedures. Liquidity Management.
AB This paper presents a comprehensive model of the spread between the euro overnight rate and the key policy rate of the ECB. It is shown that the most important variables driving the level and the volatility of this spread are expectations about changes of the key policy rate and the projected liquidity conditions at the end of the reserve maintenance period. The model allows for an assessment of how these variables differ in their effects on the spread according to the different open market operating procedures and the liquidity management policy of the ECB. It is found that a fixed rate tender procedure effectively limits the downward potential of the spread. However, we find no evidence that it should be more effective than a variable rate tender procedure in keeping overall the overnight rate close to the key policy rate.

Wyplosz, Charles

PD February 2002. TI Fiscal Policy: Institutions versus Rules. AA Graduate Institute of International Studies, ICMB, and CEPR. SR CEPR Discussion Paper: 3238; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, $5 or 8 euros + postage and handling. JE D78, E32, E63, H60. KW Fiscal Policy. Discipline. Cyclicality. Rules and Discretion. Institutions.
AB The paper explores how fiscal policy can be made both more disciplined and more counter-cyclical. It first examines whether the decline of public debts observed in the OECD area during the 1990s can be explained either by less activism or by a priority towards consolidation. It then argues that rules, for example the Stability and Growth Pact, are less likely to deliver the desired outcome than institutions. Drawing a parallel with monetary policy, it examines how a Fiscal Policy Committee could reproduce what Monetary Policy Committees have achieved in central banking.

Xu, Yongsheng

TI Normative Migration Theory: A Social Choice Theoretic Approach. AU Nelson, Douglas; Xu, Yongsheng.

Yamato, Takehiho

TI Secure Implementation Experiments: Do Strategy-Proof Mechanisms Really Work? AU Cason, Timothy N.; Saijo, Tatsuyoshi; Sjostrom, Tomas; Yamato, Takehiho.

Yeaple, Stephen R.

TI Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the United States. AU Keller, Wolfgang; Yeaple, Stephen R.

Yitzhaki, Shlomo

TI Why World Redistribution Fails. AU Kopczuk, Wojciech; Slemrod, Joel; Yitzhaki, Shlomo.

Yu, Zhihao

TI Multilateral Environmental Agreements and Environmental Technology Transfer. AU Qiu, Larry D.; Yu, Zhihao.

Yun, Jungyoll

TI Integration of Unemployment Insurance with Retirement Insurance. AU Stiglitz, Joseph; Yun, Jungyoll.

Zakrajsek, Egon

TI Inventory Dynamics and Business Cycles: What Has Changed? AU McCarthy, Jonathan; Zakrajsek, Egon.

Zanjani, George

TI Insurance, Self-Protection, and the Economics of Terrorism. AU Lakdawalla, Darius; Zanjani, George.

Zeckhauser. Richard J.

TI A Renaissance Instrument to Support Nonprofits: The Sale of Private Chapels in Florentine Churches. AU Nelson, Jonathan Katz; Zeckhauser. Richard J.

Zeng, Dao-Zhi

TI Agricultural Sector and Industrial Agglomeration. AU Picard, Pierre M.; Zeng, Dao-Zhi.

Zettelmeyer, Jeromin

TI Moral Hazard and International Crisis Lending: A Test. AU Dell'Ariccia, Giovanni; Schnabel, Isabel; Zettelmeyer, Jeromin.

Zha, Tao

TI Modest Policy Interventions. AU Leeper, Eric M.; Zha, Tao.

Zhang, Frank Xiaoling

PD May 2003. TI What Did the Credit Market Expect of Argentina Default? Evidence from Default Swap Data. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/25; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 43. PR no charge. JE G12, G13. KW Credit. Default. Swap. Sovereign. Debt.
AB This article explores the expectations of the credit market by developing a parsimonious default swap model, which is versatile enough to disentangle default probability from the expected recovery rate, accommodate counterparty default risk, and allow flexible correlation between state variables. We implemented the model to a unique sample of default swaps on Argentine sovereign debt, and found that the risk- neutral default probability was always higher than its physical counterpart, and the wedge between the two was affected by

changes in the business cycle, the U.S. and Argentine credit conditions, and the overall strength of the Argentine economy.

Zhao, Yaohui
TI Earnings and Labor Mobility in Rural China: Implications for China's WTO Entry. AU Sicular, Terry; Zhao, Yaohui.

Zhou, Hao
PD March 2003. TI Itt Conditional Moment Generator and the Estimation of Short Rate Processes. AA Federal Reserve Board. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper: 2003/32; Diane Linder, Senior Staff Assistant, Finance and Economics Discussion Paper Series, Mailstop 80, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. PG 32. PR no charge. JE C51, C52, G12. KW Ito Conditional Moment Generator. Short Term Interest Rate. Jump- Diffusion Process. Quadratic Variance. Generalized Method of Moments.
AB This paper exploits the Ito's formula to derive the conditional moments vector for the class of interest rate models that allow for nonlinear volatility and flexible jump specifications. Such a characterization of continuous-time processes by the Ito Conditional Moment Generator noticeably enlarges the admissible set beyond the affine jump-diffusion class. A simple GMM estimator can be constructed based on the analytical solution to the lower order moments, with natural diagnostics of the conditional mean, variance, skewness, and kurtosis. Monte Carlo evidence suggests that the proposed estimator has desirable finite sample properties, relative to the asymptotically efficient MLE. The empirical application singles out the nonlinear quadratic variance as the key feature of the U.S. short rate dynamics.

TI Regime-Shifts, Risk Premiums in the Term Structure, and the Business Cycle. AU Bansal, Ravi; Tauchen, George; Zhou, Hao.

Zhu, Pei
TI Another Look at the New York City School Voucher Experiment. AU Krueger, Alan B.; Zhu, Pei.

Zilibotti, Fabrizio
TI Vertical Integration and Distance to Frontier. AU Acemoglu, Daron; Aghion, Philippe; Zilibotti, Fabrizio.

Zissimopoulos, Julie M.
TI The Effects of Subjective Survival on Retirement and Social Security Claiming. AU Hurd, Michael D.; Smith, James P.; Zissimopoulos, Julie M.

Zissimos, Ben
TI Hotelling Tax Competition. AU Wooders, Myrna H.; Zissimos, Ben.

Zivin, Joshua Graff
TI Modeling Health Insurance Expansions: Effects of Alternate Approaches. AU Remler, Dahlia K.; Zivin, Joshua Graff; Glied, Sherry A.