

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. For more recent as well as historical information, consult the AWPE DATABASE, available on magnetic media from Cambridge University Press. (Call 212-924-3900)

Abel, Andrew B.

PD March 1993. **TI** A Unified Model of Investment Under Uncertainty. **AU** Abel, Andrew B.; Eberly, Janice C. **AA** Abel: University of Pennsylvania and National Bureau of Economic Research. Eberly: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 4296; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 17. **PR** \$5.00. **JE** E22, D81. **KW** Investment. Shadow Price. **AB** This paper extends the theory of investment under uncertainty to incorporate fixed costs of investment, a wedge between the purchase price and sale price of capital, and potential irreversibility of investment. In this extended framework, investment is a non-decreasing function of q , the shadow price of installed capital. There are potentially three investment regimes which depend on the value of q relative to two critical values. For values of q above the upper critical value, investment is positive and is an increasing function of q , as is standard in the theory branch of the adjustment cost literature. For intermediate values of q , between two critical values, investment is zero. Finally, if q is below the lower critical value, gross investment is negative, a possibility that is ruled out by assumption in the irreversibility of literature. In general however, the shadow price q is not directly observable, so we present two examples relating q to observable variables.

Acemoglu, Daron

PD February 1993. **TI** Consumer Confidence and Rational Expectations: Are Agents' Beliefs Consistent with the Theory? **AU** Acemoglu, Daron; Scott, Andrew. **AA** London School of Economics. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 119; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 17. **PR** no charge. **JE** E21, D84, D91. **KW** Aggregate Consumption. Permanent Income. **AB** Consumer confidence is found to have predictive content for a wide range of macroeconomic variables including consumption growth, contrary to the standard REPIH. We find that on UK data the REPIH is rejected due to the predictive content of consumer confidence, and not labor income. We explain this finding in terms of precautionary behavior. Extending the Hansen and Singleton Consumption CAPM model to allow a conditional variance we find a high level of confidence is associated with both greater optimism about the level of consumption and greater uncertainty about the forecast variance. Once allowance is made for time aggregation the overidentifying restrictions implied by this model are accepted. We estimate a small but statistically significant intertemporal elasticity of substitution.

Aghion, Philippe

PD May 1992. **TI** The Economics of Bankruptcy Reform. **AU** Aghion, Philippe; Hart, Oliver; Moore, John. **AA** Aghion: European Bank for Reconstruction and Development, London, and DELTA, Paris. Hart: Massachusetts Institute of Technology. Moore: London School of Economics and Princeton University. **SR** London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TE/92/250; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 58. **PR** no charge. **JE** G33, K22. **KW** Bankruptcy. Chapter 7. Liquidation. **AB** We propose a new bankruptcy procedure. Initially, a firm's debts are cancelled, and cash and non-cash bids are solicited for the "new" (all-equity) firm. Former claimants are given shares, or options to buy shares, in the new firm on the basis of absolute priority. Options are exercised once the bids are in. Finally, a shareholder vote is taken to select one of the bids. In essence, our procedure is a variant on the U.S. Chapter 7, in which non-cash bids are possible; this allows for reorganization. We believe our scheme is superior to Chapter 11 since it is simpler, quicker, market-based, avoids conflicts, and places appropriate discipline on management.

Ahn, Namkee

PD August 1992. **TI** A Comparative Study of Fertility Determinants in Togo and Uganda: A Hazard Model Analysis. **AU** Ahn, Namkee; Shariff, Abusaleh. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 665; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. **PG** 27. **PR** \$2.00 plus postage. **JE** J13, I12, P52. **KW** Fertility. Hazard Model Analysis. Parity Progression Ratios. **AB** This paper presents a comparative study of the human fertility between Togo and Uganda using recent Demographic and Health Survey Program's data sets. Hazard models are used to estimate progression rates to the first and to subsequent births. The primary aim of this analysis is to find out the effect of socioeconomic and demographic factors on fertility and how their effects differ between the countries. The highlights of this research are as follows: (a) Substantial delay in timing of the first birth is noticed among the women living in urban areas and those who are educated beyond primary level in both countries. (b) In Togo, mothers' education shows an increasing and large negative effect on the progression to subsequent births, whereas in Uganda, it shows almost no effect. (c) Death of previous child has a large positive effect on the birth of a subsequent child.

Aldrich, John

PD November 1992. TI "Explaining the Findings of Other Models"-On Encompassing and the Encompassing Principle. AA University of Southampton. SR University of Southampton Discussion Paper in Economics and Econometrics: 9231; Department of Economics, University of Southampton, Southampton 509 5NH, ENGLAND. PG 42. PR no charge. JE B41, C51, C12, C52. KW Encompassing. Explanation. Hypothesis Testing.

AB This paper discusses the principle that a model should be able to account for the findings of other models-to 'encompass' other models. This principle has been prominent in the work of Hendry, Mizon, Richard and their associates. Among points emphasized in this paper are: (1) Explanation and testing are distinct. (ii) A model's ability to explain the estimates associated with another model does not guarantee its ability to explain the phenomena explained by that model. (iii) The force of explaining, or not explaining, findings is different for findings-as-estimates and findings-as-test outcomes.

Alogoskoufis, George S.

PD December 1991. TI Wage Inflation, Electoral Uncertainty and the Exchange Rate Regime: Theory and U.K. Evidence. AU Alogoskoufis, George S.; Lockwood, Ben; Philippopoulos, Apostolis. AA Alogoskoufis: Birkbeck College, Athens School of Economics and CEPR. Lockwood: Birkbeck College, University of Exeter and CEPR. Philippopoulos: University of Essex. SR Birkbeck College Discussion Papers in Economics: 1/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 29. PR not available. JE E31, E24, F31, D72. KW Unemployment. Price Level. Political Parties.

AB We extend the "rational partisan" model of inflation to allow for the effects of unemployment persistence on the dynamics of inflation. We combine this model with the "exchange-rate-regime" model of inflation, and examine the experience of the United Kingdom. Outside the fixed exchange rate regime of Bretton Woods, persistently high inflation can be attributed to the failure of political parties to precommit to price stability, in the light of unemployment persistence. Election times are associated with higher inflation, with the exception of the Thatcher period. There is no evidence that the Labour party is in general more tolerant to inflation than the Conservatives.

Amir, Shmuel

PD January 1992. TI Welfare Maximization in Economic Theory: Another Viewpoint. AA Resources for the Future and Soreq Nuclear Research Center. SR Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-11; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 25. PR \$2.25 prepaid, U.S. funds. JE D60, D71. KW Social Welfare. Resource Allocation.

AB Economic theory has always maintained, albeit implicitly, that social welfare, just like energy or mass, is a conserved function, i.e. a state dependent function that, nevertheless, assumes a constant value, irrespective of the system's state, when defined on an isolated system. No intrinsic basis for holding this assumption is provided by the theory except that it fits well into the view of the economy as a mechanical system undergoing a circular flow process. In this

paper, we examine the said assumption by considering a model of an economy that is guided by a nonconserved welfare function, which remains state sensitive even for isolated systems, and by studying the effects of the alternative assumption on resource allocation. The resulting economic system differs from conserved systems in three important respects: first, in striving to reduce its dependency on the surroundings; second, in attempting to minimize the dissipation of its internal resources; third, in satisfying the principles of Bohm-Bawerks' theory of capital.

Arnold, Michael A.

PD February 1993. TI Signalling by Middlemen. AA University of Delaware. SR University of Delaware Department of Economics Working Paper: 93-02; College of Business and Economics, Department of Economics, University of Delaware, Newark, Delaware 19716-2720. PG 10. PR not available. JE D82. KW Pooling Equilibrium. Principal-Agent Model.

AB Two variations on signaling models which arise in markets with middlemen are presented. First, if middlemen are risk-neutral, then pooling always occurs in (Nash) equilibrium. Second, if middlemen are risk-averse, then pooling reactive equilibria may exist. The analysis offers insights into the absence of contracts designed to separate agents in many middleman relationships.

Arnzen, Breck

TI Learning Alliance Between Business and Business Schools: Executive Education as a Platform for Partnership. AU Ghoshal, Sumantra; Arnzen, Breck; Brownfield, Sharon.

Atkinson, A. B.

PD July 1992. TI The Distribution of Income in Eastern Europe. AU Atkinson, A. B.; Micklewright, J. AA Atkinson: London School of Economics. Micklewright: European University Institute, Florence. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/72; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 33. PR no charge. JE D31, P24. KW Income Distribution. Eastern Europe.

AB This paper examines the distribution of household incomes in Eastern Europe before the economic transformation that began in 1990. Was there less inequality in these countries under Communism than in Western countries? Many people appear to believe that no such data exist for Eastern Europe. Such common impressions are, however, largely based on the situation in the former Soviet Union, and the position in the Central European countries has been quite different. The first aim of the paper is to present the evidence about the distribution of income in Czechoslovakia is substantially less than in the U.K. At the same time, our results bring out the differences within Eastern Europe. In drawing attention to the availability of evidence on income inequality in Eastern Europe, we are not suggesting that such data are perfect. The limitations of the evidence are the subject of the fourth section of the paper.

PD September 1992. TI Towards a European Social Safety Net? AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/78; London School of Economics,

Houghton Street, London WC2A 2AE, ENGLAND. PG 23. PR no charge. JE H55. KW Safety Net. Poverty.

AB Is a social dimension to the European Community is to develop alongside the Common Internal Market, what form should it take? Taking the income protection objectives of the Social Charter seriously, how can they be achieved? This paper examines the development of policy towards social protection at the Community level and its relation to the principle of "subsidiarity". It argues that the case for Community action depends on the effectiveness of existing national measures. The available evidence suggests that national safety net schemes enjoy only partial success. The next section of the paper examines the argument that national social protection will come under even greater pressure post-1992 and suggests that this applies particularly to social assistance (as opposed to social insurance) and that the mechanism will be electoral rather than economic. This indicates that there may be a need for intervention at the Community level, but this too poses major problems.

Atkinson, Anthony B.

PD November 1992. TI The Western Experience with Social Safety Nets. AA University of Cambridge. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/80; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 26. PR no charge. JE I38. KW Safety Net. Poverty.

AB The issue of social protection is important for countries in transition to a market economy. The need for a social safety net is widely recognized in policy discussion. This paper examines the Western experience with safety nets. From this experience, it is clear that a safety net can have very different meanings and that major decisions have to be made about its form and mode of operation. The persistence of poverty in Western countries shows that they have not found it easy to set in place an effective safety net; there are problems with regard to both the level, coverage, and take-up of social assistance. The paper concludes that an effective safety net cannot be taken for granted, and that the design of social protection should be an integral part of economic policy-making.

Attanasio, Orazio P.

PD August 1992. TI The UK Consumption Boom of the Late 1980's: Aggregate Implications of Microeconomic Evidence. AU Attanasio, Orazio P.; Weber, Guglielmo. AA Attanasio: Stanford University and CEPR. Weber: Institute for Fiscal Studies, University of College London and IGER. SR Institute for Fiscal Studies (IFS) Working Paper: W92/17; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, ENGLAND. PG 24. PR 3 pounds. JE E21, D12, D91, R31. KW Housing Markets. Expectations Hypothesis.

AB British aggregate consumer expenditure boomed in the late 1980's, pushing the personal sector saving rate close to zero. Two competing explanations of the consumer boom are the financial liberalization-imperfect housing market hypothesis of Muellbauer and Murphy, and the expectations hypothesis of King. Each hypothesis can explain aggregate behavior, but has different implications for the distribution of consumption growth across households, according to their age, demographic characteristics and housing tenure. In this paper we use 15 years of Family Expenditure Surveys, and cohort

analysis, to investigate to what extent these two popular hypotheses are in agreement with observed changes in consumption patterns. We find that the housing markets explanation accounts for much of the increase by older cohorts, but cannot be reconciled with the marked rise in expenditure levels of younger households. A simple simulation exercise shows instead that the expectations hypothesis can generate increases of expenditure by young consumers of the magnitude observed in our data.

Bacchetta, Philippe

PD February 1993. TI Information Sharing and Tax Competition Among Governments. AU Bacchetta, Philippe; Espinosa, Maria Paz. AA Bacchetta: Universitat Autònoma de Barcelona. Espinosa: Universidad del País Vasco. SR Centre for Economic Policy Research, European Science Foundation, Working Paper: 28; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, ENGLAND. PG 32. PR not available. JE F21, F42, H77, H21. KW Capital Tax Policies. Foreign Investment. Taxation.

AB The residence-based principle has been proposed as a second-best measure to the full international coordination of capital tax policies. A basic requirement for this system to work is that tax authorities have full information about the foreign investments of their residents. The degree of information transmission among governments can be considered as a variable used strategically in the same way taxes are, however. We show that under some features of the tax system there will not be any information sharing, while there are institutional arrangements under which governments will transmit partial information for strategic purposes. We also show that full information sharing is not necessarily a Pareto optimum. Our conclusion is that the informational behavior of governments is crucial and should be taken into account when designing the optimal international tax system.

Backus, David K.

PD December 1992. TI Dynamics of the Trade Balance and the Terms of Trade: The S-Curve. AU Backus, David K.; Kehoe, Patrick J.; Kydland, Finn E. AA Backus: New York University and National Bureau of Economic Research. Kehoe: University of Pennsylvania. Kydland: Carnegie Mellon University. SR National Bureau of Economic Research Working Paper: 4242; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 25. PR \$5.00. JE F43, F11, F41. KW Growth. Net Exports.

AB We provide a theoretical interpretation of two features of international data: the countercyclical movements in net exports and the tendency for the trade balance to be negatively correlated with current and future movements in the terms of trade, but positively correlated with past movements. We document these same properties in a two-country stochastic growth model in which trade fluctuations reflect, in large part, the dynamics of capital formation. We find that the general equilibrium perspective is essential: The relation between the trade balance and the terms of trade depends critically on the source of fluctuations.

PD December 1992. TI Relative Price Movements in Dynamic General Equilibrium Models of International Trade. AU Backus, David K.; Kehoe, Patrick J.; Kydland, Finn E. AA Backus: New York University and National Bureau of Economic Research. Kehoe: University of Pennsylvania.

Kydland: Carnegie Mellon University. SR National Bureau of Economic Research Working Paper: 4243; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 33. PR \$5.00. JE F41, D51. KW Terms of Trade. Relative Prices.

AB We examine the behavior of international relative prices from the perspective of dynamic general equilibrium theory, with particular emphasis on the variability of the terms of trade and the relation between the terms of trade and net exports. We highlight aspects of the theory that are critical in determining these properties, contrast our perspective with those associated with the Marshall-Lerner condition and the Harberger-Laursen-Metzler effect, and point out features of the data that have proved difficult to explain within existing dynamic general equilibrium models.

Bagliano, Fabio

PD March 1993. TI Do Anticipated Tax Changes Matter? Further Evidence from the United Kingdom. AA Yale University. SR London School of Economics Centre for Economic Performance Discussion Paper: 123; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 27. PR no charge. JE E21, H24, E62. KW Consumption Expenditures. Income Tax. Durable Goods.

AB This paper provides some evidence against the rational expectations-permanent income model of consumption behavior and the Ricardian Equivalence proposition by testing the responsiveness of spending to the implementation of pre-announced changes in income taxes. Extending the work of Summer (1991), a long series of recurrent episodes of this kind for the U.K. (1960-1990) is examined. It is found that consumption expenditure strongly reacts to (pre-announced) fiscally-induced changes in current disposable income. This effect is due to the semi-durable and durable components of spending.

Bak, Peter

PD December 1992. TI Aggregate Fluctuations from Independent Sectoral Shocks: Self-Organized Criticality in a Model of Production and Inventory Dynamics. AU Bak, Peter; Chen, Kan; Scheinkman, Jose; Woodford, Michael. AA Bak and Chen: Brookhaven National Laboratory. Scheinkman: University of Chicago. Woodford: University of Chicago and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4241; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 33. PR \$5.00. JE E32, E22. KW Non-Convex Technology. Aggregate Fluctuations.

AB This paper illustrates how fluctuations in aggregate economic activity can result from many small, independent shocks to individual sectors. The effects of the small independent shocks fail to cancel in the aggregate due to the presence of two non-standard assumptions: local interaction between productive units (linked by supply relationships), and non-convex technology. We also argue that neither feature on its own would suffice. In the case of a simple model, we explicitly calculate the distribution of aggregate activity in the limit of an infinite number of independently disturbed sectors.

Baldwin, Robert E.

PD February 1993. TI An Analysis of Factors Influencing

ITC Decisions in Antidumping, Countervailing Duty and Safeguard Cases. AU Baldwin, Robert E.; Steagall, Jeffrey W. AA Baldwin: University of Wisconsin and National Bureau of Economic Research. Steagall: University of Northern Florida. SR National Bureau of Economic Research Working Paper: 4282; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 30. PR \$5.00. JE F13. KW International Trade Commission. Anticompetitive Practices.

AB This paper attempts to determine the economic factors that best explain the decisions of the International Trade Commission in antidumping, countervailing duty and safeguard cases, utilizing the economic data collected by the Commission for each investigation. We also consider the extent to which these factors measure the injury conditions and causation relationships specified in U.S. trade laws. Our analyses yield mixed results. For example, while the Commission tends to require declining profits and employment in an industry before recommending import protection in safeguard cases, it is not clear that it delineates between serious injury caused by increased imports and serious injury due to other factors. Similarly, in countervailing duty and antidumping cases, economic conditions, such as changes in industry shipments are taken into consideration in material injury decisions, but other factors one would expect to be associated with affirmative decisions do not seem to play a significant role.

Ball, Laurence

PD January 1993. TI Inflation and the Informativeness of Prices. AU Ball, Laurence; Romer, David. AA Ball: Princeton University and National Bureau of Economic Research. Romer: University of California, Berkeley and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4267; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 32. PR \$5.00. JE E31, D83. KW Relative Prices. Information. Signals.

AB This paper studies the welfare effects of the relative price variability arising from inflation. When agents interact in anonymous markets, with customers buying from new suppliers each period, relative price variability benefits customers and cannot harm suppliers substantially. But if customers and suppliers form long-term relationships, prices have an informational role: a potential customer uses current prices as signals of future prices. Inflation reduces the informativeness of current prices, causing customers to make costly mistakes about which relationships to enter. In addition, the reduced informativeness of prices makes demand less price-elastic, thereby increasing markups. Both effects can be quantitatively significant at moderate inflation rates.

Barbe, P.

PD May 1992. TI Joint Limiting Behaviour of Spacings and Order Statistics Processes. AA CREST and Universite de Paris VI. SR Unite de Recherche Document de Travail ENSAE/INSEE: 9211; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. PG 22. PR no charge. JE C10. KW Spacings. Order Statistics. AB not available.

Barker, Terry

PD July 1992. TI Accounting for the Environment. AA University of Cambridge. SR University of

Cambridge Energy-Environment-Economy Modelling Discussion Papers: 2; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 9. PR \$5.00 (L2.50); checks payable to University of Cambridge. JE Q38, C53. KW Environmental Accounting.

AB The Social Accounting Matrix (SAM) framework, which concerns economic flows and stocks in monetary units, is readily extended to cover environmental variables. The paper reviews the literature on environmental accounting and outlines how the environment can be included in a SAM framework. The SAM is one of the first steps in modeling economy-energy-environment linkages. The paper sets out a modeling scheme to illustrate the relationship between the SAM and a model.

PD November 1992. **TI** 1) The Carbon Tax: Economic and Policy Issues and 2) A UK Carbon/Energy Tax: The Macroeconomic Effects. **AU** Barker, Terry; Baylis, Susan; Madsen, Peter. **AA** Barker: University of Cambridge. Baylis and Madsen: Cambridge Econometrics Limited. **SR** University of Cambridge Energy-Environment-Economy Modelling Discussion Papers: 3; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 35. PR \$5.00 (L2.50); checks payable to University of Cambridge. JE Q38, Q48, C53, H25. KW Energy Tax. Emissions. Macroeconomic Model.

AB This working paper actually consists of two papers. The first paper (written by Barker) considers the justification for a carbon tax, with the precise proposals for the EC's carbon/energy tax taken as an example. An assessment is made of the implications of new theories of economic growth on the likely effects of the tax and the conclusion drawn that the indirect effects on innovation and investment of introducing the tax will be critical. 2) The second, collaborative, paper considers the effects of the European Commission's carbon/energy tax on the UK economy can be assessed by using a large-scale energy-environment-economy model. The outcome is that the tax is sufficient to stabilize carbon dioxide emissions over the period 1990-2005, at 12% below base levels by the end of the period. The effects on the macroeconomy are rather small, and as the revenues are recycled, rather than saved by the government, GDP growth is likely to increase under the tax by some 0.2% above base.

Barro, Robert J.

PD November 1992. **TI** Capital Mobility in Neoclassical Models of Growth. **AU** Barro, Robert J.; Sala-i-Martin, Xavier; Mankiw, N. Gregory. **AA** Barro and Mankiw: Harvard University and National Bureau of Economic Research. Sala-i-Martin: Yale University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4206; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE O41, E13, F41. KW Convergence. Human Capital.

AB The empirical evidence reveals conditional convergence in the sense that economies grow faster per capita if they start further below their steady-state positions. For a homogeneous group of economies the convergence is unconditional in that the poor economies grow faster than the rich ones. The neoclassical growth model for a closed economy fits these facts if capital is viewed broadly to encompass human investments,

so that diminishing returns to capital set in slowly, and if differences in government policies or preferences about saving lead to heterogeneity in steady-state positions. Yet if the model is opened to allow for full capital mobility, then the predicted rates of convergence for capital and output are much higher than those observed empirically. We show that the open-economy model conforms with the evidence if an economy can use foreign debt to finance only a portion of its capital, even if 50% or more of the total. The problems in using human capital as collateral can explain the required imperfection in the credit market.

Barsky, Robert

TI Measuring the Cyclical of Real Wages: How Important is Composition Bias? **AU** Solon, Gary; Barsky, Robert; Parker, Jonathan A.

Basevi, Giorgio

PD April 1992. **TI** Bargaining with a Composite Player: An Application to the Uruguay Round of GATT Negotiations. **AU** Basevi, Giorgio; Delbono, Flavio; Mariotti, Marco. **AA** Basevi: University of Bologna. Delbono: University of Verona. Mariotti: University of East Anglia. **SR** Birkbeck College Discussion Papers in Economics: 3/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 14. PR not available. JE C78, F13. KW Negotiation. Bargaining.

AB The paper analyzes a situation in which negotiations take place between a party made up of a single decision maker and a party made up of a group of two decision makers. This group, in setting its proposal to the opponent party, may act cooperatively or noncooperatively within itself. The model seems to be applicable to many cases, such as wage negotiations with a group of different workers' unions, disarmament negotiations with a group of allied countries, etc. In the paper, however, the model is directly applied to the case of Uruguay Round of GATT negotiations. In that case the authors' conjecture is that much of the difficulties currently experienced in reaching an agreement stem from the often non-cooperative nature of the preliminary agreement that is necessary within the European Community, before it is able to come up with a definite proposal for negotiation with other countries.

Baskar S.

PD April 1992. **TI** Price and Quantity Adjustment over the Business Cycle: Evidence from Survey Data. **AU** Baskar S.; Machin, Stephen; Reid, Gavin C. **AA** Baskar: Delhi School of Economics and University College London. Machin: University College London and London School of Economics. Reid: University of St. Andrews. **SR** University College London Discussion Paper: 92-06; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 19. PR 3 pound check payable to Department of Economics, UCL. JE E30, E31, E32, E23, C42. KW Pricing Adjustments. Quantity Adjustments. Business Cycles.

AB This paper analyzes responses to an administered questionnaire in which owner-managers of 73 small firms were asked questions on actions that they would take in response to booms and recessions. Responses suggest that quantity adjustments to demand fluctuations are much more important than price adjustments. There is also some evidence that

downward price adjustments are more likely in recessions than are upward price changes in booms, but this asymmetry is absent in firms with cash flow problems. This is in line with the predictions of a recent customer markets model of Gottfries (1991). On the other hand, the asymmetry is quantity adjustments appears to move in the opposite direction with more adjustments taking place in booms.

Baylis, Susan

TI 1) The Carbon Tax: Economic and Policy Issues and 2) A UK Carbon/Energy Tax: The Macroeconomic Effects. **AU** Barker, Terry; Baylis, Susan; Madsen, Peter.

Bayoumi, Tamim

PD January 1993. **TI** Macroeconomic Adjustment under Bretton Woods and the Post-Bretton-Woods Float: An Impulse-Response Analysis. **AU** Bayoumi, Tamim; Eichengreen, Barry. **AA** Bayoumi: International Monetary Fund. Eichengreen: University of California, Berkeley. **SR** University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-006; IBER, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. **PG** 28. **PR** no charge. **JE** F31, F33, F41. **KW** Exchange Rate Regimes. Supply Shocks.

AB We use time-series methods to estimate a simple aggregate-supply-aggregate-demand model in order to analyze the comparative performance of fixed- and flexible-exchange-rate systems and test competing hypotheses designed to explain shifts between exchange-rate regimes. The paper provides a coherent explanation of the causes and consequences of the shift from the Bretton Woods System of pegged exchange rates to the post-Bretton-Woods float. The shift from fixed to floating was associated with a modest increase in the cross-country dispersion of supply shocks but not with an increase in their average magnitude. In contrast, there was little change in either the cross-country dispersion or the average magnitude of demand shocks. More important in explaining the collapse of Bretton Woods were factors that heightened the impact of shocks on the external accounts, forcing governments to respond to supply shocks with changes in demand that stabilized prices and the exchange rate at the expense of increased output volatility.

Beck, Stacie E.

PD November 1992. **TI** The Ricardian Equivalence Proposition in Open Economies: Evidence from Five Countries. **AA** University of Delaware. **SR** University of Delaware Department of Economics Working Paper: 93-03; College of Business and Economics, Department of Economics, University of Delaware, Newark, Delaware 19716-2720. **PG** 11. **PR** not available. **JE** H62, F41, F31, E62. **KW** Deficits. Exchange Rates. Crowding Out.

AB Large government budget deficits cause crowding out of real investment by raising interest rates, according to conventional macroeconomic theory. Another, less-explored possibility is that in open economies deficits create incipient capital inflows which, instead of raising the interest rate, cause the domestic currency to appreciate and crowd out exports. Two studies on the effect of deficits on exchange rates, by Evans (1986) and Feldstein (1986), reach contradictory conclusions. Several differences between the two studies could account for these results. Evans' deficit variable is the

unexpected change in the current deficit whereas Feldstein argued that expected future deficits are more important to market participants. In this paper, specifications similar to Evans' and to Feldstein's are each estimated to compare the effects of unexpected changes in current deficits to changes in expected future deficits.

Beetsma, Roel M. W. J.

PD November 1992. **TI** Does Inequality Cause Inflation? The Political Economy of Inflation, Taxation and Government Debt. **AU** Beetsma, Roel M. W. J.; van der Ploeg, Frederick. **AA** Beetsma: Tilburg University. van der Ploeg: University of Amsterdam. **SR** CEPR Discussion Paper: 741; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 9. **PR** Pounds 4.00 or \$8.00. **JE** D31, E31, H63. **KW** Income Distribution. Wealth Distribution. Inflation Tax.

AB A democratic society in which the distribution of wealth is unequal elects political parties which tend to represent the interests of the poor. The clientele of such governments favor unanticipated inflation taxes to erode the real value of debt service and redistribute income from the rich to the poor. Consequently, inequality sows the seeds for inflation. Regressions confirm the empirical predictions of the model and show a strong positive relationship between the inflation rate and inequality, for a cross-section of democratic countries.

Beladi, Hamid

PD August 1991. **TI** Asset Specificities, International Trade and Multinational Firms. **AU** Beladi, Hamid; Prasad, Kislaya. **AA** Beladi: University of Dayton. Prasad: University of Cambridge. **SR** University of Cambridge Economic Theory Discussion Paper: 173; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 24. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** F23, L22, D58, F12. **KW** Vertical Integration. Resource Allocation.

AB A commonly used explanation of the incentive for vertical integration draws upon the possibility of opportunistic behavior when parties involved in a transaction are required to invest in relationship specific assets. This idea is developed within a general equilibrium model and the effects of vertical integration on resource allocation are analyzed. The principal objective is to consider the case of internalization of transactions across international boundaries, within the multinational firm. This paper provides a theory of multinational firms and analyzes their effect on trade patterns, factor rewards and welfare.

Bennett, John

PD January 1993. **TI** Macroeconomic Equilibrium and Reform in a Transitional Economy. **AU** Bennett, John; Dixon, Huw David. **AA** Bennett: Swansea University. Dixon: York University. **SR** CEPR Discussion Paper: 758; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 32. **PR** Pounds 4.00 or \$8.00. **JE** D43, D51, P21, L33, L16. **KW** Economic Transition. Imperfect Competition. Privatization.

AB We build a general equilibrium macroeconomic model of a transitional economy to reflect five stylized facts. Among these are that central planning has left a legacy of highly

concentrated industry and a residue of price controls and rationing. An "almost Classical" dichotomy obtains in the model: monetary expansion leaves output and unemployment unchanged (despite the existence of unemployment), though leisure time declines. The economy displays a high degree of complementarity between the state-controlled sector and the private sector, however, giving rise to multiplier effects. We analyze the effects of price liberalization and privatization in this framework.

Bennett, Robert

PD August 1992. TI Investing in Skill: To Stay On or Not to Stay On? AU Bennett, Robert; Glennerster, Howard; Nevison, Douglas. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/74; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 36. PR no charge. JE J24, J31. KW Higher Education. Training.

AB Due to relatively low rates of participation in post-compulsory education and training in Britain, education and training has figured prominently in the policies of those hoping to stimulate the underlying growth rate of the economy through supply-side measures. In the 1992 election, education and training policies featured in the manifestos of each of the main parties. These concentrated on broadening the range of, and access to, post-16 studies--the supply side of the system--while essentially ignoring demand considerations. Using a structural utility-maximizing human capital model of the post-16 education and training decision, the paper explores the economic and social motives which influence an individual's decision to participate in post-compulsory education and training or not. The paper presents *ex ante* rates of return to further and higher education, and, based on the empirical results, offers some guidelines for education and training policy.

Bentolila, Samuel

TI Who Are the Insiders? Wage Setting in Spanish Manufacturing Firms. AU Dolado, Juan J.; Bentolila, Samuel.

Berger, Allen N.

PD March 1993. TI Lines of Credit, Collateral, and Relationship Lending in Small Firm Finance. AU Berger, Allen N.; Udell, Gregory F. AA Berger: Board of Governors of the Federal Reserve System. Udell: New York University. SR Board of Governors of the Federal Reserve System Finance and Economics Discussion Series: 93-09; C/O Stephen A. Sharpe, Mail Stop 89, Federal Reserve Board, Washington, DC 20551. PG 30. PR no charge. JE G21, G28, L14. KW Banks. Lending.

AB Bank lines of credit (L/Cs) represent a critical source of finance for small firms. Because L/Cs tend to exacerbate asymmetric information problems, these contracts are ideal for studying the role of collateral and relationship lending as solutions to these problems. Using a new data set on small firm L/Cs, we find that banks more often require collateral from riskier firms and firms with shorter relationships. Also, loans to borrowers with shorter relationships and some types of secured loans tend to be riskier. The results are consistent with conventional wisdom about collateral and theoretical

arguments that relationship lending generates valuable information.

Berman, Eli

PD January 1993. TI Changes in the Demand for Skilled Labor Within U.S. Manufacturing Industries: Evidence from the Annual Survey of Manufacturing. AU Berman, Eli; Bound, John; Griliches, Zvi. AA Berman: Harvard University. Bound: University of Michigan and National Bureau of Economic Research. Griliches: National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4255; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 34. PR \$5.00. JE J23, J41, O33. KW Labor Demand. Employment Patterns.

AB This paper investigates the shift in demand towards skilled labor in U.S. manufacturing. Between 1979 and 1989, employment of production workers in manufacturing dropped by 2.2 million or 15 percent while employment of non-production workers rose by 3 percent. A decomposition of changing employment patterns in each of 450 industries reveals that the defense buildup and trade deficits can account for only a small part of the shift in demand towards non-production workers. We conclude that production labor-saving technological change is the most likely explanation for the shift in demand towards non-production workers since the shift is mostly due to changes in labor demand within industries rather than reallocation of employment towards industries with higher shares of skilled labor.

Bernheim, B. Douglas

PD November 1992. TI Private Saving and Public Policy. AU Bernheim, B. Douglas; Scholz, John Karl. AA Bernheim: Princeton University and National Bureau of Economic Research. Scholz: University of Wisconsin and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4215; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 37. PR \$5.00. JE D11, D31, H31. KW Pension Plans. Savings Incentives.

AB The evidence presented in this paper supports the view that many Americans, particularly those without a college education, save too little. Our analysis also indicates that it should be possible to increase total personal saving among lower income households by encouraging the formation and expansion of private pension plans. Extending tax incentives for saving to higher income households is problematic. We discuss three competing policy options, IRA's with AGI caps, the universal IRA, and the Premium Saving Account (PSA). Our analysis reveals that the PSA system is a more cost-effective vehicle for providing saving incentives to all households, particularly those in the top quintile of the income distribution.

PD December 1992. TI A Tax-Based Test of the Dividend Signaling Hypothesis. AU Bernheim, B. Douglas; Wantz, Adam. AA Bernheim: Princeton University and National Bureau of Economic Research. Wantz: Shepard International, Inc. SR National Bureau of Economic Research Working Paper: 4244; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE G12, G35, H24. KW Stock Price. Dividend Taxation.

AB We propose and implement a new test of the dividend

signaling hypothesis that is designed to discriminate between dividend signaling and other theories that would account for the apparent existence of a dividend preference. Our test refines that use of data on stock price responses to dividend announcements. In particular, we study the effect of dividend taxation on the "bang-for-the-buck," which we define as the share price response per dollar of dividends. Most dividend signaling models imply that an increase in dividend taxation should increase the bang-for-the-buck. In contrast, other dividend preference theories imply that an increase in dividend taxation should decrease the bang-for-the-buck. Since there have recently been considerable variation in the tax treatment of dividends, we are able to study dividend announcement effects under different tax regimes. Our central finding is that there is a strong positive relationship between dividend tax rates and the bang-for-the-buck.

Berry, Steven

PD January 1993. TI Automobile Prices in Market Equilibrium: Part I and II. AU Berry, Steven; Levinsohn, James; Pakes, Ariel. AA Berry and Pakes: Yale University and National Bureau of Economic Research. Levinsohn: University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4264; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 68. PR \$5.00. JE L62, L13. KW Product Differentiation. Oligopoly.

AB This paper develops new techniques for empirically analyzing demand and supply in differentiated products markets and then applies these techniques to analyze equilibrium in the U.S. automobile industry. Our primary goal is to present a framework which enables one to obtain estimates of demand and cost parameters for a broad class of oligopolistic differentiated products markets. These estimates can be obtained using only widely available product-level and aggregate consumer-level data, and they are consistent with a structural model of equilibrium in an oligopolistic industry. When we apply the techniques developed here to the U.S. automobile market, we obtain cost and demand parameters for (essentially) all models marketed over a twenty year period.

Bingley, Paul

PD November 1992. TI The Labour Supply of UK Lone Mothers: The Effects of Maintenance, and the Welfare System. AU Bingley, Paul; Symons, Elizabeth; Walker, Ian. AA Bingley: Keele University. Symons and Walker: Keele University and Institute for Fiscal Studies. SR Institute for Fiscal Studies (IFS) Working Paper: W92/19; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, ENGLAND. PG 27. PR 3 pounds. JE I38, J22, C25. KW Single Mothers. Labor Supply.

AB This paper presents estimates of a model of labor supply for a sample of lone mothers drawn from the 1979 to 1988 Family Expenditure Surveys. The labor supply model is a reduced form discrete choice one between non-participation and participation, and between full-time and part-time work conditional on participation. The objective of the paper is to attempt to capture the determinants of labor market status over a period when the labor force participation of this group fell dramatically while the participation of married women with children rose. The estimation methodology is a bivariate Probit where there is partial observability because non-participants do

not reveal whether or not they would prefer full to part-time work. The complicated nature of the UK welfare system and its interaction with the system of social security contributions and the tax system itself is allowed for in our estimation strategy. The estimates are used to investigate the implications of recent proposals for the reform of the maintenance and welfare systems.

Blackburn, McKinley

PD January 1993. TI Are OLS Estimates of the Return to Schooling Biased Downward? Another Look. AU Blackburn, McKinley; Neumark, David. AA Blackburn: University of South Carolina. Neumark: University of Pennsylvania and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4259; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 23. PR \$5.00. JE J31, J24, C13. KW Wages. Training.

AB We examine evidence on omitted-ability bias in estimates of the economic return to schooling, using proxies for unobserved ability. We consider measurement error in these ability proxies and the potential endogeneity of both experience and schooling, and examine wages at labor market entry and later. Including ability proxies reduces the estimate of the return to schooling, and instrumenting for these proxies reduces the estimated return still further. Instrumenting for schooling leads to considerably higher estimates of the return to schooling, although only for wages at labor market entry. This estimated return generally reverts to being near (although still above) the OLS estimate if we allow experience to be endogenous. In contrast, for observations at least a few years after labor market entry, the evidence indicates that OLS estimates of the return to schooling that ignore omitted ability are, if anything, biased upward rather than downward.

Blanchard, Olivier J.

PD January 1993. TI What Do Firms Do with Cash Windfalls? AU Blanchard, Olivier J.; Lopez-de-Silanes, Florencio; Shleifer, Andrei. AA Blanchard: Massachusetts Institute of Technology and National Bureau of Economic Research. Lopez-de-Silanes: Harvard University. Shleifer: Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4258; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 24. PR \$5.00. JE G31, G32. KW Investment. Corporate Finance.

AB Suppose that a firm receives a cash windfall which does not change its investment opportunity set, or equivalently its marginal Tobin's Q. What will this firm do with the money? We provide empirical answers to this question using a sample of firms with such windfalls in the form of a won or settled lawsuit. We examine a variety of decisions of the firm to shed light on alternative theories of corporate financing and investment. Our evidence is broadly inconsistent with the perfect capital markets model. The results need to be stretched considerably to fit the asymmetric information model in which managers act in the interest of shareholders. The evidence supports the agency model of managerial behavior, in which managers try to ensure the long run survival and independence of the firms with themselves at the helm.

Blanchflower, David G.

PD October 1992. TI International Wage Curves. AU Blanchflower, David G.; Oswald, Andrew J. AA Blanchflower: Dartmouth College and National Bureau of Economic Research. Oswald: London School of Economics. SR National Bureau of Economic Research Working Paper: 4200; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 21. PR \$5.00. JE J41, E24, O57. KW Unemployment. Efficiency Wages.

AB The paper provides evidence for the existence of a negatively sloped locus linking the level of pay to the rate of regional (or industry) unemployment. This "wage curve" is estimated using microeconomic data for Britain, the U.S., Canada, Korea, Austria, Italy, Holland, Switzerland, Norway, and Germany. The average unemployment elasticity of pay is approximately -0.1. The paper sets out a multi-region efficiency wage model and argues that its predictions are consistent with the data.

PD December 1992. TI Wages, Profits and Rent-Sharing. AU Blanchflower, David G.; Oswald, Andrew J.; Sanfey, Peter. AA Blanchflower: Dartmouth College, London School of Economics, and National Bureau of Economic Research. Oswald: London School of Economics. Sanfey: University of Kent. SR National Bureau of Economic Research Working Paper: 4222; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 18. PR \$5.00. JE J31, C23. KW Labor Market. Labor Contracts. Unemployment.

AB The paper uses CPS data from 1964 to 1985 to test for the existence of rent-sharing in U.S. labor markets. Using an unbalanced panel from the manufacturing sector, and random-effects and fixed-effects specifications, the paper finds that changes in wages are explained by movements in lagged levels of profitability and unemployment. The results appear to be consistent with rent-sharing theory (or a labor contract framework with risk-averse firms) and to be inconsistent with the competitive labor market model. The paper estimates the unemployment elasticity of pay at approximately -0.03, and the profit elasticity of pay at between 0.02 and 0.05.

PD December 1992. TI Entrepreneurship, Happiness and Supernormal Returns: Evidence from Britain and the U.S. AU Blanchflower, David G.; Oswald, Andrew J. AA Blanchflower: Dartmouth College, London School of Economics, and National Bureau of Economic Research. Oswald: London School of Economics. SR National Bureau of Economic Research Working Paper: 4228; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 16. PR \$5.00. JE M13. KW Self Employment. Rents.

AB Do entrepreneurs earn supernormal returns, or does competitive pressure ensure that entrepreneurs receive the same utility level as workers? If those who run their own businesses get supernormal returns (or "rents") they should be happier than those who work as employees. The paper tests this hypothesis. It used survey data from Britain and the USA to show that, in comparison with those in regular forms of employment, the self-employed report significantly higher levels of utility as proxied by overall satisfaction data.

PD February 1993. TI International Wage Curves. AU Blanchflower, David G.; Oswald, Andrew J. AA Blanchflower: Dartmouth College, National Bureau of

Economic Research and London School of Economics. Oswald: London School of Economics and Institute of Economics and Statistics. SR London School of Economics Centre for Economic Performance Discussion Paper: 116; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 22. PR no charge. JE E24, J41. KW Unemployment. Efficiency Wage Model.

AB The paper provides international evidence for the existence of a negatively sloped locus linking the level of pay to the rate of regional (or industry) unemployment. This "wage curve" is found using microeconomic data for Britain, the U.S., Canada, Korea, Austria, Italy, Holland, Switzerland, Norway and Germany. The average unemployment elasticity of pay is approximately -0.1. The paper sets out a multi-region efficiency wage model as one possible interpretation of the data.

TI A Comparison of Changes in the Structure of Wages in Four OECD Countries. AU Katz, Lawrence F.; Blanchflower, David G.; Loveman, Gary W.

Blau, Francine D.

PD December 1992. TI The Gender Earnings Gap: Some International Evidence. AU Blau, Francine D.; Kahn, Lawrence M. AA Blau: University of Illinois and National Bureau of Economic Research. Kahn: University of Illinois. SR National Bureau of Economic Research Working Paper: 4224; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE J31, J16, O57. KW Wage Structure. Labor Market.

AB This paper uses micro-data to analyze international differences in the gender pay gap among a sample of ten industrialized nations. We particularly focus on explaining the surprisingly low ranking of the U.S. in comparison to other industrialized countries. Empirical research on gender pay gaps has traditionally focused on the role of gender-specific factors, particularly gender differences in qualifications and differences in the treatment of otherwise equally qualified male and female workers (i.e., labor market discrimination). An innovative feature of our study is to focus on the role of wage structure - the array of prices set for various labor market skills - in influencing the gender gap. The striking finding of this study is the enormous importance of overall wage structure in explaining the lower ranking of U.S. women. An important part of the explanation of this pattern is that the labor market in the U.S. places a much larger penalty on those with lower levels of labor market skills (both measured and unmeasured).

Blomstrom, Magnus

PD March 1993. TI Policies to Encourage Inflows of Technology Through Foreign Multinationals. AU Blomstrom, Magnus; Kokko, Ari. AA Blomstrom: Stockholm School of Economics and National Bureau of Economic Research. Kokko: Stockholm School of Economics. SR National Bureau of Economic Research Working Paper: 4289; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 21. PR \$5.00. JE F23, O34, O19, F13. KW Technology Transfer. Multinational Firms.

AB Do host countries aiming to maximize the inflows of technology through foreign multinationals have any policy alternatives to formal technology transfer requirements and performance requirements? To answer this question, the present

paper examines some possible determinants of the technology imports of U.S. majority-owned foreign affiliates in 33 host countries. The results show that the affiliates' technology imports increase with the host countries' domestic investment levels and education levels, but that various performance requirements are negatively related to technology transfer. This suggests that policies promoting local investment, competition, and education may sometimes be alternatives to direct controls and requirements.

Bloom, David E.

PD January 1993. TI Labor and the Emerging World Economy. AU Bloom, David E.; Brender, Adi. AA Bloom: Columbia University and National Bureau of Economic Research. Brender: Columbia University. SR National Bureau of Economic Research Working Paper: 4266; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 41. PR \$5.00. JE F15, F21, F43, F22. KW Integration. Capital Movements. Income Inequality.

AB This paper explores the emergence of a world economy since 1950 and its implications for the world's labor force. There are four main sets of conclusions. First, although the integration of national economies since 1950 has been considerable, the world economy is still in its adolescence. Second, international labor mobility can account for little, if any, economic integration since 1950. The economic integration that has been achieved is due mainly to the increased flow of capital across international boundaries and to a dramatic increase in trade, especially among the industrial countries. Third, these patterns of integration are associated with a sharp decline in income inequality among the industrial economies, but not in world income inequality as the income gap between the industrial and developing countries has increased. Finally, the large increase in developing economies' share of the world labor force projected for the next few decades will magnify their incentives to integrate more closely among themselves and with the industrial economies.

Blundell, Richard

PD January 1992. TI The Distinction Between Income and Consumption in Measuring the Distribution of Household Welfare. AU Blundell, Richard; Preston, Ian. AA Blundell: Institute of Fiscal Studies. Preston: University College London. SR University College London Discussion Paper: 92-01; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 28. PR 3 pounds; checks payable to Department of Economics, UCL. JE I30, I31, I32, D12, D91. KW Household Welfare. Income Expenditure. Poverty.

AB This paper places the debate over using consumption expenditures or incomes from single period household surveys as measures of household welfare in a formal intertemporal setting. Using this analysis, data from the U.K. Family Expenditure Survey are used to investigate the extent to which consumption and income measures may provide differing conclusions regarding the distribution of welfare. We find that analysis by labor market status and stage of the life-cycle is critical in understanding differences that may appear in welfare analysis based on consumption and income.

Bogart, William T.

PD January 1993. TI Capital Gains Taxes and

Realizations: Evidence from Interstate Comparisons. AU Bogart, William T.; Gentry, William M. AA Bogart: Case Western Reserve University. Gentry: Duke University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4254; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 20. PR \$5.00. JE H24, H71. KW Capital Gains Tax. Income Tax.

AB Despite numerous studies of the relation between income taxes and capital gains realizations, the revenue consequences of reducing capital gains tax rates remain unclear. However, an important source of cross-sectional variation has been neglected in this line of research: since both the tax base and the tax rate vary among states, the marginal tax rate on capital gains differs among otherwise identical individuals located in different states. The interstate variation in the tax consequences of realizing capital gains implies that the incentive to realize gains varies across states. This paper documents the interstate variation in capital gains taxation and examines the relation between capital gains taxes and aggregated state-level realizations.

Bohi, Douglas R.

PD May 1992. TI Energy Security Externalities and Policies. AU Bohi, Douglas R.; Toman, Michael A. AA Resources for the Future. SR Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-05; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 45. PR \$5.00 prepaid, U.S. funds. JE Q48, Q43, F13. KW Energy. Oil Price Shocks. Import Controls.

AB In this paper we review conceptual arguments and empirical evidence related to three potential sources of market failure involving energy security: excess wealth transfers to foreign suppliers exercising market power, deleterious effects on the economy from energy price shocks, and R&D. In doing so we consider several thorny questions involving the distinction between externality and market inefficiency, and the distinction between market failures that are amenable or not amenable to correction given our current understanding of the workings of an economy. Several conclusions follow from our analysis regarding the potential sources of market failure and possible remedies. The strongest possible policy measures are R&D to reduce energy use, diversify supply sources, and enhance input substitutability.

Bond, Stephen

PD September 1992. TI Dynamic Investment Models and the Firm's Financial Policy. AU Bond, Stephen; Meghir, Costas. AA Bond: Institute for Fiscal Studies, Nuffield College and IES. Meghir: Institute for Fiscal Studies and University College London. SR University College London Discussion Paper: 92-14; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 40. PR 3 pound checks; payable to Department of Economics, UCL. JE C23, D92, G32. KW Investment. Financial Structure. Panel Data.

AB The aim of this paper is to characterize the empirical implications for dynamic investment models of the hierarchy of finance model of corporate finance and to test these implications using firm level data. The model we estimate is based on the Euler equation for optimal capital accumulation in the presence of convex adjustment costs. The theoretical model

explicitly allows for debt finance and financial assets. The empirical investigation uses U.K. company panel data to estimate dynamic investment models using GMM and to test the derived implications.

Booth, Alison L.

PD September 1991. TI Private Sector Training and Graduate Earnings. AA Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 2/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 10. PR not available. JE J24, J31, J16. KW Job Training, Labor Productivity, Gender.

AB Private sector training and its impact on earnings is becoming of increasing policy relevance in the U.S. and Britain, with governments in both countries emphasizing the importance of employer-provided training in the development of the skilled workforce necessary for growth in the 1990's. But does private sector training affect workers' productivity and earnings? What type of workers are offered private sector training? Are there gender differences in its provision and impact? The present paper represents an addition to this literature, since it uses the 1986 British National Survey of 1980 Graduates to focus on gender differences in the provision and impact of private sector training. The advantages of this survey are first, that it contains information on three categories of employer-provided training in the present job and in previous jobs since graduation. It is therefore possible to examine the impact of training in the current job on wages and wage growth, and also the portability of previous training across jobs.

PD September 1992. TI Apprenticeships and Job Tenure: A Competing Risks Model with Time-Varying Covariates. AU Booth, Alison L.; Satchell, Stephen E. AA Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 8/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 24. PR not available. JE J24, J63, J62. KW Employment Duration, Labor Market Mobility.

AB The paper examines the extent of apprenticeships in the first job for a cohort of young men entering the labor market at age 16 in the late 1970's. The impact of the apprenticeship on employment duration and early labor market mobility is also estimated. Competing risks models were estimated of the hazards of exit from the first job into a number of competing destinations. Completed apprenticeships reduced the exit rate to each destination, while terminated apprenticeships increased each exit rate, relative to the base of no training. The finding for completed apprenticeships suggests that both employers and apprenticed youths wished to continue the employment relationship. Employers were relatively more likely to retain trained workers, since involuntary layoffs were reduced by completed apprenticeships. Moreover, trained workers were relatively more likely to want to stay, since voluntary quits were reduced by completed apprenticeships.

PD November 1992. TI Layoffs with Payoffs: A Bargaining Model of Union Wage and Severance Pay Determination. AA Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 7/92(R); Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 25. PR not available. JE J51, J65, J31, J33. KW Unemployment Insurance,

Labor Unions, Union Preferences.

AB Popular characterizations of union preferences assume that union members who are identical ex ante are treated differently ex post, that is, there are no ex post intra-union distribution schemes. However, there is evidence of intra-union distribution schemes in some industries, with examples being severance payments, unemployment insurance, retraining arrangements and early retirement schemes. This paper develops a model of the behavior of a trade union and a firm with endogenous redundancy pay, and with uncertain product demand. The model generates empirically testable predictions about wage and severance payment determination in a bargaining framework, with implications for employment.

Bossert, Walter

TI A Strategic Justification of the Egalitarian Bargaining Solution. AU Tan, Goufu; Bossert, Walter.

Bound, John

TI Changes in the Demand for Skilled Labor Within U.S. Manufacturing Industries: Evidence from the Annual Survey of Manufacturing. AU Berman, Eli; Bound, John; Griliches, Zvi.

Bovenberg, A. Lans

PD December 1992. TI Environmental Policy, Public Finance and the Labour Market in a Second-Best World. AU Bovenberg, A. Lans; van der Ploeg, Frederick. AA Bovenberg: Tilburg University, Van der Ploeg: University of Amsterdam. SR CEPR Discussion Paper: 745; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 27. PR Pounds 4.00 or \$8.00. JE E62, H21, H41, Q28. KW Environmental Externalities, Public Goods, Optimal Taxation.

AB Environmental and tax policies and the optimal provision of clean and dirty public goods are analyzed within the context of a second-best framework of optimal taxation. Households consume both clean and dirty commodities. Degradation of the natural environment occurs due to the consumption of dirty private and public goods, but can be offset when the government engages in abatement activities. The "double dividend" hypothesis, i.e. raise the dirt tax and reduce the labor tax in order to enhance both environmental quality and employment, fails. Increased environmental concern implies a higher dirt tax, a lower tax on labor, less employment and economic activity and a cleaner environment.

Bowes, Michael D.

TI Managing the Forest for Timber and Ecological Outputs on the Olympic Peninsula. AU Sedjo, Roger A.; Bowes, Michael D.

Brainard, S. Lael

PD February 1993. TI A Simple Theory of Multinational Corporations and Trade with a Trade-Off Between Proximity and Concentration. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4269; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 40. PR \$5.00. JE F23, L22, F12. KW Scale Economies, Exports, Product Differentiation.

AB This paper develops a two-sector, two-country model, where firms in a differentiated products sector choose between exporting and multinational expansion as alternative modes of foreign market penetration, based on a trade-off between proximity and concentration advantages. The differentiated sector is characterized by multi-stage production, with increasing returns at the corporate level associated with some activity such as R&D, scale economies at the plant level, and a variable transport cost that rises with distance. A pure multinational equilibrium, where two-way horizontal expansion across borders completely supplants two-way trade in differentiated products, is possible even in the absence of factor proportion differences. It is more likely the greater are transport costs relative to fixed plant costs, and the greater are increasing returns at the corporate level relative to the plant level. The model also establishes conditions for a mixed equilibrium, in which national and multinational firms coexist.

Brander, James A.

PD February 1993. **TI** The Role of Fertility and Population in Economic Growth: Empirical Results from Aggregate Cross-National Data. **AU** Brander, James A.; Dowrick, Steve. **AA** Brander: University of British Columbia and National Bureau of Economic Research. Dowrick: Australian National University. **SR** National Bureau of Economic Research Working Paper: 4270; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 32. **PR** \$5.00. **JE** O47, O15, J13. **KW** Birth Rate. Resource Dilution.

AB Two recently improved sets of cross-country panel data are combined in order to re-examine the effects of population growth and fertility on economic growth. Using a 107 country panel data set covering 1960-85, we find that high birth rates appear to reduce economic growth through investment effects and possibly through "capital dilution", although classic resource dilution is not evident in the data. Most significantly, however, birth rate declines have a strong medium-term positive impact on per capita income growth through labor supply or "dependency" effects.

Brandolini, Andrea

PD January 1993. **TI** In Search of a Stylised Fact: Do Real Wages Exhibit a Consistent Pattern of Cyclical Variability? **AA** London School of Economics. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 112; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 67. **PR** no charge. **JE** E32, E24. **KW** Business Cycles. Real Wages.

AB The paper surveys the studies on the cyclical behavior of real wages published from the twenties onwards. The traditional simple neoclassical model of the labor market suggests that real wages tend to move countercyclically. However, from a theoretical viewpoint, there are few reasons to expect this behavior, once the simple model is extended to account for imperfect competition, uncertainty, lagged responses, or contracting between firms and workers. Empirical studies give different answers to the problem. The contributions reviewed in the paper are arranged roughly in a chronological order: the interwar period, the postwar pre-econometric studies, the econometric work using aggregate data, the evidence produced on the basis of longitudinal data, the analyses of the shock-responsiveness of real wages, and, finally, the most

recent papers attempting a reconciliation of the somewhat conflicting evidence derived from aggregate and panel data.

Brender, Adi

TI Labor and the Emerging World Economy. **AU** Bloom, David E.; Brender, Adi.

Brennan, Timothy

TI Comparing the Costs and Benefits of Diversification by Regulated Firms. **AU** Palmer, Karen; Brennan, Timothy.

Brewer, Dominic J.

TI Did Teachers' Race and Verbal Ability Matter in the 1960's? Coleman Revisited. **AU** Ehrenberg, Ronald G.; Brewer, Dominic J.

Broome, John

PD January 1993. **TI** Discounting the Future. **AA** University of Bristol. **SR** University of Bristol Economics Working Paper: 93/343; Department of Economics, University of Bristol, Alfred Marshall Building, 8 Woodland Road, Bristol BS8 1TN, ENGLAND. **PG** 23. **PR** no charge. **JE** H43, A12. **KW** Time Preference. Public Decision Making.

AB Should the future be discounted in public decision making? Many economists think so, and many philosophers think not. This paper points out that, despite appearances, there need be no disagreement between these two groups. Economists generally apply their discount factors to commodities, whereas philosophers are generally opposed to discounting wellbeing. It is perfectly consistent to discount commodities and not discount wellbeing. The paper also describes the economist's rationale for discounting commodities according to market interest rates, and sets limits to this rationale.

Brownfield, Sharon

TI Learning Alliance Between Business and Business Schools: Executive Education as a Platform for Partnership. **AU** Ghoshal, Sumantra; Arzen, Breck; Brownfield, Sharon.

Bruneau, C.

PD February 1992. **TI** Probabilistic Foundations of a Causal Analysis in a Stationary Vectorial Autoregressive Model. **AU** Bruneau, C.; Nicolai, J. P. **AA** Bruneau: INSEE. Nicolai: Service des études économiques et financières. **SR** Unite de Recherche Document de Travail ENSAE/INSEE: 9206; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. **PG** 14. **PR** no charge. **JE** C32. **KW** Causality. Multivariate Autoregression. Impulse Coefficient.

AB In this paper we aim at laying the probabilistic foundations of a causal analysis in a multivariate autoregressive stationary framework. Referring to the founding concept proposed by Granger (1969), we require the causal variable to improve the prediction of the caused variable, whatever the prediction horizon concerned, as suggested by Lutkepohl (1990). We limit the study to the unidirectional causality, because of its links with the strong exogeneity as studied by Engle, Hendry and Richard (1983). Moreover, by focusing on unidirectional causal links in a multivariate stationary autoregressive framework, we give a necessary and sufficient condition for non-causality to hold. This condition can be

simply expressed as linear constraints on the parameters of interest, once auxiliary parameters are introduced in the statistical model.

Buchanan, Bonnie G.

PD December 1992. TI Quality Function Deployment. AA Monash University. SR Monash Department of Econometrics Research Working Paper: 18/92; Department of Econometrics, Monash University, Clayton, Victoria 3168, AUSTRALIA. PG 18. PR no charge. JE C44. KW Quality Management. Product Development.

AB In the cut-throat 1990's the key to survival for a business is a knowledge of customer needs. At the same time the utilization of Quality Management principles are required for efficiency, productivity and the elimination of waste. Clearly, there is a need for a quantitative tool that can directly use the "voice of the customer". Quality Function Deployment (QFD) is a simple yet visually powerful planning tool for ensuring that customer demands are accurately translated into relevant technical requirements and actions throughout each stage of product development. This working paper will discuss the development of QFD and the use of statistical techniques within the QFD framework.

Buiter, Willem H.

PD June 1992. TI Permanent International Productivity Growth Differentials in an Integrated Global Economy. The Roles of Households, Non-Tradedness, Self-Financing and Fiscal Policy. AU Buiter, Willem H.; Kletzer, Kenneth M. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 664; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 38. PR \$2.00 plus postage. JE O47, F43, E62. KW Endogenous Growth. Productivity Growth Differentials. Fiscal Policy.

AB This paper develops a role for differences in household tastes and policies that influence household behavior as sources of persistent or permanent differences between national or regional productivity growth rates, under perfect international financial capital mobility. We show that when households are constrained in the trade of some essential input into the production of nontraded human capital, productivity growth differentials arise even with common technologies and industrial structures and with constant returns from scale. We discuss two alternative sources of nontradedness. One is that there are essential "home-grown" inputs to human capital augmentation (represented by time spent in education). The other is that households cannot borrow against future labor income to finance education and training.

PD November 1992. TI Permanent International Productivity Growth Differentials in an Integrated Global Economy. AU Buiter, Willem H.; Kletzer, Kenneth M. AA Buiter: Yale University and National Bureau of Economic Research. Kletzer: University of California, Santa Cruz. SR National Bureau of Economic Research Working Paper: 4220; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 28. PR \$5.00. JE F43, F15, I22, J24, O19. KW Household Behavior. Human Capital. Private Saving.

AB The paper analyzes the role of differences in household behavior as a source of persistent and even permanent differences between national or regional productivity growth rates, when there are constant static returns to scale in

production and costless international diffusion of technology. A binding self-financing constraint on human capital formation can account for permanent international productivity growth differentials. An alternative mechanism is the non-tradedness of an essential input, such as human capital, in the growth process. Differences in national policies toward private saving (whether through lump-sum intergenerational redistribution or through the taxation of financial asset income), toward the subsidization of human capital formation (student loans) and toward the free provision of public sector inputs in the human capital formation process also influence the long-run growth differentials.

PD December 1992. TI "Excessive Deficits": Sense and Nonsense in the Treaty of Maastricht. AU Buiter, Willem H.; Corsetti, Giancarlo; Roubini, Nouriel. AA Buiter and Roubini: Yale University. Corsetti: Universita di Roma. SR CEPR Discussion Paper: 750; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 65. PR Pounds 4.00 or \$8.00. JE E62, E63, F33, H62, H63. KW European Monetary Union. Fiscal Rules. Public Debt.

AB In this paper we evaluate internationally agreed limits on public sector debt and deficits, such as those agreed by the EC countries in the Treaty of Maastricht as preconditions for membership in a monetary union. These fiscal convergence criteria require that general government budget deficits should not exceed 3% of GDP and that the gross debt of the general government should not be above 60% of GDP. The Maastricht requirements, especially the debt criterion, are much more stringent than those required to ensure public sector solvency. Their implementation would require an excessive degree of fiscal retrenchment which would adversely affect the level of economic activity. We discuss the various "externality" arguments in favor of binding fiscal rules and find them wanting, both theoretically and empirically. We conclude that the fiscal convergence criteria should be disregarded or applied quite loosely in order to avoid the risk of serious fiscal overkill.

Burda, Michael C.

PD December 1992. TI Unemployment, Labour Market Institutions and Structural Change in Eastern Europe. AA Wissenschaftszentrum Berlin. SR CEPR Discussion Paper: 746; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 32. PR Pounds 4.00 or \$8.00. JE J41, E24, P52, J65. KW Labor Markets. Unemployment Benefits. Economic Transition.

AB This paper surveys the emerging labor markets of the transforming economies of Central and Eastern Europe. Pissarides's model of equilibrium unemployment highlights the dynamics of labor markets as an important factor in the transformation, and labor market institutions will determine the long-run unemployment rate. A brief survey of institutions reveals considerable cross-country variance. Using data from Czech and Slovak employment districts, a matching function is successfully estimated. The flow approach to labor markets holds normative implications for the optimal closure or restructuring of the public sector, which are derived. The optimal closure policy is a "mixed-bang." Neither a "big-bang" nor benign neglect is optimal.

Buscaglia, Edgardo

PD February 1993. TI Law, Technological Progress, and Economic Development. AA University of California,

Berkeley and Stanford University. **SR** Stanford Hoover Institute International Studies Working Paper: I-93-5; The Hoover Institution, Stanford University, Stanford, CA 94305. **PG** 49. **PR** no charge. **JE** O31, O34, K12, K11. **KW** Technological Change. Contract Law. Patents.

AB The requirements needed for the massive generation and commercialization of technological improvements depend on the existence of growing markets and of basic institutions, such as property and contractual rules, acting as a catalyst for innovative activity. Legal institutions are at present the principal barrier to investment and to the growth of markets in developing nations. A new world has emerged characterized by more volatile markets based on increased global deregulated competition, proliferation of consumer tastes, and the implementation of new research intensive and complex technologies. All these factors make it necessary for firms to increase their technological flexibility. Greater flexibility is associated with smaller firm size. However, the success of these small firms depends on more than innovative organizational advantages. The evidence seems to indicate that small-firm expansion depends upon a particular political and social order described in this work and not found at present in many developing nations.

Byg, Torkild

PD March 1993. **TI** Contracts under Non-Verifiability. **AA** Tel Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies: 6/93; Department of Economics, Tel Aviv University, Ramat Aviv, ISRAEL. **PG** 25. **PR** no charge. **JE** D23, K12, L14. **KW** Incomplete Contracts. Institutional Choice.

AB The consequence of non-verifiability of several actions around a transaction is studied in a simple transferable utility model. It is shown that not all socially desirable transactions will take place because of this non-verifiability. The question of how to reach a second best through the right institutional choice is discussed. The model is generalized to allow for risk averse players and the effects of this are analyzed. In a second interpretation it is demonstrated that non-verifiability is only a relative but not an absolute barrier against trade.

Calomiris, Charles W.

PD March 1993. **TI** Internal Finance and Investment: Evidence from the Undistributed Profits Tax of 1936-1937. **AU** Calomiris, Charles W.; Hubbard, R. Glenn. **AA** Calomiris: University of Illinois and National Bureau of Economic Research. Hubbard: Columbia University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4288; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** not available. **PR** \$5.00. **JE** G31, G32. **KW** Internal Funds. External Funds. Shadow Prices.

AB Recent theoretical approaches have linked shifts in firms' internal funds and investment spending, holding constant underlying investment opportunities. An important impediment to convincing tests of these models is the lack of firm-level data on the relative costs of internal and external funds. We use a tax experiment, the Surtax on Undistributed Profits (SUP) in the 1930's, to identify firms' relative cost of internal and external funds and analyze its effect on firms' investment decisions. Firms' responses to the surtax on retained earnings permit estimation of shadow price differentials between internal and

external finance, and measurement of the link between access to capital markets and investment.

Card, David

PD February 1993. **TI** Wage Dispersion, Returns to Skill, and Black-White Wage Differentials. **AU** Card, David; Lemieux, Thomas. **AA** Card: Princeton University, Lemieux: University of Montreal. **SR** Princeton Industrial Relations Section Working Paper: 312; Industrial Relations Section, Department of Economics, Princeton University, Princeton, NJ 08544-2098. **PG** 29. **PR** \$2.00. **JE** J31. **KW** Human Capital. Wage Determinants.

AB During the 1980's wage differentials between younger and older workers and between more and less educated workers expanded rapidly. Wage dispersion among individuals with the same age and education also rose. A simple explanation for both sets of facts is that earnings represent a return to a one-dimensional index of skill, and that the rate of return to skill rose over the decade. We explore a simple method for estimating and testing "single index" models of wages. Our approach integrates three dimensions of skill: age, education, and unobserved ability. We find that a one-dimensional skill model gives a relatively successful account of changes in the structure of wages for white men and women between 1979 and 1989. We then use the estimated models for whites to analyze recent changes in the relative wages of black men and women.

PD March 1993. **TI** Minimum Wages and Employment: A Case Study of the Fast Food Industry in New Jersey and Pennsylvania. **AU** Card, David; Krueger, Alan B. **AA** Princeton University and National Bureau of Economic Research. **SR** Princeton Industrial Relations Section Working Paper: 315; Industrial Relations Section, Department of Economics, Princeton University, Princeton, NJ 08544-2098. **PG** 33. **PR** \$2.00. **JE** J23, J38. **KW** Labor Demand. Minimum Wage.

AB On April 1, 1992 New Jersey's minimum wage rose from \$4.25 to \$5.05 per hour. To evaluate the impact of the new law we surveyed over 400 fast food restaurants in New Jersey and Pennsylvania before and after the rise in the minimum. Comparisons of the changes in wages, employment, and prices at stores in New Jersey relative to stores in Pennsylvania (where the minimum remained constant at \$4.25) provide simple robust estimates of the effect of the increased minimum wage. Our empirical findings challenge the conventional notion that a rise in the minimum causes employment to decline. Relative to stores in Pennsylvania, fast food restaurants in New Jersey increased employment by 2.5 employees per store. We also compare employment changes at stores in New Jersey that were initially paying \$5.00 per hour or more to the employment changes at lower-wage stores. Stores that were unaffected by the minimum wage had the same employment growth as stores in Pennsylvania, while stores that had to increase their wages increased their employment. Finally, we evaluate theoretical models that might explain these results.

PD April 1993. **TI** Comment on David Neumark and William Wascher, "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws. **AU** Card, David; Katz, Lawrence F.; Krueger, Alan B. **AA** Card and Krueger: Princeton University and National Bureau of Economic Research. Katz: U.S. Department of Labor and Harvard University. **SR** Princeton Industrial Relations Section Working Paper: 316; Industrial Relations Section,

Department of Economics, Princeton University, Princeton, NJ 08544-2098. PG 16. PR \$1.00. JE J23, J38. KW Minimum Wage. Employment.

AB We re-examine the evidence presented by Neumark and Wascher (1992) on the employment effect of the minimum wage. We find three critical flaws in their analysis. Neumark and Wascher contend that other minimum wage studies are biased by failing to control for school enrollment, and by failing to consider the lagged effects of minimum wages. We re-analyze the experiences of individual states following the April 1990 increase in the Federal minimum wage, allowing for a full year lag in the effect of the law and controlling for changes in (properly measured) enrollment rates. Contrary to their claims, allowing for lagged effects and controlling for enrollment status actually strengthens the conclusion that the 1990 increase in the Federal minimum had no adverse employment effect.

Carlin, Wendy

PD September 1992. TI Restructuring Enterprises in Eastern Europe. AU Carlin, Wendy; Meyer, Colin. AA Carlin: University College London. Meyer: City University Business School, London. SR University College London Discussion Paper: 92-15; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 63. PR 3 pounds; checks payable to University College London. JE G30, O57, L33. KW Privatization. Enterprise Restructuring. Economic Transition.

AB The enterprise sectors of Eastern Europe are undergoing fundamental reform. This article evaluates alternative forms of corporate restructuring. It emphasizes differences in the sequence in which reforms are undertaken in different countries. In some countries, restructuring is being undertaken by the state before privatization; in some, restructuring is delegated to private sector institutions before shares are offered to the public at large; and in others, public offers of shares are preceding privatization. The article suggests that the recent theoretical literature on corporate ownership and vertical integration provides a useful framework for evaluating alternative sequences of reform.

PD September 1992. TI The Treuhandanstalt: Privatization in State and Market. AU Carlin, Wendy; Meyer, Colin. AA Carlin: University College London. Meyer: City University Business School, London. SR University College London Discussion Paper: 92-16; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 21. PR 3 pounds; checks payable to Department of Economics, University College London. JE G30, O52, L33. KW Privatization. Enterprise Restructuring. Eastern Europe.

AB This paper examines the role played by the Treuhandanstalt in East German privatizations. It argues that the Treuhandanstalt has performed six functions: it determines the social value of firms; it disposes of uneconomic activities; it creates supervisory boards; it finds prospective buyers; it evaluates them; and it imposes investment and employment conditions. The rationale for these functions is the attainment of social objectives concerning employment, regional and industrial policy, as well as sale price. A longer term role in the creation of self-sufficient enterprises that can raise finance externally while retaining control domestically. The Treuhandanstalt approach is contrasted with various forms of

auction.

Casella, Alessandra

PD February 1993. TI Trade as Engine of Political Change: A Parable. AA University of California, Berkeley, National Bureau of Economic Research and Centre for Economic Policy Research. SR University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-012; IBER, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. PG 22. PR no charge. JE D51, H41, F15. KW Trade Expansion. Economic Integration. Public Goods.

AB If efficient economic activity requires appropriate public goods, then changes in the volume and flow of trade will induce changes in the demand for these public goods. In general, if people disagree over their preferred levels of public goods, the expansion of trade may affect the structure of jurisdictions responsible for their provision. This paper presents a simple example meant to illustrate the general principle. It studies a general equilibrium model where the size of the market is easily parameterized and welfare depends on private exchange and two public goods. Preferences over one of them are heterogenous, but administrative costs initially make the formation of two separate jurisdictions too expensive. However, as the market expands, reliance on the public goods increases and with it the importance of having access to the correct public good. A federal system becomes optimal when the market is sufficiently large.

Chaloupka, Frank J.

TI Youth Alcohol Use and Public Policy. AU Laixuthai, Adit; Chaloupka, Frank J.

Chatterjee, Satyajit

PD March 1993. TI Strategic Complementarity in Business Formation: Aggregate Fluctuations and Sunspot Equilibria. AU Chatterjee, Satyajit; Cooper, Russell W.; Ravikumar, B. AA Chatterjee: Federal Reserve Bank of Philadelphia. Cooper: Boston University. Ravikumar: University of Virginia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 93-9; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. PG 22. PR no charge except overseas airmail, \$2.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D21, D92, D91, C62. KW Endogenous Cycles. Overlapping Generations. Multiple Equilibria.

AB The possibility of sunspot equilibria and endogenous cycles are explored in a two sector overlapping generations model with entry. It is shown that if prospective entrants act oligopolistically as producers but competitively as consumers, then a strategic complementarity between the entry decisions of agents across sectors and across time may arise. If the complementarity is sufficiently strong, the economy will have multiple, Pareto-ranked steady states. Stationary sunspot equilibria can then be constructed as a randomization between allocations in the neighborhood of the multiple steady states providing a source of aggregate fluctuations.

Chen, Kan

TI Aggregate Fluctuations from Independent Sectoral Shocks: Self-Organized Criticality in a Model of Production

and Inventory Dynamics. AU Bak, Peter; Chen, Kan; Scheinkman, Jose; Woodford, Michael.

Chen, Marty

PD September 1992. TI Widows and Well-Being in Rural North India. AU Chen, Marty; Dreze, Jean. AA Dreze: London School of Economics. Chen: Harvard University. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: DEP/40; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 46. PR no charge. JE I38, H55, D10, D63, J16. KW Social Security. Property Rights. India.

AB This paper discusses the well-being of widows in rural North India, using primary data collected by the authors in the states of Bihar, Gujarat, Rajasthan, Uttar Pradesh and West Bengal. Economic and demographic evidence strongly suggests that North Indian widows tend to live in a condition of acute insecurity and deprivation. The vulnerability of widows largely relates to the restrictions they experience in regard to residence, inheritance, remarriage and employment. These restrictions severely limit the capacity of widows for self-reliance and puts them in a position of acute dependence on social support. Further, this need for social support is inadequately met, with adult sons representing the only reliable source of regular support. The paper concludes with a brief discussion of these findings for policy, action and research.

Chen, Zhaohui

PD March 1993. TI The Determinants of Realignment Expectations Under the EMS: Some Empirical Regularities. AU Chen, Zhaohui; Giovannini, Alberto. AA Chen: London School of Economics. Giovannini: National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4291; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 14. PR \$5.00. JE F33, F31, F41. KW European Monetary System. Exchange Rates.

AB The stability of the EMS depends crucially on realignment expectations of the market participants. In this paper we discuss how to measure such expectations and how to relate them to economic fundamentals, central bank reputation, and institutional arrangements of the EMS. We find the following empirical regularities for FF/DM and IL/DM exchange rates: (1) expected devaluations are positively related to the current exchange rate deviation from the central parity; (2) expected devaluations are negatively related to the length of time since last realignment in the short and medium run; (3) the Basle-Nyborg agreements seem to have a stabilizing effect for both currencies examined, albeit through different channels; (4) large revaluation expectations occur immediately after devaluations. (1) and (4) are not inconsistent with the hypothesis of over-speculation or market inefficiency.

Chew, Soo Hong

TI Bandwagon Effects in Two-Party Majority Voting. AU Konrad, Kai A.; Chew, Soo Hong.

Chichilnisky, G.

PD October 1992. TI Price Uncertainty and Derivative Securities in a General Equilibrium Model. AU Chichilnisky, G.; Dutta, Jayarsi; Heal, G. M. AA Chichilnisky: Columbia University. Dutta: University of

Cambridge. Heal: Columbia Business School. SR University of Cambridge Economic Theory Discussion Paper: 178; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 13. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE D81, G13, G22, D51. KW Endogenous Uncertainty. Multiple Equilibria.

AB Consider an exchange economy with multiple competitive equilibria. Agents know the set of equilibria, but not which will be selected. To insure against unfavorable equilibrium outcomes, they trade on markets for commodities contingent on the equilibrium price vector. Such price-contingent contracts allow agents to insure fully against the risk stemming from uncertainty about the equilibrium to be chosen. However, they introduce further uncertainty because there may be several possible equilibrium prices for price-index-contingent commodities. The introduction of higher-order derivative products removes this uncertainty, but in turn introduces uncertainty about the prices of these products. We prove that in regular economies this process converges in a finite number of steps to unique fully-insured Pareto efficient allocation.

Chinn, Menzie

PD January 1993. TI Patterns in Exchange Rate Forecasts for 25 Currencies. AU Chinn, Menzie; Frankel, Jeffrey A. AA Chinn: University of California, Santa Cruz. Frankel: University of California, Berkeley. SR University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-009; IBER, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. PG 7. PR no charge. JE F31, G15. KW Expectations. Forward Rate.

AB The properties of exchange rate forecasts are investigated, with a data set encompassing a broad cross section of currencies. Over the entire sample, expectations appear to be biased. This result is robust to the possibility of random measurement error in the survey measures. There appear to be statistically significant differences in the degree of bias in subgroupings of the data: (i) the bias is lower for the high-inflation countries; (ii) the bias is greater for the major currencies studied in earlier papers; and (iii) the bias is also greater for the EMS currencies.

Christ, Carl F.

PD January 1993. TI The Cowles Commission's Contributions to Econometrics at Chicago, 1939-1955. AA Johns Hopkins University. SR Johns Hopkins Department of Economics Working Paper: 300; Department of Economics, Johns Hopkins University, Baltimore, Maryland 21218. PG 44. PR no charge. JE B23. KW Simultaneous Equations. Endogenous Variables. Identification.

AB The Cowles Commission at Chicago created a revolution in econometric methods. Its members made lasting contributions to theoretical econometrics, especially regarding the probability approach, simultaneous equations models, the distinction among endogenous and exogenous and predetermined variables, the solution of the identification problem in econometrics, and consistent methods of estimating simultaneous equations such as full- and limited-information maximum likelihood. They left for later investigators such topics as model specification testing, endogenizing policy

variables, expectations, serially correlated and heteroskedastic disturbances, errors in variables, time-varying parameters, sample selection bias, and the development of new estimation methods such as two- and three-stage least squares and nonlinear methods. Their dream of forecasting stock prices and preventing business cycles has not yet been realized. The paper uses simple examples and no matrix algebra.

Clare, Andrew

PD November 1992. TI *Winners and Losers: UK Evidence for the Overreaction Hypothesis.* AU Clare, Andrew; Thomas, Stephen. AA Clare: University of Southampton. Thomas: University of Wales. SR University of Southampton Discussion Paper in Economics and Econometrics: 9229; Department of Economics, University of Southampton, Southampton 509 5NH, ENGLAND. PG 21. PR no charge. JE G10, G14. KW Equity Markets. Pricing Errors.

AB The overreaction hypothesis refers to a well defined result from the field of applied psychology that people tend to overreact to unexpected and adverse news and events. Equity market research in the U.S. has shown that investors display this tendency to overreact to unexpected and adverse news and events. Equity market research in the U.S. has shown that those stocks which consistently underperform the market (losers) outperform, over the subsequent three to five year period, those stocks which have previously outperformed the market (winners). Thus the market seems to adjust very slowly to pricing errors. In this paper we present the first test of the overreaction hypothesis outside of the U.S. equity market.

PD November 1992. TI *Relative Price Variability and Inflation in an Equilibrium Price Misperceptions' Model: Evidence for the U.K.* AU Clare, Andrew; Thomas, Stephen. AA Clare: University of Southampton. Thomas: University of Wales. SR University of Southampton Discussion Paper in Economics and Econometrics: 9230; Department of Economics, University of Southampton, Southampton 509 5NH, ENGLAND. PG 10. PR no charge. JE E31. KW Relative Price Variability. Inflation.

AB In this paper we investigate the relationship between relative price variability and inflation in the U.K using the equilibrium price misperceptions' model of Lucas (1973). We obtain a data consistent version of the equilibrium price misperceptions' model linking relative price variability, inflation and a small set of key macroeconomic variables. We find a significant, positive role for inflation in explaining relative price variability and suggest that this may be due to a positive relation between the variance of sector specific shocks and inflation.

Cockburn, Iain

TI *Generics and New Goods in Pharmaceutical Price Indexes.* AU Griliches, Zvi; Cockburn, Iain.

Cogley, Timothy

PD August 1992. TI *Effects of the Hodrick-Prescott Filter on Trend and Difference Stationary Time Series.* AU Cogley, Timothy; Nason, James M. AA Cogley: Federal Reserve Bank of San Francisco. Nason: University of British Columbia. SR University of British Columbia Department of Economics Discussion Paper: 92-23; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. Canada V6T 1Z1. PG 47.

PR JE E32, E37, C22. KW Detrending. Linear Filter. Comovement.

AB This paper studies the effects of applying the Hodrick-Prescott filter to trend and difference stationary time series. Our main result is that applying the Hodrick-Prescott filter to a difference stationary process is similar to detrending a random walk. When the data are difference stationary, the Hodrick-Prescott filter can generate business cycle periodicity and comovement even if none are present in the original data. We study implications for two applications: interpreting stylized facts about business cycles and analyzing data generated by real business cycle models.

PD September 1992. TI *Do Real Business Cycle Models Pass the Nelson-Plosser Test?* AU Cogley, Timothy.; Nason, James M. AA Cogley: Federal Reserve Bank of San Francisco. Nason: University of British Columbia. SR University of British Columbia Department of Economics Discussion Paper: 92-24; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. Canada V6T 1Z1. PG not available. PR JE C15, C32, E32, C52. KW Propagation. Specification Test.

AB Nelson and Plosser (1982) report two stylized facts about univariate output dynamics: (i) GNP has either a unit root or near unit root, and (ii) GNP growth is positively autocorrelated over short horizons and negatively autocorrelated over longer horizons. We consider whether various real business cycles (RBC) models can replicate these stylized facts. While all the models that we study replicate the first stylized fact, only one replicates the second. Our results provide insight into the nature of propagation mechanisms in RBC economies. In many cases, we find that output dynamics are essentially the same as impulse dynamics, which implies that the model economies do not propagate shocks over time. Hence they are unable to generate significant serial dependence in output growth. Time to build, home production, and labor hoarding models are exceptions. These models all have noticeable propagation mechanisms, but only the labor hoarding model generates the kind of serial dependence observed in sample.

Cooper, Russell W.

TI *Strategic Complementarity in Business Formation: Aggregate Fluctuations and Sunspot Equilibria.* AU Chatterjee, Satyajit; Cooper, Russell W.; Ravikumar, B.

Coricelli, Fabrizio

PD March 1993. TI *On the Credibility of Big Bang Programs: A Note on Wage Claims and Soft Budget Constraints in Economies in Transition.* AU Coricelli, Fabrizio; Milesi-Ferretti, Gian-Maria. AA Coricelli: The World Bank. Milesi-Ferretti: London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 124; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 14. PR no charge. JE P51. KW Economic Transition. Production Efficiency.

AB The paper examines cases in which from a production efficiency standpoint "big bang" programs are superior to gradualist programs. Nevertheless, in the presence of (i) uncertainty about exogenous shocks, (ii) dependence of policy actions on the state of the economy, and (iii) uncertain future of firms in the context of a generalized short-run output contraction, "big bang" programs can lead to inferior outcomes.

We argue that the short-term effects of a "big bang" on output and employment may endogenously weaken the credibility of the program. This can induce perverse behavior on the part of economic agents, leading to outcomes that are worse than those associated with a gradual program. For example, if the government is perceived to face political constraints that make high rates of unemployment unacceptable, then workers' wage claims may be "too high" because of the perception of a government bailout of insolvent firms should times be tough.

Corsetti, Giancarlo

TI "Excessive Deficits": Sense and Nonsense in the Treaty of Maastricht. AU Buitter, Willem H.; Corsetti, Giancarlo; Roubini, Nouriel.

Cragg, John G.

PD October 1992. TI Factor Analysis Under More General Conditions with Reference to Heteroskedasticity of Unknown Form. AU Cragg, John G.; Donald, Stephen G. AA Cragg: University of British Columbia. Donald: University of Florida. SR University of British Columbia Department of Economics Discussion Paper: 92-29; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. V6T 1Z1 CANADA. PG not available. PR JE C10, C13. KW Factor Analysis. Generalized Least Squares. Heteroskedasticity.

AB The generalized least-squares approach to factor analysis produce asymptotically more efficient estimates than the usual one when random variables are not normally distributed. Furthermore, with suitable normalizations, the covariance matrix of the factors and the factor loadings can be estimated consistently and efficiently from the off-diagonal elements of the sample covariance matrix. It is suggested that the fourth moments about the means of the data be used for obtaining the covariance matrix of the estimates so that explicit assumptions about the forms of the distributions or the relationships of higher to lower order moments need not be made. This allows inference when both the factors and the disturbances are homoskedastic and also when only the common factors are homoskedastic but the disturbances are heteroskedastic. When the common factors are heteroskedastic, the suggested approach is to treat them as mathematical variable which allows inference both when the disturbances are homoskedastic and also when they are heteroskedastic.

Cramton, Peter C.

PD September 1992. TI The Determinants of U.S. Labor Disputes. AU Cramton, Peter C.; Tracy, Joseph S. AA Cramton: Stanford University. Tracy: Columbia University. SR Hoover Institute Working Papers in Economics: E-92-21; Domestic Studies Program Working Paper Series, Hoover Institution, Stanford University, Stanford, CA 94305. PG 36. PR not available. JE C78, J52, D82. KW Bargaining. Strikes. Collective Bargaining.

AB We present a strategic bargaining model of union contract negotiations. An innovation of the model is recognizing that the union decides between two threats if there is disagreement. The union can decide to strike or to continue to work under the terms of the expired contract, which we call holdout. The model makes predictions about the level of dispute activity, both incidence and duration, and the form disputes will take, strike or holdout. Much of the variability of strike activity is due to shifts in the composition of disputes,

rather than changes in the level of dispute activity. When the real wage falls during the previous contract, the strike threat becomes more attractive to the union and strike incidence increases. Strike incidence also increases when employment is high, because it is easier for strikers to find temporary jobs. We test these predictions by estimating logistic models of dispute incidence and dispute composition using data on major U.S. labor contract negotiations from 1970-1980. We find empirical support for the model's key predictions.

Cross, Sharyl

PD February 1993. TI Gorbachev's Policy in Latin America: Origins, Impact and the Future. AA San Jose State University and Stanford University. SR Stanford Hoover Institute International Studies Working Paper: I-93-6; The Hoover Institution, Stanford University, Stanford, CA 94305. PG 37. PR no charge. JE H56, F02. KW Soviet Union. Foreign Policy. Military Policy.

AB The introduction of "new thinking" under Mikhail Gorbachev was accompanied by an avalanche of change in the U.S.S.R.'s international behavior. In unprecedented fashion, the Soviets advanced proposals for massive conventional and nuclear force reductions, sought reconciliation with the United States and nations in Europe and Asia and retreated from military involvement in the developing world. This paper assesses the impact of "new thinking" on Soviet behavior in Latin America. It is argued that "new thinking" represented a reasonable adaptation to the Soviet leadership's perception of national priorities.

Currie, Janet

PD January 1993. TI Gender Gaps in Benefits Coverage. AA National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4265; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 18. PR \$5.00. JE J16, J32. KW Non-Wage Benefits. Pensions. Health Insurance.

AB This paper explores the extent to which there are gender gaps in the provision of 4 common non-wage benefits offered by employers: pensions, health insurance, sick leaves, and disability plans. I find that there are gender differences in whether or not benefits are offered, which remain statistically significant when observable characteristics such as age, education, marital status and number of children are controlled for. Women are less likely to be offered pensions, health coverage, and disability. However, they are 10% more likely to have paid sick leave. When the wage is controlled for, differences in offered pensions and health insurance disappear, which suggests that much of the difference in benefits coverage is associated with the fact that women work in low-wage jobs.

PD March 1993. TI Medicaid and Medical Care for Children. AU Currie, Janet; Thomas, Duncan. AA Currie: Massachusetts Institute of Technology and National Bureau of Economic Research. Thomas: Yale University. SR National Bureau of Economic Research Working Paper: 4284; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE I12, J13, H51. KW Health Insurance. Health Care.

AB Data from the National Longitudinal Surveys are used to compare the medical care received by children covered by Medicaid with that of other similar children. The longitudinal dimension of the data is exploited as we examine differences between siblings and repeated observations on the same child.

We find that Medicaid coverage is associated with a higher probability of both black and white children receiving routine checkups but with increases in the number of doctor visits for illness only among white children. This racial disparity in the number of visits may be linked to the fact that black children with Medicaid coverage are less likely to see a private physician than other children.

Cutler, David M.

PD February 1993. TI Demographic Characteristics and the Public Bundle. AU Cutler, David M.; Elmendorf, Douglas W.; Zeckhauser, Richard J. AA Cutler and Zeckhauser: Harvard University and National Bureau of Economic Research. Elmendorf: Harvard University. SR National Bureau of Economic Research Working Paper: 4283; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG not available. PR \$5.00. JE D71, H72, J11. KW Government Spending. Social Choice.

AB This paper explores the relationship between the demographic characteristics of a community and the quantities of goods and services provided by its government. We consider three models of public spending: a traditional "selfish" public choice model in which individuals care only about themselves, a "community preference" model in which an individual's preferred spending depends on the characteristics of his or her community, and a sorting process through which individuals choose communities according to their tastes for public spending. To evaluate these models of spending, we examine how county and state spending in the United States is affected by the age and racial composition, and the total size of a jurisdiction. The estimated effects of demographic characteristics in the state equations are strikingly different from the estimated effects in the county equations, apparently because a jurisdiction's spending is affected differently by its own demographic characteristics and by the characteristics of the surrounding area.

Danthine, Jean-Pierre

PD December 1992. TI Non-Walrasian Economies. AU Danthine, Jean-Pierre; Donaldson, John B. AA Danthine: Universite de Lausanne and Centre for Economic Policy Research. Donaldson: Columbia University. SR Universite de Lausanne, Cahiers de Recherches Economiques: 9301; Departement d'Econometrie et d'Economie Politique, Univerite de Lausanne, BFSHI - Dorigny, CH-1015 Lausanne, SWITZERLAND. PG 37. PR no charge. JE E32, C68, D58. KW Business Cycles. Labor Contracts. Efficiency Wages.

AB This paper's main contention is that the Real Business Cycle modeling perspective provides, in principle, a coherent and unbiased procedure for testing alternative views of the labor market. It illustrates this perspective by specifying and computing equilibria for two economic models with distinctly different non-Walrasian features. Both of these economies - the first with labor contracting and a wage floor, the second, with efficiency wages motivated by shirking considerations - display the main stylized facts of the business cycle. In both, employment fluctuates substantially more than average productivity, so that the incorporated frictions can be viewed as possible solutions to the employment variability puzzle. These benefits do not come for free however, and we discuss several methodological difficulties linked with extending the RBC

program in the direction we propose.

Davidson, James

PD August 1992. TI Conditions for Strong and Uniform Mixing in Linear Processes. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: EM/92/251; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 19. PR no charge. JE C19. KW Strong Mixing. Uniform Mixing. Moving Average Process.

AB A sufficiency condition for strong mixing in infinite order moving average processes due to Gorodetskii (1977) is extended; showing how smoothness conditions on the marginal distributions can be traded off against summability conditions on the MA coefficients. A version of the theorem is also proved for the uniform mixing case, imposing a.s. boundedness.

Davies, Hugh

PD June 1992. TI Sex, Sharing and the Distribution of Income. AU Davies, Hugh; Joshi, Heather. AA Birkbeck College and London School of Hygiene and Tropical Medicine. SR Birkbeck College Discussion Papers in Economics: 9/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 32. PR not available. JE J12, J16, D31, D63. KW Gender. Marriage. Income Pooling.

AB It is customary to assume that income is redistributed between the sexes within the family. This paper investigates alternative assumptions about sharing within the family and their effects on the distribution of income. Using data from the U.K. Family Expenditure Survey for 1968 and 1986, we contrast two assumptions about sharing within the family; the conventional assumption of equal sharing or "pooling", and an alternative of "minimum sharing": one an extreme of equity, the other an extreme of inequality. Under each assumption, we examine the composition of extreme quintiles of the income distribution, and compute the numbers of men and women falling below an arbitrary "poverty line". The contribution to inequality of the net transfers between the sexes and other sources of income is also examined under these assumptions.

De Long, J. Bradford

PD February 1993. TI Princes and Merchants: European City Growth Before the Industrial Revolution. AU De Long, J. Bradford; Shleifer, Andrei. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4274; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 35. PR \$5.00. JE N13, N43, R11, H11. KW Absolutist Government. Cities.

AB As measured by the pace of city growth in western Europe from 1000 to 1800, absolutist monarchs stunted the growth of commerce and industry. A region ruled by an absolutist prince saw its total urban population shrink by one hundred thousand people per century relative to a region with non-absolutist governments, which care more about general economic prosperity and less about State revenue.

DeFina, Robert H.

PD November 1992. TI Monetary Policy and Oil Price Shocks: Empirical Implications of Alternative Responses.

AU DeFina, Robert H.; Taylor, Herbert E. AA DeFina: Villanova University. Taylor: Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 93-7; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. PG 17. PR no charge except overseas airmail, \$2.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE E52. KW Growth Targets. Interest Rate Targets.

AB Large swings in the price of oil during the past two decades have substantially affected U.S. inflation, unemployment, and economic growth. In light of those experiences, a debate has arisen over how monetary policy should respond. This study contributes to that debate by evaluating empirically the economy's performance under three realistic monetary policy response rules. By doing so, it advances what has largely been a theoretical discussion. The policy rules studied—money growth targets, nominal GDP growth targets, and interest rate targets—are evaluated by estimating how closely resulting economic outcomes approximate an "optimal" outcome. The optimal outcome arises when the Fed follows a well-defined optimal response rule. Of the three strategies, a nominal GDP target is found to be most desirable, while an interest rate target is least desirable.

Delbono, Flavio

TI Bargaining with a Composite Player: An Application to the Uruguay Round of GATT Negotiations. AU Basevi, Giorgio; Delbono, Flavio; Mariotti, Marco.

PD December 1992. TI Does Monopoly Promote Innovation? A Theoretical Vindication of the Schumpeterian Hypothesis. AU Delbono, Flavio; Denicolo, Vincenzo. AA Delbono: Universita di Bologna. Denicolo: Universita di Parma. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TIDI/157; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 33. PR no charge. JE L10, O31, L12, D42. KW Market Structure. Innovation.

AB In this paper we reconsider the well known Schumpeterian hypothesis stating the superiority of monopoly over competition in generating fast technological progress. This hypothesis has been challenged by Arrow (1962) and Dasgupta and Stiglitz (1980), who have shown that a monopolist has lower incentives to innovate. After reassessing Arrow's and Dasgupta and Stiglitz's argument, we show that their conclusion can be reversed and the Schumpeterian conjecture can be confirmed. More precisely, if by "competitive industry" we mean a large Cournot market, then, for small innovations, we show that a monopolist invests in R&D more than such an industry.

Demougin, Dominique

PD November 1992. TI Privatization, Risk-Taking, and the Communist Firm. AU Demougin, Dominique; Sinn, Hans-Werner. AA Demougin: University of Quebec. Sinn: University of Munich and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4205; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 30. PR \$5.00. JE L33, P11. KW Risk Markets. Participation Contract.

AB This paper studies alternative methods of privatizing a formerly communist firm in the presence of imperfect risk markets. The methods include cash sales, a give-away scheme, and a participation contract where the government retains a sleeping fractional ownership in the firm. It is shown that, with competitive bidding, the participation contract dominates cash sales because it generates both more private restructuring investment and a higher expected present value of revenue for the government. Under weak conditions, the participation contract will induce more investment than the giveaway scheme, and it may even share the cash sales' virtue of incentive compatibility.

PD December 1992. TI Privatization, Risk-Taking, and the Communist Firm. AU Demougin, Dominique; Sinn, Hans-Werner. AA Demougin: University of Quebec. Sinn: Universitat Munchen. SR CEPR Discussion Paper: 743; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 30. PR Pounds 4.00 or \$8.00. JE D44, P13, L33. KW Eastern Europe. Economic Transition.

AB This paper studies alternative methods of privatizing a formerly communist firm in the presence of imperfect risk markets. The methods include cash sales, a give-away scheme, and a participation contract where the government retains a sleeping fractional ownership in the firm. It is shown that with competitive bidding, the participation contract dominates cash sales because it generates both more private restructuring investment and a higher expected present value of revenue for the government. Under weak conditions the participation contract will induce more investment than the giveaway scheme, and it may even share the cash sales' virtue of incentive compatibility.

Denicolo, Vincenzo

TI Does Monopoly Promote Innovation? A Theoretical Vindication of the Schumpeterian Hypothesis. AU Delbono, Flavio; Denicolo, Vincenzo.

Desvousges, William H.

TI Does the Framing of Risk Information Influence Mitigation Behavior? AU Smith, V. Kerry; Desvousges, William H.; Payne, John W.

Devereux, Michael B.

PD January 1993. TI Exit and Entry, Increasing Returns to Specialization, and Business Cycles. AU Devereux, Michael B.; Head, Allen C.; Lapham, Beverly J. AA Devereux: University of British Columbia and Queen's University. Head and Lapham: Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 871; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 26. PR \$3.00 + GST Canada; \$3.50 U.S. and Foreign. JE E32, D43, L13. KW Technology Shocks. Monopolistic Competition.

AB The effects of entry and exit by monopolistically competitive intermediate goods producers on equilibrium business cycles are analyzed in the presence of internal returns to scale and external returns to specialization. In the environment studied, market power and endogenous entry and exit, in themselves, have little effect on the propagation of technology shocks. In contrast, internal returns to scale dampen the effects of these shocks while external returns to specialization produce a multiplier which accentuates their

effects. The multiplier arises as entry and exit of firms over the business cycle cause endogenous fluctuations in the productivity of intermediate inputs. These endogenous productivity fluctuations cause the Solow residual both to mismeasure technology shocks and to be strongly correlated with government spending shocks.

PD February 1993. **TI** The Stability of Economic Integration and Endogenous Growth. **AU** Devereux, Michael B.; Lapham, Beverly J. **AA** Devereux: University of British Columbia and Queen's University. Lapham: Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 878; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 15. **PR** \$3.00 + GST Canada; \$3.50 U.S. and Foreign. **JE** F15, F43. **KW** Transitional Dynamics.

AB This paper examines the transitional dynamics of economic integration in the two country endogenous growth model of Rivera-Batiz and Romer (1991) and in an extension by Rivera-Batiz and Xie (1992). It is shown that, in the absence of knowledge flows across countries, economic integration will generically lead to a corner solution where only one country does all the R&D and the other specializes in manufactures. When countries are symmetric, the world growth rate in this equilibrium will always be higher than in autarky. When countries differ in their human capital endowment, the world growth rate with trade is always greater than the autarky growth rate of the "low-growth" country, but may or may not be greater than the autarky growth rate of the "high-growth" country.

Diebold, Francis X.

PD February 1993. **TI** On Comparing Information in Forecasts from Econometric Models: A Comment on Fair and Shiller. **AA** University of Pennsylvania. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 93-6; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **PG** 6. **PR** no charge except overseas airmail, \$2.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C52. **KW** Forecasting. Model Evaluation.

AB Fair and Shiller (1990) find that the forecasts of Fair's econometric model encompass those of two simple rivals, in the sense that the rival forecasts cannot be linearly combined with Fair's to improve forecast performance. More generally, Fair and Shiller provide a useful tool for the evaluation of econometric forecasts. In this note, I assess and amplify their results in several ways. First, I broaden the analysis to include two new rival forecasts (Wharton and Data Resources) that are potentially less naive than the simple time-series models considered by Fair and Shiller. Second, in light of the superior performance of simple averages frequently reported in the literature, I use forecast combination methods that allow for "shrinkage" of the estimated weights toward a simple average. Third, I perform my evaluation in real time, recursively re-estimating our models as more data become available, mimicking the information sets available to real forecasters.

DiNardo, John

PD November 1992. **TI** Alcohol, Marijuana, and American Youth: The Unintended Effects of Government Regulation. **AU** DiNardo, John; Lemieux, Thomas. **AA** DiNardo: University of California, Irvine. Lemieux:

Princeton University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4212; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 43. **PR** \$5.00. **JE** D12, I18, K14. **KW** Drinking Age. Illegal Drugs. Substitution Effect.

AB This paper analyzes the impact of increases in the minimum drinking age on the prevalence of alcohol and marijuana consumption among high school seniors in the United States. The empirical analysis is based on a large sample of students from 43 states over the years 1980-1989. We find that increases in the minimum drinking age did reduce the prevalence of alcohol consumption. We also find, however, that increased legal minimum drinking ages had the unintended consequence of increasing the prevalence of marijuana consumption. We estimate a model based on the canonical theory of the consumer. Estimates from this model suggest that this unintended consequence is attributable to standard substitution effects. We find that, holding the consumption of alcohol constant, an increase in the drinking age reduces the prevalence of marijuana consumption. This effect is not large enough, however, to offset the large substitution toward marijuana induced by the decreased prevalence of alcohol consumption.

Disney, Richard

PD June 1992. **TI** Union Recognition in the U.K.: A Theoretical and Empirical Analysis. **AU** Disney, Richard; Machin, Stephen; Gosling, Amanda. **AA** Disney: University of Kent and Institute of Fiscal Studies. Machin: University College London and London School of Economics. Gosling: University College London. **SR** University College London Discussion Paper: 92-13; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 35. **PR** 3 pounds; checks payable to Department of Economics, University College London. **JE** J50, J53. **KW** Union Recognition. Quasi-Rents.

AB The paper examines the determinants of union recognition status in 1984. It argues that the level of industry quasi-rents and union density at the time of the establishment's set-up should be the crucial determinants of recognition status. Confirmation for these theoretical results is obtained using data for private sector establishments drawn from the Workplace Industrial Relations Survey. The non-linear relationship between historic industry quasi-rent and recognition status is of particular interest in the econometric results.

Dissanaike, Gishan

PD May 1992. **TI** Are Stock Price Reversals Really Asymmetric? **AA** University of Cambridge. **SR** University of Cambridge Discussion Papers in Accounting and Finance: AF4; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 8. **PR** \$10.00 (L5.00); checks payable to University of Cambridge. **JE** G12. **KW** Overreaction. Stock Price Reversals.

AB One of the enigmatic findings about the overreaction effect is that it is "asymmetric". The paper argues that this apparent anomaly may be entirely illusory, resulting from the peculiar properties of returns. It is shown that asymmetry has been judged against a criterion which is unsatisfactory, and an alternative measure, the Reversal Coefficient, is developed

which takes account of these deficiencies. Some empirical evidence is also provided. The Reversal Coefficient technique also has potential uses in other areas of Financial Economics and Accounting, where the even-study approach is used.

Dixit, Avinash

PD September 1992. TI The Art of Smooth Pasting. AA Princeton University. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TE/92/52; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 85. PR no charge. JE C61, D81, D83. KW Brownian Motion. Ito's Lemma. Optimal Control.

AB Many recent stochastic dynamic models in economics and finance are based on the theory of Brownian motion and its control or regulation. A heuristic exposition of this theory is presented with emphasis given to Ito's Lemma, the calculation of expected values and the derivation of Smooth Pasting conditions for discrete stopping and resetting problems.

Dixon, Huw David

TI Macroeconomic Equilibrium and Reform in a Transitional Economy. AU Bennett, John; Dixon, Huw David.

Dolado, Juan J.

PD January 1993. TI Who Are the Insiders? Wage Setting in Spanish Manufacturing Firms. AU Dolado, Juan J.; Bentolila, Samuel. AA Dolado: Banco de Espana. Bentolila: Centro de Estudios Monetarios y Financieros. SR CEPR Discussion Paper: 754; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 30. PR Pounds 4.00 or \$8.00. JE J41, J31. KW Outsiders. Temporary Labor Contracts.

AB This paper analyzes the wage formation process in Spain taking into account the effect of the institutional change caused by the creation of low-firing-cost, fixed-term labor contracts. An insider-outsider model which assumes that the interests of workers under these contracts are disregarded in wage bargains is set up and tested. The estimation of a wage equation for a sample of large Spanish manufacturing firms yields an estimate of the insider weight and confirms that an increase in the proportion of fixed-term employees increases insiders' wages.

Donald, Stephen G.

TI Factor Analysis Under More General Conditions with Reference to Heteroskedasticity of Unknown Form. AU Cragg, John G.; Donald, Stephen G.

Donaldson, John B.

TI Non-Walrasian Economies. AU Danthine, Jean-Pierre; Donaldson, John B.

Dore, Ronald

PD October 1992. TI Japanese Capitalism, Anglo-Saxon Capitalism; How Will the Darwinian Contest Turn Out? AA London School of Economics and Massachusetts Institute of Technology. SR London School of Economics Centre for Economic Performance Occasional Paper: 4; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 26. PR no charge. JE P10, P17, P51. KW Capitalism.

Institutional Convergence.

AB Economic organization and economic behavior in Japan - notably the employment relation, trading relations between business firms and the financing of industrial enterprise - are sufficiently different from prevailing patterns in the U.K. and the U.S. for it to be reasonable to speak of different types of capitalism. If it is assumed that globalization will lead to institutional convergence in the long run, which type will predominate in the resultant world form? The Anglo-Saxon one which conforms to the prescriptions of neoclassical economics and maximizes factor mobility, or the Japanese one which apparently prospers by ignoring neoclassical recipes for allocative efficiency and concentrates, instead, on the other kinds of efficiency? The paper suggests some factors which have to be taken into account in searching for an answer, but hesitates to give one.

Dowrick, Steve

TI The Role of Fertility and Population in Economic Growth: Empirical Results from Aggregate Cross-National Data. AU Brander, James A.; Dowrick, Steve.

Dreze, Jean

TI Widows and Well-Being in Rural North India. AU Chen, Marty; Dreze, Jean.

Duclos, Jean-Yves

PD July 1992. TI The Take-Up of State Benefits: An Application to Supplementary Benefits in Britain Using the FES. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/71; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 127. PR no charge. JE C35, H53, I38. KW Cross-Section Econometrics. Qualitative Choice Models. Welfare Program.

AB We conduct the analysis of state benefit take-up and welfare program participation in the presence of divergences between the assessment of entitlement made by the take-up analyst and that carried out by the government's agency. This explicit modeling goes a long way towards removing important biases in the computation of take-up and participation rates. It also sheds light on the presence of allocative errors made by the government in alleviating poverty. Our methodology-which may be extended to other microeconomic applications - simultaneously allows for the identification of the distribution of costs to participating in welfare programs. We apply our framework to the take-up of Supplementary Benefits in Britain, using a sample of 1985 Family Expenditure Survey data. In this, we successfully allow for the inclusion of the pensioners and the self-employed - for whom survey deficiencies have been repeatedly documented.

PD August 1992. TI Income Support, Contracting Costs and Social Welfare in Britain. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/75; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 41. PR no charge. JE D63, D73, H53, I38. KW State Benefits. Social Welfare.

AB This paper provides both a theoretical and an applied discussion of the impact of imperfections in the administration of state benefits upon the allocation of benefits on social

welfare and equity. We provide evidence on the efficiency and efficacy of the British Income Support (formerly, Supplementary Benefits) program in providing benefits net of claiming costs and inconveniences and thus in influencing the level of "social welfare". We are able to illustrate the extent to which the state appears to misallocate Income Support to the non-poor, and to withhold it from the truly poor; we can also portray the extent to which these allocative errors are mitigated or aggravated by the deterrence effect of claiming inconveniences. Furthermore, we look at the desirability of some marginal and major changes in government redistributive policies, discussing a few of the considerations involved in an optimal redistributive design.

Dunn, Stephen

PD February 1993. TI Managing Without the Closed Shop. AU Dunn, Stephen; Wright, Martyn. AA London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 118; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 25. PR no charge. JE J51, J53, M10. KW Unions, Managers.

AB Using interview data from 1979 and 1990-91, this paper explores changing management attitudes and behavior towards the closed shop. Now unlawful, the practice has declined dramatically from its 1979 peak. The extent and nature of this decline is discussed, together with perceived benefit and costs to managers as it disappears. The conclusion is that the managerial indifference which often accompanied the closed shop's rise, now attends its fall.

Dunne, Paul

PD September 1992. TI Age, Size, Growth and Survival Revisited. AU Dunne, Paul; Hughes, Alan. AA Dunne: University of Leeds. Hughes: University of Cambridge. SR University of Cambridge Small Business Research Centre Working Papers: 23; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 21. PR \$10.00 (L5.00); checks payable to University of Cambridge. JE D92, L11. KW Company Growth. Gibrat's Law.

AB This paper examines the growth and survival records of a large sample of quoted and unquoted UK companies in the period 1975-85. Careful attention is paid to problems of sample selection bias and other econometric issues involved in estimating the size growth relationships in the sample within the general framework of Gibrat's Law. It is shown that smaller companies have grown faster than larger companies in the period as a whole and two subperiods, and that Gibrat's Law does not hold at the lower end of the size distribution. Age is shown to have a significant independent effect on growth performance, and examination of death rates by size of firm shows that in the early 1980's the largest and smallest companies were least vulnerable to takeover. A comparison is made with earlier UK studies and work on the United States.

Duraisamy, Palanigounder

PD January 1992. TI Gender, Intrafamily Allocation of Resources and Child Schooling in South India. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 667; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 26.

PR \$2.00 + postage. JE J16, I21. KW School Enrollment, India. Gender Differences.

AB The gender differences in the determinants of child schooling are examined using household level data from rural and urban areas of south India. Two measures of child schooling, namely, school enrollment status and grade attainment, are analyzed. The empirical results suggest that the education of father and mother are the significant determinants of the schooling of their sons and daughters. Both parent's education have a bigger effect on daughter's than on son's schooling in rural areas. Distance to primary and secondary school quality is important and failure to control for such factors leads to bias in the cross section parameter estimates of grade attainment equations.

Dutta, Jayasri

PD March 1992. TI Efficiency Wages and Underemployment in the Long Run. AA University of Cambridge. SR University of Cambridge Economic Theory Discussion Paper: 176; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 32. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE E24, J23. KW Capital Accumulation. Labor Productivity.

AB This paper considers the possibility of long-run underemployment with capital accumulation. Wages affect labor productivity; possibly, though not necessarily, through worker's nutrition. Firms' set wages, and underemployment results, provided the aggregate capital stock is low. As capital accumulates, the economy achieves full employment. We consider the conditions on population growth, as well as industrial structure, which allow an economy to escape from persistent underemployment.

TI Price Uncertainty and Derivative Securities in a General Equilibrium Model. AU Chichilnisky, G.; Dutta, Jayasri; Heal, G. M.

Dutta, Soumitra

PD not available. TI Real Time Planning to Minimize Response Time in Static and Dynamic Worlds. AU Dutta, Soumitra; Shekhar, Shashi; Hamidzadeh, Babak. AA Dutta: INSEAD. Shekhar and Hamidzadeh: University of Minnesota. SR INSEAD Working Papers: 92/79/TM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 17. PR not available. JE C88, C63. KW Artificial Intelligence. Optimal Response Time.

AB Real time artificial intelligence (AI) systems are required to respond within a given deadline, or have optimal response times. While some researchers have addressed the issue of planning under deadline constraints, there has been very little research towards optimizing the response time of problem-solving methods. The costs for a response consists of the cost to plan for a solution and the cost of executing the chosen solution. There is an intimate trade-off between these two costs. This paper presents an algorithm for providing near optimal response times by formalizing the trade-off between planning and execution costs. We provide a proof of correctness and describe an implementation of the algorithm in a real time application of query planning. We also propose and validate a new real-time planning algorithm to minimize response time in dynamic situations.

Eastman-Perl, Kelly

PD March 1993. **TI** First Price Auctions in Neighboring Jurisdictions. **AA** Princeton University. **SR** Princeton Financial Research Center Memorandum: 134; Financial Research Center, Department of Economics, Princeton University, Princeton, NJ 08544. **PG** 22. **PR** \$3.00 for U.S. mailings. \$6.00 for foreign mailings. **JE** D44, D82, L96. **KW** Information Externalities. Cable TV. Auctions.

AB Although the literature has extensively discussed the behavior of firms in repeated auctions with one auctioneer, little or no attention has been paid to the problem of firm behavior in auctions with when several independent potential auctioneers exist. This is a problem quite common in municipal contracting and franchising. For example, one town initially holds a first price auction, the results of which are public information. Another town can use this publicly released information to negotiate with the winner of the initial auction. This possibility causes firms to bid higher in the initial first price auction than they would if a neighboring town did not exist. This is so because a bid in the initial auction must win the auction and establish a negotiation position with the other town. In equilibrium, firms are no worse off than they would be if all towns acted independently, and the negotiating town benefits at the expense of the town initially holding the auction.

PD March 1993. **TI** Second Price Auction in Neighboring Jurisdictions. **AA** Princeton University. **SR** Princeton Financial Research Center Memorandum: 135; Financial Research Center, Department of Economics, Princeton University, Princeton, NJ 08544. **PG** 28. **PR** \$3.00 for U.S. mailings. \$6.00 for foreign mailings. **JE** D44, C73. **KW** Information Externalities. Auctions.

AB This essay examines bidding behavior in second-price auctions (low bid wins, and is paid the second lowest bid) when neighboring jurisdictions are present. One town initially holds an auction, the results of which are public information. Another town can use this public information to negotiate with the winner of the initial auction. The well known incentive compatibility property of second price auctions is preserved if relatively lower cost firms bid in the initial auction. The town initially conducting the auction is unaffected, and the negotiating town benefits at the firms' expense.

Eberly, Janice C.

TI A Unified Model of Investment Under Uncertainty. **AU** Abel, Andrew B.; Eberly, Janice C.

Edin, Per-Anders

PD January 1993. **TI** The Swedish Wage Structure: The Rise and Fall of Solidarity Wage Policy? **AU** Edin, Per-Anders; Holmlund, Bertil. **AA** Edin: Uppsala University and National Bureau of Economic Research. Holmlund: Uppsala University. **SR** National Bureau of Economic Research Working Paper: 4257; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 53. **PR** \$5.00. **JE** J31, D33. **KW** Wage Dispersion. Sweden.

AB Wage inequality in Sweden declined precipitously during the 1960's and the 1970's. There was a sharp reduction in overall wage dispersion and in the relative earnings advantage of highly-educated workers, a market narrowing of wage differences between men and women, and a trend increase in youth relative wages. There was also a substantial narrowing of wage differentials among workers within broad occupational and educational groups. The trend decline in wage inequality

was broken in the 1980's. Wage differentials along several dimensions have widened modestly from the mid-1980's to the early 1990's. Much of the Swedish discussion has taken it for granted that the pay compression has been driven by the egalitarian ambitions of strong and coordinated trade unions. Our analysis of the Swedish wage structure suggests that institutions are only part of the story. We show that conventional demand and supply factors can go a substantial way towards explaining some key relative wage movements in Sweden.

Edwards, Sebastian

PD December 1992. **TI** Exchange Rates as Nominal Anchors. **AA** University of California, Los Angeles. **SR** National Bureau of Economic Research Working Paper: 4246; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 39. **PR** \$5.00. **JE** F31, E63, E31. **KW** Inflation. Stabilization.

AB This paper discusses the use of nominal exchange rates as nominal anchors in stabilization programs. The first part deals with the dynamics of inflation in highly indexed economies. It is shown that credible exchange rate anchors will reduce the degree of inflationary inertia. However, if some residual inertia is maintained in some contracts, real exchange rate overvaluation will result. Data from Chile, Mexico and Yugoslavia are used to test the implications of the model. The second part deals with the long run, and uses a 56 countries data set to investigate whether fixed exchange rates have been associated with greater financial discipline.

Ehrenberg, Ronald G.

PD March 1993. **TI** Did Teachers' Race and Verbal Ability Matter in the 1960's? Coleman Revisited. **AU** Ehrenberg, Ronald G.; Brewer, Dominic J. **AA** Ehrenberg: Cornell University and National Bureau of Economic Research. Brewer: Cornell University. **SR** National Bureau of Economic Research Working Paper: 4293; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 25. **PR** \$5.00. **JE** I21. **KW** Education. Hiring Policies.

AB Our paper reanalyzes data from the classic 1966 study "Equality of Educational Opportunity", or "Coleman Report". It addresses whether teacher characteristics, including race and verbal ability, influenced "synthetic gain scores" of students (mean test scores of upper grade students in a school minus mean test scores of lower grade students in a school), in the context of an econometric model that allows for the possibility that teacher characteristics in a school are endogenously determined. We find that verbal aptitude scores of teachers influenced synthetic gain scores for both black and white students. Verbal aptitude mattered as much for black teachers as it did for white teachers. Finally, holding teacher characteristics other than race constant, black teachers were associated with higher gain scores for black high school students, but lower gain scores for white elementary and secondary students.

Eichenbaum, Martin

PD February 1993. **TI** Some Empirical Evidence on the Effects of Monetary Policy Shocks on Exchange Rates. **AU** Eichenbaum, Martin; Evans, Charles. **AA** Eichenbaum: Northwestern University and National

Bureau of Economic Research. Evans: Federal Reserve Bank of Chicago. SR National Bureau of Economic Research Working Paper: 4271; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 26. PR \$5.00. JE E52, F31, E43. KW Exchange Rates. Monetary Policy.

AB This paper presents new empirical evidence on the effects of monetary policy shocks on U.S. exchange rates, both nominal and real. Three measures of monetary policy shocks are considered: orthogonalized shocks to the Federal Funds rate, the ratio of Non Borrowed to Total Reserves and the Romer and Romer (1989) index. Using data from the flexible exchange rate era, we find that expansionary shocks to U.S. monetary policy lead to sharp, persistent depreciations in U.S. nominal and real exchange rates as well as to sharp, persistent increases in the spread between various foreign and U.S. interest rates. The temporal pattern of the depreciation in U.S. nominal exchange rates following a positive monetary policy shock is inconsistent with simple overshooting models of the type considered by Dornbusch (1976). We also find that U.S. monetary policy was less volatile under fixed exchange rates than under floating exchange rates. Finally, we find less evidence that monetary policy shocks had a significant impact on U.S. real exchange rates under the Bretton Woods agreement.

Eichengreen, Barry

TI Macroeconomic Adjustment under Bretton Woods and the Post-Bretton-Woods Float: An Impulse-Response Analysis. AU Bayoumi, Tamim; Eichengreen, Barry.

PD February 1993. TI A Marshall Plan for the East: Options for 1993. AA University of California, Berkeley. SR University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-010; IBER, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. PG 25. PR no charge. JE F35. KW Foreign Aid. Eastern Europe.

AB The economic crisis in Eastern Europe and the former Soviet Union continues to evoke calls for Western assistance. Many observers question, however, whether a new Marshall Plan would be productive today. Answering this question requires first understanding what rendered Marshall aid so effective after World War II. This paper therefore reviews recent research on the effects of the Marshall Plan. It then considers four options for Western assistance to the East: a Marshall Plan on the scale of 1948-51, aid sufficient to fund a social safety net, aid sufficient to establish a multilateral clearing mechanism, and the provision of technical assistance.

Ekins, Paul

PD June 1992. TI The Environmental Sustainability of Economic Processes: A Framework for Analysis. AA Birkbeck College. SR University of Cambridge Energy-Environment-Economy Modelling Discussion Papers: 1; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 22. PR \$5.00 (L2.50); checks payable to University of Cambridge. JE Q38, C53. KW Macroeconomic Impact. Environment.

AB This paper outlines a methodology for defining and classifying problems of environmental sustainability and assessing the costs and macroeconomic impacts of tackling them. It examines the economic implications for different

industrial sectors and the macroeconomic implications of moves towards sustainability.

Elizondo, Raul Livas

PD December 1992. TI Trade Policy and the Third World Metropolis. AU Elizondo, Raul Livas; Krugman, Paul. AA Elizondo: Massachusetts Institute of Technology. Krugman: Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4238; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE R11, F14, F13. KW Cities. Import Substitution. Developing Countries.

AB Many of the world's largest cities are now in developing countries. We develop a simple theoretical model, inspired by the case of Mexico, that explains the existence of such giant cities as a consequence of the strong forward and backward linkages that arise when manufacturing tries to serve a small domestic market. The model implies that these linkages are much weaker when the economy is open to international trade - in other words, the giant Third World metropolis is an unintended by-product of import-substitution policies, and will tend to shrink as developing countries liberalize.

Elliott, Robert

TI Incomplete Diversification and Asset Pricing. AU Madan, Dilip B.; Milne, Frank; Elliott, Robert.

Elmendorf, Douglas W.

PD December 1992. TI The Effect of News on Bond Prices: Evidence from the United Kingdom, 1900-1920. AU Elmendorf, Douglas W.; Hirschfeld, Mary L.; Weil, David N. AA Elmendorf: Harvard University. Hirschfeld: Occidental College. Weil: Brown University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4234; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 24. PR \$5.00. JE G12, N23, N24. KW News. Bond Prices.

AB We study the relationship of non-quantitative news to bond prices. We select a set of major news events based solely on their significance as judged by historians, and examine the corresponding bond price movements. We find strong evidence that news has some influence on bond price movements, but we find no evidence that news can explain more than a small fraction of those movements.

TI Demographic Characteristics and the Public Bundle. AU Cutler, David M.; Elmendorf, Douglas W.; Zeckhauser, Richard J.

Engel, Charles

PD November 1992. TI Can the Markov Switching Model Forecast Exchange Rates? AA University of Washington and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4210; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 23. PR \$5.00. JE F31, C22. KW Forecasting. Foreign Exchange.

AB A Markov-switching model is fit for eighteen exchange rates at quarterly and monthly frequencies. This model fits well in-sample at the quarterly frequency for many exchange rates.

By the mean-squared-error or mean-absolute-error criterion, the Markov model does not generate superior forecasts at a random walk or at the forward rate. There appears to be some evidence that the forecasts of the Markov model are superior at predicting the direction of change of the exchange rate.

PD December 1992. **TI** Real Exchange Rates and Relative Prices: An Empirical Investigation. **AA** University of Washington and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4231; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 14. **PR** \$5.00. **JE** F31, D46. **KW** Consumer Prices.

AB This paper uncovers a striking empirical regularity: the consumer price of a good relative to a different good within a country tends to be much less variable than the price of that good relative to a similar good in another country. This fact seems to hold for all goods except very simple, homogeneous products. Models of real exchange rates are likely to have predictions regarding this relation, so this fact may provide a useful gauge for discriminating among models.

PD March 1993. **TI** The Constrained Asset Share Estimation (CASE) Method: Testing Mean-Variance Efficiency of the U.S. Stock Market. **AU** Engel, Charles; Frankel, Jeffrey A.; Froot, Kenneth A.; Rodrigues, Anthony P. **AA** Engel: University of Washington and National Bureau of Economic Research. Frankel: University of California, Berkeley and National Bureau of Economic Research. Froot: Harvard University and National Bureau of Economic Research. Rodrigues: Federal Reserve Bank of New York. **SR** National Bureau of Economic Research Working Paper: 4294; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 19. **PR** \$5.00. **JE** G14. **KW** Market Efficiency. Stock Market.

AB We apply the method of constrained asset share estimation (CASE) to test the mean-variance efficiency (MVE) of the stock market. This method allows conditional expected returns to vary in relatively unrestricted ways. The data estimate reasonably the price of risk, and, in some cases, the MVE model is valuable in explaining expected equity returns. Unlike with most tests of MVE, we can put an explicit interpretation on the alternative hypothesis - a general linear Tobin portfolio choice model. We reject the restrictions implied by MVE.

Engen, Eric

PD December 1992. **TI** Fiscal Policy and Economic Growth. **AU** Engen, Eric; Skinner, Jonathan. **AA** Engen: University of California, Los Angeles. Skinner: National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4223; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 33. **PR** \$5.00. **JE** O11, O41, E62, H23. **KW** Taxation. Government Spending. Tax Distortions.

AB One view of government fiscal policy is that it stifles dynamic economic growth through the distortionary effects of taxation and inefficient government spending. Another view is that government plays a central role in economic development by providing public goods and infrastructure. This paper develops a generalized model of fiscal policy and output growth that allows for (i) a positive or negative effect of government spending on private productivity, (ii) increasing or

decreasing returns to scale, (iii) a transition path away from the equilibrium growth path, and (iv) intratemporal tax distortions. Using data from 107 countries during the period 1970-85, and correcting for the potentially serious problem of endogeneity in government policy, we find that a balanced-budget increase in government spending and taxation is predicted to reduce output growth rates.

Entorf, H.

PD November 1992. **TI** Random Walks with Drift, Simultaneous Equation Errors, and Small Samples: Simulating the Bird's Eye View. **AA** INSEE. **SR** Unite de Recherche Document de Travail ENSAE/INSEE: 9222; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. **PG** 11. **PR** no charge. **JE** C32, C15. **KW** Cointegration. Unit Roots. Statistical Simulation.

AB The paper illustrates finite sample problems of regression models with I(1)-variables. Particular care is practiced with respect to the role of drifts. First, their impact on the regression of two independent random walks is analyzed both analytically and by simulation methods. Second, Haavelmo's famous simultaneous equation bias is considered in the presence of cointegrated variables. Simulation results reveal a decisive role of drifts, possibly being even more important than the length of the time series. Furthermore, some experiments are devoted to the comparison between the Haavelmo bias in the stationary case and the error in the case of cointegrated variables. A main purpose of the paper is to provide a graphical exposition of finite sample problems: Most of the simulation results are summarized as three-dimensional density functions.

Espinosa, Maria Paz

TI Information Sharing and Tax Competition Among Governments. **AU** Bacchetta, Philippe; Espinosa, Maria Paz.

Evans, Charles

TI Some Empirical Evidence on the Effects of Monetary Policy Shocks on Exchange Rates. **AU** Eichenbaum, Martin; Evans, Charles.

Evans, George

PD December 1992. **TI** Information, Forecasts and Measurement of the Business Cycle. **AU** Evans, George; Reichlin, Lucrezia. **AA** Evans: London School of Economics. Reichlin: Observatoire Francais Conjontures Economiques, Paris. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 111; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 13. **PR** no charge. **JE** E32, C32. **KW** Trend/Cycle Decomposition. Trend.

AB The Beveridge-Nelson (BN) technique provides a forecast based method of decomposing a variable, such as output, into trend and cycle when the variable is integrated of order one (I(1)). This paper considers the multivariate generalization of the BN decomposition when the information set includes other I(1) and/or stationary variables. We show that the relative importance of the cyclical component depends on the information set, and in particular that multivariate BN decompositions necessarily ascribe more importance to the cyclical component than does the univariate decomposition, provided the information set includes a variable which Granger-causes output. We illustrate the results for post-WWII

United States.

Evans, Robert A.

PD March 1992. TI Out-of-Equilibrium Learning and Convergence to Nash Equilibrium. AA University of Cambridge. SR University of Cambridge Economic Theory Discussion Paper: 174; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 18. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE C73, D83. KW Adaptive Learning. Finite Memory.

AB A number of adaptive learning models are analyzed in the context of repeated play of a normal-form game. They have in common that they are stochastic and bounded in the sense that they rely only on a finite memory. It is shown that play converges to a Nash equilibrium in games in which all the Nash equilibria are strict.

Farber, Henry S.

PD November 1992. TI Union Membership in the United States: The Decline Continues. AU Farber, Henry S.; Krueger, Alan B. AA Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4216; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG not available. PR \$5.00. JE J51, J21, J22, J23. KW Unionization. Union Jobs.

AB We use a demand/supply framework to analyze 1) the decline in union membership since 1977 in the United States and 2) the difference in unionization rates between the United States and Canada. We are able to decompose changes in unionization into changes in demand and changes in supply. We find that virtually all of the decline in union membership in the United States between 1977 and 1991 is due to a decline in worker demand for union representation. There was almost no change over this period in the relative supply of union jobs. Additionally, very little of the decline in unionization in the U.S. can be accounted for by structural shifts in the composition of the labor force. Next, we find that all of the higher unionization rate in the U.S. public sector in 1984 can be accounted for by higher demand for unionization and that there is actually more frustrated demand for union representation in the public sector. Finally, we tentatively conclude that the difference in unionization rates between the U.S. and Canada is accounted for roughly in equal measure by differences in demand and in supply.

PD January 1993. TI The Analysis of Inter-Firm Worker Mobility. AA Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4262; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 42. PR \$5.00. JE J62, J63. KW Inter-Firm Mobility. Job Change.

AB I use a sample of over fourteen thousand full-time jobs held by workers to examine mobility patterns and to evaluate theories of inter-firm worker mobility. The roles of both heterogeneity and state dependence in determining mobility rates for young workers are investigated, and both are found to be very important. There are three main findings. First, mobility is strongly positively related to the frequency of job change prior to the start of the job. Second, job change in the most recent year prior to the start of the job is more strongly related than earlier job change to mobility on the current job. Third, the

monthly hazard of job ending is not monotonically decreasing in tenure as most earlier work using annual data has found, but it increases to a maximum at three months and declines thereafter. The first two findings suggest that there is important heterogeneity in mobility but that this heterogeneity is not fixed over time. The third finding is consistent with models of heterogeneous match quality that cannot be observed ex ante.

PD March 1993. TI A Comparison of Formal and Informal Dispute Resolution in Medical Malpractice. AU Farber, Henry S.; White, Michelle J. AA Farber: Princeton University. White: University of Michigan. SR Princeton Industrial Relations Section Working Paper: 314; Industrial Relations Section, Department of Economics, Princeton University, Princeton, NJ 08544-2098. PG 25. PR \$1.50. JE K41, I11. KW Litigation. Health Care.

AB In this study we examine the experience of a single large hospital with an informal pre-litigation "complaint" process that resolves some cases outside of the legal system. The empirical results are generally consistent with an information structure where patients are poorly informed about the quality of medical care and the hospital does not know whether particular patients are litigious or not. The complaint process seems to resolve many complaints in a less costly manner than filing lawsuits. Almost half of all complaints are resolved before a lawsuit is filed. The large majority of these are dropped, and they are cases that would likely have been dropped even if they had been initiated as lawsuits. We conclude that the complaint process is a cost-effective "front-end" for the litigation process that provides information to patients regarding the quality of their medical care and, hence, the likelihood of negligence.

Feenberg, Daniel R.

PD December 1992. TI Income Inequality and the Incomes of Very High Income Taxpayers: Evidence From Tax Returns. AU Feenberg, Daniel R.; Poterba, James M. AA Feenberg: National Bureau of Economic Research. Poterba: Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4229; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 24. PR \$5.00. JE D31, H24, K34. KW Income Distribution. Tax Reform. Tax Incentives.

AB This paper uses tax return data for the period 1951-1990 to investigate the rising share of adjusted gross income (AGI) that is reported on very high income tax returns. We find that most of the increase in the share of AGI reported by high-income taxpayers is due to an increase in reported income for the one quarter of one percent of taxpayers with the highest AGIs. The share of total AGI reported by these taxpayers rose slowly in the early 1980's and increased sharply in 1987 and 1988. This pattern suggests that at least part of the increase in the income share of high-AGI taxpayers was due to the changing tax incentives that were enacted in the 1986 Tax Reform Act. By lowering marginal tax rates on top-income households from 50% to 28%, TRA86 reduced the incentive for these households to engage in tax avoidance activities.

Feldstein, Martin

PD December 1992. TI The Recent Failure of U.S. Monetary Policy. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4236; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge,

MA 02138. PG 23. PR \$5.00. JE E52, E58. KW Federal Reserve. Open Market Operations.

AB Since the spring of 1990, the rates of growth of real income, of nominal income, and of the broad monetary aggregate (M2) have been substantially less than the Federal Reserve had set as targets. The breakdown of the traditional economic relations has not been between M2 and subsequent nominal GDP but between the increase in reserves caused by open market operations and the subsequent level of M2. Changes in bank reserves brought about by open market operations have had much less effect on the money supply than the Federal Reserve had anticipated. Because the Federal Reserve requirements apply to only about one-fifth of M2, the Federal Reserve lacks a reliable way of predicting the effect of open market operations on the subsequent change of M2. The new bank capital standards and associated regulatory supervision may be the primary reasons for the reduced sensitivity of commercial bank lending and of total nominal spending to changes in open market operations. Banks have responded to open market purchases by increasing the ratio of M1 (which is subject to reserve requirements) to M2.

Fernandez, Raquel

PD January 1993. TI Keeping People Out: Income Distribution, Zoning and the Quality of Public Education. AU Fernandez, Raquel; Rogerson, Richard. AA Fernandez: Boston University and National Bureau of Economic Research. Rogerson: University of Minnesota. SR Boston University Ruth Pollak Working Paper in Economics: 19; Department of Economics, Boston University, 270 Bay State Road, Boston, MA 02215. PG 33. PR no charge. JE H52, I22, J24, H24. KW Public Education. Property Tax.

AB This paper examines the effect of community zoning regulations on allocations and welfare in a two-community model. Each community uses a local property tax to finance public education. Tax rates are determined by majority vote within each community, and individuals choose in which community to reside. We study exogenously imposed zoning regulations as well as the case where the regulator is endogenously determined by majority vote. Our analysis indicates that a number of outcomes are theoretically possible. Several interesting results emerge from simulations of the model. Although zoning tends to make the rich community more exclusive, this need not increase the quality of education in the rich community relative to the poor community. Welfare effects are not monotone in income; some lower income individuals benefit and some higher income individuals are made worse off when zoning is introduced.

Fershtman, Chaim

PD March 1993. TI On the Value of Incumbency: Managerial Reference Point and Loss Aversion. AA Tel Aviv University and Northwestern University. SR Tel Aviv Sackler Institute of Economic Studies: 7/93; Department of Economics, Tel Aviv University, Ramat Aviv, ISRAEL. PG 19. PR no charge. JE L11, L12, D43. KW Entry. Incumbent Firm.

AB In discussing the market entry decision and the strategic interaction between an incumbent firm and an entrant the focus in the literature is on the different asymmetries that exist between the incumbent and the entrant. In this paper we claim that there is also a great importance to the fact that one firm is

in the industry and is the incumbent while the other firm is outside of the industry and that even without any other asymmetries between the firms we should expect a different behavior from the two types of firms. Making use of the existing literature on decision making under uncertainty the paper focus on reference dependent preferences and on loss aversion. The paper demonstrates that having different reference point affect the post entry game equilibrium and gives an advantage to the incumbent firm. We define this advantage as the value of incumbency. The paper demonstrates that the firms' reference points and loss aversion affect the self selection of entrants and the type of industry that will emerge.

Fine, Ben

PD December 1991. TI Digesting the Food and Information Systems. AU Fine, Ben; Wright, Judith. AA Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 7/91; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 43. PR not available. JE I12, D12. KW Nutrition. Food Choice. Diet.

AB Food choice is argued to be determined by the interaction of the food system and the information system that has been created around it. By a selective survey of the literature, a critical assessment is made of the extent to which such determinants of nutritional knowledge have been recognized. Denied are the relevance of a model based on the trickle-down of current human nutritional thinking and of the beneficial effects of health claims through corporate advertising. It is also found that the interventions of "food activists" tend to be treated as marginal by inappropriately associating them with "extremism".

Forges, F.

PD December 1992. TI Correlated Equilibrium and Sunspot Equilibrium. AU Forges, F.; Peck, J. AA Forges: FNRS, CORE. Peck: Northwestern University. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TIDI/158; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 25. PR no charge. JE C62, C70. KW Market Game. Overlapping Generations. Sunspot Equilibria.

AB We show that the sunspot equilibrium allocations of a standard overlapping economy coincide with the (strategic form) correlated equilibrium allocations of a natural market game mimicking the economy.

Fox-Penner, Peter

TI Contracting Incentives in Electricity Generation Fuel Markets. AU Palmer, Karen; Fox-Penner, Peter; Simpson, R. David; Toman, Michael A.

Frankel, Jeffrey A.

PD January 1993. TI Is Japan Creating a Yen Bloc in East Asia and the Pacific? AA University of California, Berkeley. SR University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-007; IBER, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. PG 31. PR no charge. JE F15, F33, O19, O53. KW Regional Trade. Gravity Model.

AB The paper reaches seven conclusions regarding the Yen

Bloc that Japan is reputed to be forming in East Asia and the Pacific. (1) Gravity-model estimates of bilateral trade show that the level of trade in East Asia is biased intra-regionally, to a greater extent than can be explained naturally by distance. (2) There is no evidence of a special Japan effect. (3) Once one properly accounts for rapid growth in Asia, the statistics do not bear out a trend toward intra-regional bias of trade flows. (4) The world's strongest trade grouping is the one that includes the U.S. and Canada with the Asian/Pacific countries, i.e., APEC. (5) There is a bit of evidence of Japanese influence in East Asia's financial markets. (6) Some of Japan's financial and monetary influence takes place through a growing role for the yen, at the expense of the dollar. (7) But this trend is less the outcome of Japanese policymakers's wishes, than of the pressure from the U.S. government to internationalize the yen.

PD January 1993. **TI** Foreign Exchange Policy, Monetary Policy and Capital Market Liberalization in Korea. **AA** University of California, Berkeley. **SR** University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-008; **IBER**, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. **PG** 32. **PR** no charge. **JE** F31, F36. **KW** Financial Liberalization. Exchange Rate Reforms.

AB The paper examines recent Korean financial and exchange rate reforms, including the role of U.S. political pressure. It undertakes some statistical tests of the extent to which Korean interest rates have become more closely tied to world interest rates, and of the extent to which the value of the won may have become less closely tied to the value of the dollar under the MAR system. One important theme is the possibility that Korean is becoming more closely tied to Japan financially. We find, however, little evidence that the nature of the relationship between the Korean won and the U.S. dollar has changed since the purported change in regime in 1990.

TI Patterns in Exchange Rate Forecasts for 25 Currencies. **AU** Chinn, Menzie; Frankel, Jeffrey A.

TI The Constrained Asset Share Estimation (CASE) Method: Testing Mean-Variance Efficiency of the U.S. Stock Market. **AU** Engel, Charles; Frankel, Jeffrey A.; Froot, Kenneth A.; Rodrigues, Anthony P.

PD March 1993. **TI** Three Comments on Exchange Rate Stabilization and European Monetary Union. **AA** University of California, Berkeley. **SR** University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-013; **IBER**, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. **PG** 9. **PR** no charge. **JE** F33, F31, F36. **KW** Maastricht. Foreign Exchange Intervention. Fiscal Convergence.

AB This working paper consists of three comments on exchange rate matters, presented at recent conferences in Europe. They concern, respectively, why the Maastricht Agreement of December 1991 specified fiscal targets as the requirements for countries to join European bank intervention in the foreign exchange market. Foreign exchange intervention may be able to have an independent effect on the exchange rate in the short run. Nevertheless, a small country that wishes to fix its exchange rate and eliminate barriers to international capital movement, as a means of integrating with its neighbors, must ultimately be prepared to give up all monetary independence. We learned in 1992 that the populations of most European countries are in fact not yet prepared to give up that much

economic sovereignty, notwithstanding the political aspirations of their leaders.

Franz, Wolfgang

PD March 1993. **TI** German and American Wage and Price Dynamics: Differences and Common Themes. **AU** Franz, Wolfgang; Gordon, Robert J. **AA** Franz: Universitat Konstanz, Germany. Gordon: Northwestern University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4292; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 43. **PR** \$5.00. **JE** E24, E31. **KW** Unemployment. Inflation. Phillips Curve.

AB The evolution of unemployment in West Germany and the U.S. stands in sharp contrast, with German unemployment much lower from 1960 to the early 1970's but substantially higher from 1984 to 1988. This paper provides a framework for examining the relationship between inflation and unemployment that sheds light on these developments. The theoretical section develops a new nonstructural model of wage and price adjustment that integrates several concepts that have often been treated separately, including Phillips curve "level effects," hysteresis "change effects," the error-correction mechanism, and the role of changes in labor's share that act as a supply shock. The empirical analysis shows that during 1973-90 coefficients in our German wage equations are remarkably similar to those in the U.S.. The big difference between the two countries is that there is no feedback from wages to prices in Germany, and so high unemployment does not put downward pressure on the inflation rate.

Fratianni, Michele

PD January 1993. **TI** Central Banking as a Political Principal-Agent Problem. **AU** Fratianni, Michele; von Hagen, Jurgen; Waller, Christopher. **AA** Fratianni and Waller: Indiana University. Von Hagen: University of Mannheim. **SR** CEPR Discussion Paper: 752; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 19. **PR** Pounds 4.00 or \$8.00. **JE** E31, E32, E58, D72. **KW** Monetary Policy. Political Business Cycles. Central Banks.

AB An inflation and stabilization bias may arise as a result of the principal-agent nature of monetary policy. Both depend on the degree of political uncertainty and the type of relationship between central bankers and the incumbent political leaders. Specifically, our analysis indicates how a close relationship between central bankers and incumbent political leaders can lead to undesirable outcomes, particularly so during periods of electoral competition and political uncertainty. Various institutional proposals exist for resolving this problem. Our analysis shows that in contrast to Friedman-type policy rules or the appointment of "conservative" central bankers, personal independence of the central banker from government or performance-oriented compensation packages can achieve both optimal stabilization and the elimination of the inflation bias.

Frederick, Kenneth D.

PD February 1992. **TI** Controlling Irrigation Return Flows. **AA** Resources for the Future. **SR** Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-08; Energy and Natural Resources Division,

Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 42. PR \$5.00 prepaid, U.S. funds. JE Q15, Q25, Q28. KW Water Quality. Water Policy.

AB Irrigation return flows are major sources of water pollutants and water-quality problems in many areas of the United States. The quantity and quality of these return flows can be altered (a) by changing the amount of water diverted and applied to a field, (b) by employing different water and land management practices, and (c) by limiting or treating the effluent. The principal policy approaches for dealing with irrigation return flow problems are described and evaluated qualitatively according to five criteria--political acceptability, required institutional changes, administrative obstacles and costs, efficiency, and effectiveness in achieving the desired water-quality benefits. The implications for federal policy are considered.

Freeman, Richard B.

PD November 1992. TI What Direction for Labor Market Institutions in Eastern and Central Europe? AA National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4209; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 38. PR \$5.00. JE J51, J53, P52. KW Transition Economies. Unions. Labor Relations.

AB In this paper I examine the evolution of labor relations institutions during the initial phase of marketization in Poland, Hungary, and Czechoslovakia and develop a model of changing support for reforms during the transition to a market economy. I find surprising stability in labor institutions in the first stage of transition to a market economy, but dramatic changes in labor outcomes. My model of changing support for reforms predicts a U-shaped curve of support for a successful reform program, with support falling among those who fail to advance rapidly in the new economic environment. Given this pattern, I ask how different labor arrangements are likely to affect workers' tolerance for the costs of transition, and I assess the ability of those who suffer in transition to undertake mass protests and provide information to governments to change marketization programs that are failing through "voice". I conclude that the most likely outcome in these marketizing economies will be weak unionism in the public sector, and little or no unionism in the growing private sector.

Friedman, Andrew L.

PD March 1993. TI The Information Technology Field: Using Fields and Paradigms for Analyzing Technological Change. AA University of Bristol. SR University of Bristol Economics Working Paper: 93/347; Department of Economics, University of Bristol, Alfred Marshall Building, 8 Woodland Road, Bristol BS8 1TN, ENGLAND. PG 33. PR no charge. JE O33, O32, L86, D23. KW Technological Paradigms. Management. Work Organization.

AB The technology field is proposed as a concept which will allow us to analyze the history of substantial technologies and to make predictions about future developments. The history of information technology is analyzed as an example of a technology field. The technology field gives place both to "supply-side", "natural" technological trajectories and to "demand-side" socio-economic factors. Unlike the recently developed concept of technological paradigm, the technology field directs our attention to issues of management and work

organization which accompany the diffusion of a major new technology.

Froot, Kenneth A.

TI The Constrained Asset Share Estimation (CASE) Method: Testing Mean-Variance Efficiency of the U.S. Stock Market. AU Engel, Charles; Frankel, Jeffrey A.; Froot, Kenneth A.; Rodrigues, Anthony P.

Fuhrer, Jeff

PD April 1993. TI Estimating the Linear-Quadratic Inventory Model: Maximum Likelihood versus Generalized Method of Moments. AU Fuhrer, Jeff; Moore, George; Schuh, Scott. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System Finance and Economics Discussion Series: 93-11; C/O Stephen A. Sharpe, Mail Stop 89, Federal Reserve Board, Washington, DC 20551. PG 35. PR no charge. JE C13, E22, C51. KW Inventories. Estimation. Finite Sample Bias.

AB We compare generalized method of moments (GMM) and maximum likelihood (ML) estimators of the parameters of a linear-quadratic inventory model using nondurable manufacturing data and Monte Carlo simulations. Data-based GMM estimates for five normalizations vary widely, generally rejecting the model. The ML estimate generally supports the model. Monte Carlo experiments reveal that the GMM estimates are often biased (apparently due to poor instruments), statistically insignificant, economically implausible, and dynamically unstable. The ML estimates are generally unbiased (even in misspecified models), statistically significant, economically plausible, and dynamically stable. Asymptotic standard errors for ML are 3 to 15 times smaller than for GMM.

Fuss, Melvyn

PD December 1992. TI The State of North American and Japanese Motor Vehicle Industries: A Partially Calibrated Model to Examine the Impacts of Trade Policy Changes. AU Fuss, Melvyn; Murphy, Stephen; Waverman, Leonard. AA Fuss, Melvyn; University of Toronto and National Bureau of Economic Research. Murphy and Waverman: University of Toronto. SR National Bureau of Economic Research Working Paper: 4225; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR \$5.00. JE L62, F13, F12. KW Automobiles. Scale Economies. Strategic Trade.

AB In this paper we utilize a three component model of the automotive industry to simulate the impacts of various trade policy scenarios, such as changes in tariffs and quotas, on the U.S. and Canadian motor vehicle sectors as compared to their Japanese competitors. The three components are a cost module, a mark-up module and a demand module. These models contain the features stressed by the "new" international trade literature: (1) economies of scale in production, (2) imperfect competition, and (3) product differentiation. As a result of these modeling details we are able to capture quantitatively a number of outcome characteristics stressed in the strategic trade literature. Scenarios which expand a country's output reduce unit costs of production, both in the short and long-run. Protectionist policies adopted by North American governments result in rent transfers to these countries.

Gali, Jordi

PD December 1992. **TI** Multiple Equilibria in a Growth Model with Monopolistic Competition. **AA** Columbia University. **SR** CEPR Discussion Paper: 751; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 17. **PR** Pounds 4.00 or \$8.00. **JE** E21, E22, L13, L16, O41. **KW** Imperfect Competition. Savings Rate.

AB We develop a simple growth model with imperfect competition in which demand conditions can affect the dynamics of capital accumulation, hindering or enhancing growth. In our model the elasticity of the demand schedule faced by a typical firm depends on the aggregate savings rate. When the demand elasticity is constant or inversely related to the savings rate the equilibrium dynamics are shown to be qualitatively identical to those found in the perfectly competitive one-sector growth model: there is a unique stationary equilibrium which is saddle-point stable. In contrast, when the demand elasticity is positively related to the savings rate, multiple stationary equilibria emerge for some parameter values.

Gardiner, Stephen M.

TI The Limits of Economic Instruments for International Greenhouse Gas Control. **AU** Toman, Michael A.; Gardiner, Stephen M.

Gardner, Edward H.

PD January 1993. **TI** Asymmetry in the ERM: A Case Study of French and German Interest Rates Since Basel-Nyborg. **AU** Gardner, Edward H.; Perraudin, William R. M. **AA** Gardner: International Monetary Fund. Perraudin: University of Cambridge. **SR** CEPR Discussion Paper: 753; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 12. **PR** Pounds 4.00 or \$8.00. **JE** F36, E52, E43, E65. **KW** EMS. European Interest Rates. Exchange Rate Mechanism.

AB We study empirically daily French and German interest rate changes since the Basel-Nyborg agreement of September 1987. In particular, we ask whether the shock associated with German unification altered the degree of leadership of German monetary policy in the ERM. We conclude that Germany's leadership role within the ERM largely disappeared in the year following unification, but that the Bundesbank has recently begun to reassert its predominance.

Garvie, Devon

PD January 1993. **TI** Incomplete Enforcement with Endogenous Regulatory Choice. **AU** Garvie, Devon; Keeler, Andrew. **AA** Garvie: Queen's University. Keeler: University of Georgia. **SR** Queen's Institute for Economic Research Discussion Paper: 873; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 25. **PR** \$3.00 + GST Canada; \$3.50 U.S. and Foreign. **JE** K23, L51. **KW** Regulation. Monitoring. Penalties.

AB This paper extends the economic literature on the incomplete enforcement of social regulation by incorporating regulatory choice in an institutional environment of limited regulatory resources and powers. We show how regulatory decisions determine the structure of incentives faced by regulated firms. Our results indicate that the expense of monitoring relative to the regulator's power to levy penalties

helps to explain the differences between "compliance" and "deterrence" enforcement styles. We find that in most circumstances firms with higher abatement costs will receive a larger share of regulatory resources and thus face higher penalties than firms with lower costs.

Gentry, William M.

TI Capital Gains Taxes and Realizations: Evidence from Interstate Comparisons. **AU** Bogart, William T.; Gentry, William M.

Geroski, Paul

PD September 1992. **TI** The Dynamics of Corporate Growth. **AU** Geroski, Paul; Machin, Stephen. **AA** Geroski: London Business School. Machin: University College London. **SR** University College London Discussion Paper: 92-18; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 35. **PR** 3 pounds; checks payable to the Department of Economics, University College London. **JE** L10, L11, L60. **KW** Corporate Growth.

AB In this paper we examine the growth dynamics of just over 500 U.K. manufacturing companies in the 1970's and 1980's. The results, based on fairly complex econometric models, suggest that corporate growth is largely idiosyncratic and that the size distribution of firms at any given point in time reflects the history of shocks (at company, sectoral and aggregate level) to which they have been exposed. Growth is much harder to predict than other indicators of corporate performance (profitability, dividend behavior, etc. although there is some evidence that industry and aggregate growth rates impact significantly on the growth of individual firms: such effects are both larger and more destabilizing for smaller firms.

PD September 1992. **TI** Innovation, Profitability and Growth over the Business Cycle. **AU** Geroski, Paul; Machin, Stephen. **AA** Geroski: London Business School. Machin: University College London. **SR** University College London Discussion Paper: 92-19; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 40. **PR** 3 pounds; checks payable to Department of Economics, University College, London. **JE** E30, O40, O31, E32, L60. **KW** Innovation. Profitability. Corporate Growth. Business Cycles.

AB In this paper we empirically examine the relationship between innovative activity and two measures of corporate performance (profitability and growth) using panel data on over 500 U.K. manufacturing companies between 1972 and 1983. Particular attention is placed on the evolution of such effects over the business cycle. Innovation has statistically important -but quite modest and short-lived-effects on profitability and growth. However, it is equally clear that the process of innovation transforms firms in some way that leads to generic differences between innovators and non-innovators: hence, the process by which profitability and growth are generated differs markedly between the two types of firms. Perhaps the clearest difference is that innovating firms are much less cyclically sensitive than are non-innovators.

Ghoshal, Sumantra

PD not available. **TI** Learning Alliance Between Business and Business Schools: Executive Education as a Platform for Partnership. **AU** Ghoshal, Sumantra; Arnzen, Breck; Brownfield, Sharon. **AA** Ghoshal: INSEAD. Arnzen

and Brownfield: Digital Equipment Corporation. SR INSEAD Working Papers: 92/77/SM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 20. PR not available. JE I21, M11, M12. KW Business Schools. Managers.

AB The world-wide corporation in the 1990's is markedly different from its predecessors in the 60's, 70's, or even the 80's. Confronted by the rapid globalization of markets and competition, the increasing importance of speed and flexibility as key sources of competitive advantage and the growing proliferation of partnership relations with suppliers, customers and competitors, companies must respond with radically different management approaches to succeed. Relatively little attention has been paid to what is perhaps one of the most difficult corporate challenges in responding to the demands of the 1990's: how to develop the new breed of senior managers who would have the knowledge, sensitivities, and skills necessary to lead such corporations through the difficult times ahead. This is also a key concern for many business schools. This article describes the experiences from the partnership between one company - Digital Equipment Corporation, the second largest computer company in the world - and INSEAD, a European business school, to create such a learning alliance through a special executive education program.

Gilbert, Christopher L.

PD February 1993. TI Modelling Market Fundamentals: A Model of the Aluminium Market. AA Queen Mary and Westfield College. SR Centre for Economic Policy Research, European Science Foundation, Working Paper: 30; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, ENGLAND. PG 35. PR not available. JE L72, D84. KW Aluminum. Commodity Prices. Rational Expectations.

AB The standard approach to modeling primary commodity markets under rational expectations is to relate the commodity price to the production and consumption "surprises" (i.e. the innovations on the equations). Using the world aluminum market, I show how this approach can be modified so that both the price and stock can be written in terms of one or more market "fundamentals" which reflect the supply-demand balance on the market. This approach allows joint estimation of production, consumption, stock demand and price equations subject to cross equation restrictions. It may be seen as a formalization of the approach adopted by metals industry analysts.

Giovannini, Alberto

PD December 1992. TI Currency Substitution. AU Giovannini, Alberto; Turtelboom, Bart. AA Giovannini: Columbia University and National Bureau of Economic Research. Turtelboom: The Brookings Institution. SR National Bureau of Economic Research Working Paper: 4232; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 37. PR \$5.00. JE F41, F15, E42, E31. KW Exchange Rates. Developing Countries.

AB This paper reviews the extensive theoretical and empirical literature on currency substitution. After discussing the ambiguity surrounding the definition of currency substitution, the paper illustrates the causes of substitutability of different currencies using a cash-in-advance model and a model where money yields liquidity services. The effects of

currency substitutability on exchange rates, international adjustment and the inflation tax are discussed. The paper also reviews the empirical facts on the size of currency substitution in developed and developing countries. Whereas currency substitution is found to be sizable in some developing countries and on the rise in the European Community, estimates of the ability to substitute foreign for domestic currency are often found to be unreliable due to data, methodological and conceptual problems. Policy implications of currency substitution for international monetary cooperation and inflationary finance are explored.

TI The Determinants of Realignment Expectations Under the EMS: Some Empirical Regularities. AU Chen, Zhaohui; Giovannini, Alberto.

Glennerster, Howard

TI Investing in Skill: To Stay On or Not to Stay On? AU Bennett, Robert; Glennerster, Howard; Nevison, Douglas.

PD November 1992. TI The English and Swedish Health Care Reforms. AU Glennerster, Howard; Matsaganis, Manos. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/79; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 41. PR no charge. JE H80, I10. KW Health Reform. Sweden.

AB The Swedish health care system is going through a period of change. Although in Sweden the system as well as the reforms are different in crucial respects from their British counterparts, both countries are facing strikingly similar problems-chieflly, how to improve efficiency and choice without at the same time fatally undermining the equitable character of health service provision. The first part of the paper discusses some of the most interesting (to a British observer) aspects of health care reforms in Sweden. The second part of the paper traces the origins of the reforms to the British National Health Service that were initiated by Mrs. Thatcher and implemented in 1991. It briefly describes the reforms and then goes on to give an early impression of the impact they are making.

Goldfeld, Stephen M.

PD December 1992. TI The Competition for Rationed Resources. AU Goldfeld, Stephen M.; Quandt, Richard E. AA Princeton University. SR Princeton Financial Research Center Memorandum: 132; Financial Research Center, Department of Economics, Princeton University, Princeton, NJ 08544. PG 14. PR \$3.00 for U.S. mailings. \$6.00 for foreign mailings. JE D21. KW Rationing. Shortage. Cournot-Nash.

AB The paper considers a model in which firms face an output target and can purchase the input on two dates. The amount that can be purchased on the first date is unlimited, but a carrying cost has to be paid on early purchases. On the second date the input is rationed, but by spending specialized managerial resources, the firm is able to influence the rationing density to its own advantage. The firm also faces a quadratic (two-sided) penalty for missing the output target and is assumed to minimize expected net costs. In the context of an industry with two or more firms, a Cournot-Nash equilibrium in the optimal expenditures of the specialized managerial labor is defined and the comparative statics of the model are analyzed.

The paper next examines the collusive solution and finds that under collusion the firms' expected costs, the total expenditure on the otherwise unproductive special managerial labor and the variance of the output are smaller than in the Cournot-Nash equilibrium.

Gordon, Robert J.

TI German and American Wage and Price Dynamics: Differences and Common Themes. AU Franz, Wolfgang; Gordon, Robert J.

Gordon, Roger H.

PD December 1992. TI Tax Distortions to the Choice of Organizational Form. AU Gordon, Roger H.; Mackie-Mason, Jeffrey K. AA University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4227; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 22. PR \$5.00. JE H23, H24, L22. KW Corporations. Firm Organization. Taxation.

AB Income from corporate and noncorporate firms is treated very differently under the tax law. To what degree do firms change their form of organization in response? Since the relative tax treatment depends on the tax bracket of the investor, the answer will vary by the bracket of the owners. To estimate the role of taxes, we estimate what size the nontax advantage to incorporating must take in each industry so that forecasted choices for organizational form, aggregated over investors in different tax brackets, are consistent with the aggregate evidence. While these nontax costs can be large, noncorporate activity tends to be concentrated in industries where these costs are small, leading to little excess burden from the tax distortion to organizational form.

PD February 1993. TI Taxes and the Form of Ownership of Foreign Corporate Equity. AU Gordon, Roger H.; Jun, Joosung. AA Gordon: University of Michigan. Jun: Yale University. SR Centre for Economic Policy Research, European Science Foundation, Working Paper: 29; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, ENGLAND. PG 27. PR not available. JE F21, F23, G15, H25, G11. KW Taxation. Foreign Direct Investment.

AB Investors can achieve international diversification in their portfolios not only through purchasing foreign equity directly, but also through investing in domestic firms which then invest abroad. Yet these alternative approaches are taxed very differently. A number of countries have also imposed various forms of capital controls restricting direct purchases of foreign equity. This paper estimates the degree to which these tax and non-tax factors have affected the relative use of these two alternative methods of international diversification. While the composition of equity flows differs dramatically across countries, taxes do not appear to play an important role in the data, in explaining this variation. Part of the explanation appears to be that tax distortions adjust endogenously to avoid large-scale portfolio investments abroad. With the increasing integration of capital markets and the easing of capital controls in many countries, we have seen and expect to continue to see reductions in the tax distortions affecting the form of international capital flows.

Gorton, Gary

PD December 1992. TI Corporate Control, Portfolio

Choice, and the Decline of Banking. AU Gorton, Gary; Rosen, Richard. AA Gorton: University of Chicago and National Bureau of Economic Research. Rosen: Board of Governors of the Federal Reserve System. SR National Bureau of Economic Research Working Paper: 4247; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE G21, G11. KW Managerial Entrenchment. Bank Failures.

AB In the last two decades U.S. banks have become systematically less profitable and riskier as nonbank competition has eroded the profitability of banks' traditional activities. Bank failures, insignificant from 1934, the date the Glass-Steagall Act was passed, until 1980, rose exponentially in the 1980's. The leading explanation for the persistence of these trends centers on fixed-rate deposit insurance: the insurance gives bank shareholders an incentive to take on risk when the value of bank charters falls. We propose and test an alternative explanation based on corporate control considerations. We show that managerial entrenchment, more than moral hazard associated with deposit insurance, explains the recent behavior of the banking industry.

PD February 1993. TI The Design of Bank Loan Contracts, Collateral, and Renegotiation. AU Gorton, Gary; Kahn, James. AA Gorton: University of Chicago and National Bureau of Economic Research. Kahn: University of Rochester. SR National Bureau of Economic Research Working Paper: 4273; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 32. PR \$5.00. JE G21, G31, D81. KW Risk-Taking. Investment. Cost of Capital.

AB Empirical evidence suggests that banks play a unique role in the savings-investment process, affecting firms' cost of capital and the level of investment. We argue that bank uniqueness is related to how the design of bank loan contracts allows banks to affect borrowers' choice of project risk. Unlike corporate bonds, bank loans are typically secured senior debt which contain embedded options allowing the bank to "call" the loan. The option allows the bank to control borrowers' risk-taking activity via renegotiation of the loan. We analyze the renegotiation outcomes and show that: (1) debt forgiveness occurs; (2) monitoring by the bank is not always successful in preventing the borrower from increasing risk; (3) renegotiated interest rates are not monotonic in borrower type; (4) inefficient liquidation can occur. In renegotiation seniority and collateral are crucial because they allow the bank to threaten the borrower and liquidate inefficient projects.

Gosling, Amanda

TI Union Recognition in the U.K.: A Theoretical and Empirical Analysis. AU Disney, Richard; Machin, Stephen; Gosling, Amanda.

Goudie, A. W.

PD August 1992. TI Forecasting and Explaining Corporate Failure: A Study of Contingent Financial Statements. AU Goudie, A. W.; Meeks, G. AA Goudie: Scottish Office. Meeks: University of Cambridge. SR University of Cambridge Discussion Papers in Accounting and Finance: AF1; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 13. PR \$10.00 (£5.00); checks payable to University of Cambridge. JE G33. KW Macroeconomic Shock. Corporate Failure.

AB The paper explores the role of macroeconomic factors in the determination of corporate failure. A macroeconomic model is augmented so as to generate financial statements for individual corporations contingent on exogenous macroeconomic developments. On the basis of these contingent financial statements corporations are classified using conventional discriminant analysis as likely survivors or likely failures. It is shown that this technique can substantially reduce forecast error compared with previous methods. And a retrospective analysis of a particular macroeconomic shock suggests that, for a substantial minority of major failing corporations, the shock made a decisive or substantial contribution to their collapse.

Granger, Clive W. J.

PD December 1992. **TI** Comments on Testing Economic Theories and the Use of Model Selection Criteria. **AU** Granger, Clive W. J.; King, Maxwell L.; White, Halbert. **AA** Granger and White: University of California, San Diego. King: Monash University. **SR** Monash Department of Econometrics Research Working Paper: 17/92; Department of Econometrics, Monash University, Clayton, Victoria 3168, AUSTRALIA. **PG** 26. **PR** no charge. **JE** C52, C51, C12. **KW** Hypothesis Testing, Information Criteria, Belief Functions.

AB This paper outlines several difficulties with testing economic theories, particularly that the theories may be vague, may relate to a decision interval different from the observation period and may need construction of a metric to convert a complicated testing situation to an easier one. We argue that it is better to use model selection procedures rather than formal hypothesis testing when asking the data to decide on model specification. This is because testing favors the null hypothesis, typically uses an arbitrary choice of significance level and researchers working with the same data could easily end up with different final models, which would make policy recommendations difficult.

PD January 1993. **TI** Strategies for Modelling Nonlinear Time Series Relationships. **AA** University of California, San Diego. **SR** Monash Department of Econometrics Research Working Paper: 1/93; Department of Econometrics, Monash University, Clayton, Victoria 3168, AUSTRALIA. **PG** 14. **PR** no charge. **JE** C22, C51. **KW** Nonlinear Models, Model Specification.

AB While investigating the relationship between unemployment and wage rates, generally known as the Phillip's curve, A. W. Phillips considered several alternative non-linear specifications although he was limited by having very small samples and very little computing power. Present applied workers are less limited and, when considering non-linear modeling have a variety of specifications that can be considered. In this paper, I discuss the kind of problems that they face and try to suggest strategies that can be used. Modeling questions in a non-linear framework are quite likely to be very different from those faced when building linear models. The paper is thus rather unconventional as it attempts to present opinions and to initiate discussion of this potentially important area rather than to present specific results or theorems.

TI Stochastic Trends and Short-Run Relationships Between Financial Variables and Real Activity. **AU** Konishi, Toru; Granger, Clive W. J.; Ramey, Valerie A.

Grant, Simon

PD January 1993. **TI** AUSI Expected Utility: An Anticipated Utility Theory of Relative Disappointment Aversion. **AU** Grant, Simon; Kajii, Atsushi. **AA** Grant: University of Melbourne. Kajii: University of Pennsylvania. **SR** University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-04; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. **PG** 25. **PR** no charge. **JE** D81. **KW** Uncertainty, Risk Aversion.

AB In recent years there has been a growing theoretical, experimental and empirical challenge to Expected Utility Theory, the overwhelmingly dominant paradigm for modeling decision-making under risk. However, there has been little work done in providing easily parameterized alternatives for applied work. In this paper we provide an axiomatization for a representation of preferences over lotteries that is only one parameter richer than expected utility. Our model is a special case of Quiggin's Rank Dependent Expected Utility. Moreover, we show that the same restriction on this parameter is required for: risk aversion; intuitive comparative static results for a reasonably general class of economically interesting choice problems; and accommodating some of the most well-known violations of Expected Utility Theory.

Griesinger, Harriet

TI Criminal Deterrence: Revisiting the Issue with a Birth Cohort. **AU** Tauchen, Helen; Witte, Ann Dryden; Griesinger, Harriet.

Griliches, Zvi

TI Changes in the Demand for Skilled Labor Within U.S. Manufacturing Industries: Evidence from the Annual Survey of Manufacturing. **AU** Berman, Eli; Bound, John; Griliches, Zvi.

PD February 1993. **TI** Generics and New Goods in Pharmaceutical Price Indexes. **AU** Griliches, Zvi; Cockburn, Iain. **AA** Griliches: Harvard University and National Bureau of Economic Research. Cockburn: University of British Columbia and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4272; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 21. **PR** \$5.00. **JE** E31, L65. **KW** Generic Goods, Brand Loyalty.

AB We examine the issue of new goods and price indexes for the important and tractable case of generic and branded drugs. By treating generics as entirely distinct goods and "linking them in" to indexes with fixed weights, the standard price indexes fail to reflect the substantial welfare gains to those consumers who, like the FDA, regard generic and branded versions of a drug as being perfect substitutes. We discuss the treatment of heterogeneous consumers in constructing aggregate price indexes, and then, using detailed data on wholesale prices of two anti-infective drugs, present calculations of various alternatives to the official indexes. These reflect both heterogeneity of tastes for brandedness, and also the empirically important phenomenon of diffusion generic drugs into the market following patent expiration. We find very significant differences: for one of the drugs studied, the standard price index rose by 14% over the sample period, while

our preferred alternatives index fell by 48%.

Gross, Dominique M.

PD October 1992. TI Labour Market Flows and the Beveridge Curve: Uncovering the Hidden Movements. AA University of British Columbia. SR University of British Columbia Department of Economics Discussion Paper: 92-28; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. Canada V6T 1Z1. PG not available. PR JE J63, J64. KW Unemployment. Vacancy. Labor Market Flows.

AB This paper uses an unemployment and vacancy flow model to uncover the underlying movements in the u-v relationships in France and in Germany over the period 1976-1990. It is shown that, first, the long-term equilibrium unemployment and vacancy rates have changed asymmetrically in both countries, ruling out an equilibrium on the 45 degree line. Secondly, the Beveridge Curve has shifted drastically following structural shifts in Germany but high labor costs have had little effect on the shape of the curve. Thirdly, in France, the very flat u-v curve can be explained most by the impact of the rising labor costs.

Grossman, Gene M.

PD February 1993. TI Trade Wars and Trade Talks. AU Grossman, Gene M.; Helpman, Elhanan. AA Grossman: Princeton University and National Bureau of Economic Research. Helpman: Tel Aviv University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4280; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 39. PR \$5.00. JE F13, D72. KW Trade Negotiations. Special Interest Groups. Political Pressure.

AB Whether governments clash in trade disputes or negotiate over trade agreements, their actions in the international arena reflect political conditions back home. Previous studies of cooperative and noncooperative trade relations have focused on governments that are immune from political pressures and that act as benevolent servants of the public interest. Here we take a first step toward introducing domestic politics into the analysis of international economic relations. We study the interactions between national leaders who are concerned both with providing a high standard of living to the general electorate and collecting campaign contributions from special interest groups. The analysis reveals the determinants of the structure of protection in a noncooperative trade war and in a cooperative trade agreement.

Grubb, Farley

PD March 1993. TI The Disappearance of Organized Markets for European Immigrant Servants in the United States: Five Popular Explanations Re-examined. AA University of Delaware. SR University of Delaware Department of Economics Working Paper: 93-01; College of Business and Economics, Department of Economics, University of Delaware, Newark, Delaware 19716-2720. PG 25. PR not available. JE N31, J61. KW Immigration.

AB Evidence from the port of Philadelphia indicates that German immigrant servitude collapsed rather abruptly in 1819-1820. Five popular explanations as to why this happened, namely imprisonment for debt, the work of immigrant aid societies, the frequency of servants running away, the financial

panic of 1819, and the efficiency of wage labor, are all shown to be inconsistent with the evidence.

Gruber, Jonathan

PD December 1992. TI State Mandated Benefits and Employer Provided Health Insurance. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4239; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE I18, J32. KW Insurance Coverage. Group Health Insurance.

AB One popular explanation for the low rate of employee coverage is the presence of numerous state regulations which mandate that group health insurance plans must include certain benefits. By raising the minimum costs of providing any health insurance coverage, these mandated benefits make it impossible for firms which would have desired to offer minimal health insurance at a low cost to do so. I use data on insurance coverage among employees in small firms to investigate whether this problem is an important cause of employee non-insurance. I find that mandates have little effect on the rate of insurance coverage; this finding is robust to a variety of specifications of the regulations. I also find that this lack of an effect may be because mandates are not binding, since most firms appear to offer these benefits even in the absence of regulation.

Gustman, Alan L.

PD March 1993. TI The Role of Pensions in the Labor Market. AU Gustman, Alan L.; Mitchell, Olivia S.; Steinmeier, Thomas L. AA Gustman: Dartmouth College and National Bureau of Economic Research. Mitchell: Cornell University and National Bureau of Economic Research. Steinmeier: Texas Tech University. SR National Bureau of Economic Research Working Paper: 4295; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 37. PR \$5.00. JE J23, J63, J33. KW Job Tenure. Retirement. Turnover.

AB Employer-sponsored group pension plans offer an unusual window into long-term employment relationships. This is because the pension promise is documented in a set of explicit statements regarding future payment and employment agreements between workers and their employers. In this paper, we show that recent research on pensions in the labor market offers considerable insight into long-term labor market arrangements. Most importantly, we explore how pensions influence employee compensation, retirement, turnover, and other matters central to the determination of labors' price and quantity over time. A number of unanswered questions, and difficult-to-reconcile empirical findings, are also outlined.

Hahn, Frank

PD October 1992. TI A Remark on Incomplete Market Equilibrium. AA University of Cambridge. SR University of Cambridge Economic Theory Discussion Paper: 179; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 7. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE D52. KW Multiple Equilibria. Endogenous Uncertainty.

AB When in the second period of a two-period economy there are several second period equilibria for any realized

Savage-state the economy is said to have "endogenous uncertainty". Enlarging the state space so as to take account of this leads to the conclusion that it is not possible to have an equilibrium in which securities span this enlarged space. The relation to sunspots is discussed.

Hahn, Robert W.

PD December 1991. TI Economic Incentives for Environmental Protection: Integrating Theory and Practice. AU Hahn, Robert W.; Stavins, Robert N. AA Hahn: American Enterprise Institute. Stavins: Harvard University. SR Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-08; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 17. PR \$2.25 prepaid. U.S. funds. JE L51, B41. KW Environmental Policy.

AB Recently there has been greatly increased attention given by policy-makers to market-based approaches to environmental protection--such as pollution taxes and tradable permits. The introduction of these tools on a large scale provides a unique opportunity to extend the frontiers of knowledge. This essay seeks to identify important issues that merit investigation. We argue that the economist's search for improved environmental policies should cover a broader terrain than has typically been included in academic analyses. It is important that economic research examine the potential importance of a broad range of criteria for evaluating environmental policies--beyond the usual set made up of efficiency, cost-effectiveness, and distributional equity. Investigations should focus both on the goals of environmental policies and the set of available means to achieve those goals. It is critical that economists realistically compare instruments that take into account real-world, institutional, and political constraints.

Haliassos, Michael

PD January 1993. TI Progressivity of Capital Gains Taxation with Optimal Portfolio Selection. AU Haliassos, Michael; Lyon, Andrew B. AA Haliassos: University of Maryland. Lyon: University of Maryland and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4253; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 34. PR \$5.00. JE G11, H22, H24, H21. KW Progressive Taxation. Efficiency. Risk Sharing.

AB We provide new data on capital gains realizations using a five-year stratified panel of taxpayers covering 1985-1989. We find, as earlier studies have, that capital gains realizations are very concentrated among the highest income groups. We use these data and data from the Federal Reserve Board Survey of Consumer Finances to draw inferences from a simulation model of the effect on progressivity and efficiency of alternative tax treatment of capital gains. Taxes generally create costs beyond the dollar value collected by causing persons to change their behavior to avoid the tax. Risk is also affected by the tax system. Beneficial risk-sharing characteristics of the tax system are frequently overlooked when examining the treatment of capital gains. We find that reforms comprising reductions in the capital gains tax rate offset by increases in the tax rate on other investment income are efficiency reducing.

Hall, Bronwyn

PD December 1992. TI R&D Tax Policy During the Eighties: Success or Failure? AA Stanford University and

National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4240; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 33. PR \$5.00. JE H25, O32, D21. KW Tax Credit. Research and Development.

AB R&D Tax policy in the United States during the 1980's is evaluated, with particular emphasis placed on quantifying the impact of the R&D tax credit on the R&D investment of manufacturing firms. Using publicly available data on R&D spending at the firm level, I estimate an average price elasticity for R&D spending which is in the neighborhood of unity in the short run. Although the effective credit rate is small (less than five percent until 1990), this relatively strong price response means that the amount of additional R&D spending thus induced was greater than the cost in foregone tax revenue. The recent evolution of features of the U.S. corporate tax system which affect R&D is also reviewed and my results are compared with those of previous researchers. The conclusion is that R&D tax credit seems to have had the intended effect, although it took several years for firms to fully adjust.

Hamada, Koichi

PD September 1992. TI The Reconstruction and Stabilization of the Postwar Japanese Economy: Possible Lessons for Eastern Europe? AU Hamada, Koichi; Kasuya, Munehisa. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 672; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 54. PR \$2.00 plus postage. JE N15, O14, P11. KW Japanese Postwar Economy. Economic Stabilization.

AB This paper traces the process of reconstruction and monetary stabilization in postwar Japan (1945-51) and considers how the Japanese experience could be a beacon for the current money-overhang problems in Eastern Europe and the Soviet Union. The Japanese postwar experience presents many questions, such as: Should monetary stabilization take the form of a gradual approach or the "once and for all" single stroke approach? Is the free market principle preferable to goods mobilization policies into specific sectors through industrial policy and financial control? The history seems to indicate only a limited success of goods mobilization policy. The austere Dodge stabilization policy was necessary to stabilize the economy but is triggered a severe recession, which was cut short by the coincidental outbreak of the Korean War. The existence of a supernational authority by the U.S. occupation and the establishment of fixed exchange rates (1949) was instrumental for Japan's successful stabilization process.

Hamermesh, Daniel S.

PD October 1992. TI Turnover and the Dynamics of Labor Demand. AU Hamermesh, Daniel S.; Pfann, Gerard. AA Hamermesh: Michigan State University and National Bureau of Economic Research. Pfann: Rijksuniversiteit Limburg. SR National Bureau of Economic Research Working Paper: 4204; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 11. PR \$5.00. JE D92, J23, J63. KW Hiring. Firing. Adjustment Costs.

AB The theory of the dynamics of labor demand is based either on the costs of adjusting the level of employment or on the costs of hiring or firing (of gross changes in employment).

We write down a generalized cost of adjustment function that includes both types of cost and allows for asymmetries in those costs. We derive the firm's rational-expectations profit-maximizing path of employment demand and the Euler equation whose parameters we estimate. Identifying the two types of costs requires complete data on turnover, which were available for the U.S. through 1981. We use these data for manufacturing to demonstrate that both types of adjustment cost figure in the representative firm's profit-maximizing decisions about employment, and that both types of cost are asymmetric (leading here to quicker increases than decreases in employment).

Hamidzadeh, Babak

TI Real Time Planning to Minimize Response Time in Static and Dynamic Worlds. AU Dutta, Soumitra; Shekhar, Shashi; Hamidzadeh, Babak.

Hart, Oliver

TI The Economics of Bankruptcy Reform. AU Aghion, Philippe; Hart, Oliver; Moore, John.

Hartwick, John M.

PD January 1993. TI Capitalization of Productivity Growth in Urban Land Rent. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 875; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 16. PR \$3.00 + GST Canada; \$3.50 U.S. and Foreign. JE O12, R11. KW Cities. Land Rent.

AB The first order effect of a productivity increment in the output sector of a monocentric city which increases wages in the city is exactly capitalized in the increment in land rent in the city. We observe this result in the "open city" model in which a worker's utility level in city *i* is determined outside of city *i*.

PD January 1993. TI Trade in Intermediate Goods and International Specialization. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 876; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 24. PR \$3.00 + GST Canada; \$3.50 U.S. and Foreign. JE F11. KW Intermediate Goods. International Trade.

AB We characterize the multiplicity of patterns of trade in the neo-classical two country, two factor, two final good model extended to incorporate an essential intermediate good. With factor price equalization and no trade in the intermediate good, there are no gains from trade by opening up the world to trade in the intermediate good. However, with factor price equalization and trade in the intermediate good, there can be losses from closing off trade in the intermediate good. Examples are presented. We note that there are definable patterns of specialization for identical countries, given "compulsory" trade in intermediate goods between them. We also examine the cases of three primary factors and two essential intermediate goods.

Hawawini, Gabriel

PD October 1992. TI On the Predictability of Common Stock Returns: World-Wide Evidence. AU Hawawini, Gabriel; Kiem, Donald B. AA Hawawini: INSEAD. Kiem: University of Pennsylvania. SR INSEAD Working Papers:

92/80/FIN; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. PG 37. PR not available. JE G12, G14. KW Stock Returns. CAPM.

AB In this chapter we examine recent empirical findings which suggest that equity returns are predictable. These findings document persistent cross-sectional and time series patterns in returns that are not predicted by extant theory. As a result, such empirical regularities are often classified as anomalies. The summary of research presented in this chapter is not an exhaustive compilation of the findings on predictable returns. Rather, we focus on the subset of the findings whose existence has proved most robust with respect to both time and the number of stock markets in which they have been observed. We broadly classify the findings as being cross-sectional (e.g., size and E/P effects) or time series (e.g., return autocorrelations, seasonal return patterns) in nature.

Head, Allen C.

TI Exit and Entry, Increasing Returns to Specialization, and Business Cycles. AU Devereux, Michael B.; Head, Allen C.; Lapham, Beverly J.

Heady, Christopher

PD October 1992. TI Tax Reform in Czechoslovakia. AU Heady, Christopher; Pearson, Mark; Rajah, Najma; Smith, Stephen. AA Heady: University of Bath and Institute for Fiscal Studies. Pearson and Rajah: Institute for Fiscal Studies. Smith: Institute for Fiscal Studies and University College London. SR Institute for Fiscal Studies (IFS) Working Paper: W92/18; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, ENGLAND. PG 33. PR 3 pounds. JE H20, P35, P27. KW Taxation. Transition Economy. Tax System.

AB The paper discusses the 1992 reform of the Federal tax system in Czechoslovakia. This aims to complete the transition from the arbitrary tax structures operated in the former centrally-planned economy to a taxation system similar to those in western European market economies. Tax reform in Czechoslovakia has however been subject to two major constraints. First, tax policy has had to confront severe limitations in administrative capacity, reflecting both the lack of trained personnel and administration traditions which are incompatible with tax enforcement in a market economy. Second, extensive problems have been posed for taxation by the highly decentralized federalism established in Czechoslovakia since 1989; not all of these difficulties will be eased by the move towards constitutional separation at the start of 1993.

Heal, G. M.

TI Price Uncertainty and Derivative Securities in a General Equilibrium Model. AU Chichilnisky, G.; Dutta, Jayasri; Heal, G. M.

Heaton, John

PD January 1993. TI Evaluating the Effects of Incomplete Markets on Risk Sharing and Asset Pricing. AU Heaton, John; Lucas, Deborah. AA Heaton: Massachusetts Institute of Technology and National Bureau of Economic Research. Lucas: Northwestern University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4249; National Bureau of Economic Research, 1050 Massachusetts Avenue,

Cambridge, MA 02138. PG 34. PR \$5.00. JE G12, E21, D52. KW Consumption. Aggregate Shocks. Idiosyncratic Shocks.

AB We examine asset prices and consumption patterns in a model in which agents face both aggregate and idiosyncratic income shocks, and insurance markets are incomplete. Agents reduce consumption variability by trading in a stock and bond market to offset idiosyncratic shocks, but transactions costs in both markets limit the extent of trade. To calibrate the model, we estimate an empirical model of labor and dividend income, using data from the PSID and NIPA. Although the agents in the model are not very risk averse, the model predicts a sizable equity premium and a low risk-free rate. By simultaneously considering aggregate and idiosyncratic shocks, we decompose this effect of transactions costs on the equity premium into two components. The direct effect is due to the fact that individuals equate net-of-cost margins, so an asset with lower associated transactions costs will have a lower market rate of return. A second, indirect effect occurs because transactions costs result in individual consumption that more closely tracks individual income than aggregate consumption.

Helliwell, John F.

PD December 1992. **TI** Trade and Technical Progress **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4226; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 16. **PR** \$5.00. **JE** O19, O41, E22. **KW** Growth. Convergence.

AB Using annual data 1963-1989 for technical progress in OECD countries the paper first shows that there has been significant international convergence in the rates of technical progress, with the initially poorer countries having faster technical progress. The results suggest that both the level data and rate of increase in trade intensity lead to more rapid technical progress, with some additional effect from country size. Finally, there appears to be no evidence that countries with higher investment rates have had faster rates of technical progress, once the capital-deepening effects of investment have been taken into account via the production function used to define the Solow residuals.

PD December 1992. **TI** International Growth Linkages: Evidence From Asia and the OECD. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4245; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 14. **PR** \$5.00. **JE** F43, O19, O53. **KW** Convergence. Democracy.

AB This paper first shows how the convergence model generally applicable to the OECD and in augmented form to global samples fails to reflect the post-1960 experience of the Asian economies, and then considers some of the factors explaining the differences. Investment rates in physical capital appear to be more important in explaining growth differences among the Asian economies, while education matters less. Various measures of openness to imports contribute importantly to explaining relative growth rates in Asia, with the more open economies generally having significantly faster growth rates, even after allowing for differences in investment rates. After allowing for differences in openness and investment rates, there also appears to be a trade-off between democracy and growth, with the initially less democratic Asian countries having faster

subsequent growth, leading eventually to increasing effective demand for democratization.

Helpman, Elhanan

TI Trade Wars and Trade Talks. **AU** Grossman, Gene M.; Helpman, Elhanan.

Hildenbrand, Werner

PD November 1992. **TI** Francis Ysidro Edgeworth: Perfect Competition and the Core. **AA** University of Bonn. **SR** Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-385; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. **PG** 12. **PR** no charge. **JE** B31, D41, D51, B21. **KW** Limit Theorem. Competitive Equilibrium.

AB Edgeworth's single most important contribution to economic theory, in my opinion, is his analysis of barter under imperfect and perfect competition, more specifically, "his Limit Theorem of the core for a sequence of replica economies" (expressed in today's terminology). In the present paper I shall exclusively discuss this contribution.

Hills, John

PD August 1992. **TI** Does Britain Have a "Welfare Generation?" An Empirical Analysis of Intergenerational Equity. **AA** London School of Economics. **SR** London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/76; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 69. **PR** no charge. **JE** I38. **KW** Intergenerational Distribution.

AB This paper describes an exercise to allocate the benefits from public spending on education, health and social security, and the taxes required to finance them, to successive five year age cohorts of the British population born between 1901 and 1991. The aim of the exercise is to investigate whether, over their lives, some cohorts end up as net gainers from the welfare state-"welfare generations"-while others end up as net losers. The paper concludes that, in fact, the British welfare state has been remarkably even in its treatment of different generations. On its base projection of spending over the next fifty years, the cohorts born between 1901 and 1921 will end up, on average, getting somewhat more out of the welfare state than they put in, while later cohorts approximately break-even. The differences between cohorts are small, a finding which contrasts with those of other researchers who have argued that there has been considerable inequity in the effects of the welfare state on different generations.

Hirschfeld, Mary L.

TI The Effect of News on Bond Prices: Evidence from the United Kingdom, 1900-1920. **AU** Elmendorf, Douglas W.; Hirschfeld, Mary L.; Weil, David N.

Hochman, Oded

PD March 1993. **TI** Tiebout Setup as a System of Spatial-Clubs Agglomerations. **AU** Hochman, Oded; Pines, David. **AA** Hochman: Ben Gurion University. Pines: Tel Aviv University. **SR** Tel Aviv Sackler Institute of Economic Studies: 5/93; Department of Economics, Tel Aviv University, Ramat Aviv, ISRAEL. **PG** 33. **PR** no charge. **JE** R10, H11. **KW** Local Government. Local Public Goods.

AB A Tiebout-type (1956) efficient local government's structure is portrayed as a system of decentralized spatial-clubs agglomerations (clusters) and its macro characteristics are then analyzed. In this presentation elements of theories of central places, facility location, local public goods (LPG, hereafter), and especially spatial clubs are incorporated. The comprehensive treatment illuminates some important theoretical and policy issues dealt in the literature such as fiscal federalism and the optimal number of government layers. First, it is shown that by introducing the spatial aspect to the LPG theory, the sustainability of multiple layers of government in a Tiebout sense becomes questionable. Second, with sufficiently large number of metropolitan agglomerations, land rent maximization leads them to efficient allocation. However, it is a misleading motive for independent jurisdictions in a fragmented metropolitan area.

Hoekman, Bernard M.

TI What to Expect from Regional and Multilateral Trade Negotiations: A Public Choice Perspective. **AU** Leidy, Michael P.; Hoekman, Bernard M.

PD December 1992. **TI** Holes and Loopholes in Integration Agreements: History and Prospects. **AU** Hoekman, Bernard M.; Leidy, Michael P. **AA** Hoekman: GATT. Leidy: International Monetary Fund. **SR** CEPR Discussion Paper: 748; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 27. **PR** Pounds 4.00 or \$8.00. **JE** F13, F15, F42. **KW** Regional Trade Agreements. Multilateral Liberalization.

AB It often appears self-evident that regional integration arrangements (RIAs) result in more far-reaching liberalization of intra-bloc trade than is possible if countries restrict themselves to a multilateral approach. This paper considers whether such arrangements do in fact imply, or facilitate, greater liberalization of trade flows among member countries than that achieved in the multilateral (GATT) context. The underlying hypothesis is that the political-economy forces that block far-reaching liberalization in the multilateral context also remain robust and largely decisive in sculpting RIAs. The holes and loopholes embodied in major RIAs are examined to assess the degree to which existing RIAs have achieved liberalization beyond the prevailing multilateral trade policy regime.

PD December 1992. **TI** Regional versus Multilateral Liberalization of Trade in Services. **AA** GATT. **SR** CEPR Discussion Paper: 749; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 29. **PR** Pounds 4.00 or \$8.00. **JE** F13. **KW** Regional Trade Agreements. Multilateral Negotiations.

AB At the same time as regional agreements to liberalize trade in services were being pursued by OECD countries, services were also introduced onto the agenda of a multilateral trade negotiation - the Uruguay Round. This paper focuses on the relationship between regional agreements and the draft General Agreement on Trade in Services (GATS), negotiated under the auspices of the Uruguay Round. Following a conceptual discussion of the political economy of regional as opposed to multilateral negotiations, I analyze existing data on trade and investment flows with a view to gaining some insight into the likely interest group preferences influencing the choice between alternative institutional arrangements to liberalize

trade in services.

Hoff, Karla

PD June 1992. **TI** The Second Theorem of the Second Best. **AA** University of Maryland. **SR** London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: DEP/38; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 47. **PR** no charge. **JE** D80, D52, D23, D61, H21. **KW** Second Best. Incentive Constraint. Incomplete Markets.

AB The welfare effects of wealth redistributions are usually examined in models in which economic organization (e.g. the set of markets and quantity constraints, if any) is exogenous. I argue that this framework is inadequate because even small changes in the distribution of wealth affect the ability of market economies to overcome barriers to exchange arising from private information. I summarize many earlier results, as well as some that are new, in a theorem that piecemeal welfare analysis of the distribution of wealth is not, in general, possible.

Holmlund, Bertil

TI The Swedish Wage Structure: The Rise and Fall of Solidarity Wage Policy? **AU** Edin, Per-Anders; Holmlund, Bertil.

Holt, Debra J.

PD November 1992. **TI** An Empirical Model of Strategic Choice with an Application to Coordination Games. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 863; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 33. **PR** \$3.00 + GST Canada; \$3.50 U.S. and foreign. **JE** C72, C81, C91, C12. **KW** Experimental Game. Hypothesis Testing.

AB This paper develops structural estimation techniques which can be applied to experimental game data to consistently estimate and test models of strategic choice. I assume that the true game is a Bayesian game of incomplete information and that the observed actions are supported by an equilibrium of this game. The implied structure permits estimation of the distribution of player types. This method provides a unified framework for rigorously testing hypotheses about behavior in games within the theory. Behavior observed in coordination game experiments is inconsistent with the joint hypotheses of rational play and complete information of the game. One possible explanation is that some players are altruistic; another is that subjects as learning as they play the game. Neither can be clearly rejected or supported with usual empirical approaches. The structural approach adopted in this paper does give clear evidence regarding the importance and validity of the alternative explanation.

Holtz-Eakin, Douglas

PD December 1992. **TI** Stoking the Fires? CO2 Emissions and Economic Growth. **AU** Holtz-Eakin, Douglas; Selden, Thomas M. **AA** Holtz: Syracuse University and National Bureau of Economic Research. Selden: Syracuse University. **SR** National Bureau of Economic Research Working Paper: 4248; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 22. **PR** \$5.00. **JE** Q25, O11. **KW** Carbon Dioxide Emissions. Air Pollution. Economic Development.

AB Concern over potential global warming has focused attention on the emission of greenhouse gases into the atmosphere, and there is an active debate concerning the desirability of reducing emissions. At the heart of this debate is the future path of both greenhouse gas emissions and economic development among the nations. We use global panel data to estimate the relationship between per capita income and carbon dioxide emissions, and then forecast global emissions of carbon dioxide. The evidence suggests a diminishing marginal propensity to emit (MPE) carbon dioxide as economies develop. Despite the diminishing MPE, our forecasts indicate that global emissions of carbon dioxide will continue to grow at an annual rate of 1.8 percent. This continued growth stems from the fact that economic and population growth will be most rapid in the lower-income nations that have the highest MPE. Finally, our sensitivity analyses suggest that the pace of economic development does not dramatically alter the future annual or cumulative flow of carbon dioxide emissions.

PD January 1993. **TI** Intertemporal Analysis of State and Local Government Spending: Theory and Tests. **AU** Holtz-Eakin, Douglas; Rosen, Harvey S.; Tilly, Schuyler. **AA** Holtz-Eakin and Rosen: Syracuse University and National Bureau of Economic Research. Tilly: Syracuse University. **SR** National Bureau of Economic Research Working Paper: 4261; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 16. **PR** \$5.00. **JE** H72, H74. **KW** Balanced Budget. Current Income. Consumption Smoothing.

AB Do state and local governments smooth their consumption spending across years, or is their spending driven mainly by contemporaneous changes in resources? We design a test to determine which view of state and local spending is more consistent with the data. We find that state and local spending is determined primarily by current (as opposed to permanent) resources. That is, despite their apparent ability to skirt balanced budget laws, states and localities do not typically smooth their expenditures over time.

Honkapohja, Seppo

PD December 1992. **TI** Country Characteristics and the Choice of the Exchange Rate Regime: Are Mini-Skirts Followed by Maxis? **AU** Honkapohja, Seppo; Pikkarainen, Pentti. **AA** Honkapohja: University of Helsinki. Pikkarainen: Bank of Finland. **SR** CEPR Discussion Paper: 744; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 24. **PR** Pounds 4.00 or \$8.00. **JE** F31, F33. **KW** Developing Countries. Export Diversification. Fixed Exchange Rates.

AB We use a sample of 140 countries to study empirically how a country's characteristics are associated with its choice of an exchange rate regime. When countries are classified according to their current exchange rate arrangements, we observe that small countries with low diversification of exports are the most likely candidates to peg their exchange rates. Other country characteristics, such as the level of development, openness of the real or financial sector, geographical diversification of exports, and fluctuations in the terms of trade, have hardly any power to explain the choice of an exchange rate system. Somewhat surprisingly, it is developing countries which have moved towards more flexible exchange rate practices during the last ten years, while countries with well diversified exports have adopted more rigid exchange rate arrangements.

Hu, Baiding

PD December 1992. **TI** Different Estimators of Cointegrating Vectors and Their Impact on Short Run Dynamics. **AU** Hu, Baiding; Inder, Brett. **AA** Monash University. **SR** Monash Department of Econometrics Research Working Paper: 16/92; Department of Econometrics, Monash University, Clayton, Victoria 3168, AUSTRALIA. **PG** 7. **PR** no charge. **JE** C12, C15, C22. **KW** Error Correction. Forecasting. Cointegration.

AB We use a Monte Carlo study to compare the precision of estimates of the parameters of an Error Correction Model when different estimators of the long run relationship are employed. We also compare forecasting performance.

Huang, Ju Chin

TI Can Hedonic Models Value Air Quality? A Meta-Analysis. **AU** Smith, V. Kerry; Huang, Ju Chin.

Hubbard, R. Glenn

TI Internal Finance and Investment: Evidence from the Undistributed Profits Tax of 1936-1937. **AU** Calomiris, Charles W.; Hubbard, R. Glenn.

Hughes, Alan

TI Age, Size, Growth and Survival Revisited. **AU** Dunne, Paul; Hughes, Alan.

Hussain, Athar

PD June 1992. **TI** Economic Reforms and Public Finance in China. **AU** Hussain, Athar; Stern, Nicholas. **AA** London School of Economics. **SR** London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: CP/23; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 47. **PR** no charge. **JE** H20, P35. **KW** Economic Transition. Public Finance. China.

AB The paper addresses the implications of the economic reforms for public finances in transitional economies. The paper outlines the anatomy of the public finance problem which has arisen in China in the 1980's and suggests guidelines for a short-term tax reform and a long-term design for China, which mutatis mutandis apply also to other transitional economies. The first part of the paper analyzes the changes in government revenue and expenditure and their composition. The second part of the paper outlines the current tax system and suggests possible directions of reform and is followed by concluding comments.

PD August 1992. **TI** The Chinese Economic Reforms in Retrospect and Prospect. **AA** London School of Economics. **SR** London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: CP/24; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 41. **PR** no charge. **JE** P21, P52, P27. **KW** China. Economic Transition.

AB This paper is a retrospective view of the Chinese reform and discusses some items on top of the reform agenda for the 1990's. As well as outlining the changes which have taken place, the review also provides a comparison of China with the economies of Eastern Europe and the ex-Soviet Union and occasionally with East Asia and developing economies. The paper goes on to suggest reasons for the relative success of the

Chinese economic reforms, and then analyzes the motor forces of the reforms. Following an analysis of selected areas for further reforms, the paper concludes with a discussion of the future prospects of economic and political reform.

Inder, Brett

TI Different Estimators of Cointegrating Vectors and Their Impact on Short Run Dynamics. AU Hu, Baiding; Inder, Brett.

Jacquillat, Bertrand

PD August 1992. TI The Dual Method of Corporate Profits Distribution in France: An Empirical and Clinical Study 1983-1991. AA University of Paris-Dauphine and Hoover Institution. SR Hoover Institute Working Papers in Economics: E-92-19; Domestic Studies Program Working Paper Series, Hoover Institution, Stanford University, Stanford, CA 94305. PG 47. PR not available. JE G14. KW Dividend Policy. Cash Dividend. Share Dividend. AB By a law passed in January 1983, French companies may grant their shareholders the option to receive their dividends either in cash or in shares. This paper examines this share dividend mechanism, which has similar characteristics to the discount dividend reinvestment plan in the U.S., both from the firm's and the shareholder's point of view. This mechanism might be viewed as an informationless equity issue by companies, at least when they do so for the first time. From that standpoint, positive abnormal returns should be observed when the option is publicly announced. Since 1989, this mechanism carries some tax advantages. This innovation allows us to distinguish between two competing hypotheses for the observed abnormal returns: the information effect and the tax effect. Empirical evidence seems to support only the first one.

Jakus, Paul

PD December 1991. TI Measuring Use and Nonuse Values for Landscape Amenities: A Contingent Behavior Analysis of Gypsy Moth Control. AU Jakus, Paul; Smith, V. Kerry. AA Jakus; University of Tennessee. Smith; North Carolina State University. SR Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-07; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 52. PR \$2.25 prepaid, U.S. funds. JE Q20. KW Gypsy Moth Control. Contingent Behavior. Nonuse Values. AB This research describes a conceptual and empirical analysis of household's decisions to control gypsy moths and reduce their effects on the private and public services provided by trees as resources contributing to landscape amenities. While the empirical analysis was designed to estimate how private households in a ten-county area of Maryland and Pennsylvania would value different packages of gypsy moth control services that varied in their effects on trees located on respondents' private property versus those in neighboring yards and public areas, the conceptual framework was designed in more general terms. It allows the empirical implementation to be used to evaluate how contingent and actual behavior models can be structured to investigate the relationships between use and nonuse values for specific environmental services.

Jensen, Henrik

PD June 1992. TI Time Inconsistency Problems and Commitments of Monetary and Fiscal Policies.

AA University of Aarhus. SR Aarhus Institute of Economics Memo: 1992-14; Institute of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, DENMARK. PG 21. PR no charge. JE J51, E61, E63. KW Policy Coordination. Commitment.

AB Within a policy game, where monetary and fiscal authorities are subject to a time inconsistency problem vis-a-vis a monopoly-union, we provide additional support for commitments of either authority: monetary commitment moderates fiscal time inconsistency problems, and fiscal commitment moderates monetary time inconsistency problems. In contrast with the benefits of commitments, a regime of coordinated monetary and fiscal policy may turn out to be counterproductive.

PD August 1992. TI Efficient Bargaining and Accommodation Policies. AA University of Aarhus. SR Aarhus Institute of Economics Memo: 1992-13; Institute of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, DENMARK. PG 19. PR no charge. JE E61, E24, J51. KW Wage Bargaining. Labor Market. Public Policy.

AB We show that accommodation policies may render efficient bargaining in the labor market unsustainable as a perfect Nash equilibrium of the infinitely repeated game. In fact, in the eyes of the labor market participants, efficient bargaining may be Pareto-dominated by the monopoly-union solution when the government places sufficiently high weight on employment targets.

PD September 1992. TI Tax Distortions, Unemployment and International Policy Cooperation. AA University of Aarhus. SR Aarhus Institute of Economics Memo: 1992-15; Institute of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, DENMARK. PG 22. PR no charge. JE F42, E63, E52, E62. KW Inflation. Policy Games.

AB In a symmetric two-country model, fiscal and monetary policies are endogenously determined as outcomes of a national as well as international policy game. Nash equilibrium policies are characterized by unemployment (due to tax distortions), inflation and too low public expenditures. Regimes of international monetary or fiscal policy cooperation are considered. In comparison with Nash equilibrium outcomes, employment is higher under either regime. Further, disadvantages of one regime form seem to be offset by the other's advantages. Hence, a regime of monetary and fiscal cooperation appears appropriate.

Joshi, Heather

TI Sex, Sharing and the Distribution of Income. AU Davies, Hugh; Joshi, Heather.

Jun, Joosung

TI Taxes and the Form of Ownership of Foreign Corporate Equity. AU Gordon, Roger H.; Jun, Joosung.

Kahn, James

TI The Design of Bank Loan Contracts, Collateral, and Renegotiation. AU Gorton, Gary; Kahn, James.

Kahn, Lawrence M.

TI The Gender Earnings Gap: Some International Evidence. AU Blau, Francine D.; Kahn, Lawrence M.

Kajii, Atsushi

TI AUI Expected Utility: An Anticipated Utility Theory of Relative Disappointment Aversion. **AU** Grant, Simon; Kajii, Atsushi.

Kaminsky, Graciela L.

PD March 1993. **TI** Does Foreign Exchange Intervention Signal Future Monetary Policy? **AU** Kaminsky, Graciela L.; Lewis, Karen K. **AA** Kaminsky: Board of Governors of the Federal Reserve System. Lewis: University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4298; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** \$5.00. **JE** F31, E52, E63. **KW** Signaling. Exchange Rates.

AB A frequently cited explanation for why sterilized interventions may affect exchange rates is that these interventions signal central banks' future monetary policy intentions. This explanation presumes that central banks in fact back up interventions with subsequent changes in monetary policy. We empirically examine this hypothesis using data on market observations of U.S. intervention together with monetary policy variables, and exchange rates. We strongly reject the hypothesis that interventions convey no signal. However, we also find that in some episodes, intervention signaled changes in monetary policy in the opposite direction of the conventional signaling story. This finding can explain why in some periods exchange rates moved in the opposite direction of that suggested by intervention.

Kandori, Michihiro

PD February 1993. **TI** Bandwagon Effects and Long Run Technology Choice. **AU** Kandori, Michihiro; Rob, Rafael. **AA** Kandori: University of Tokyo. Rob: University of Pennsylvania. **SR** University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-05; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. **PG** 28. **PR** no charge. **JE** O33, C73. **KW** Technology Adoption. Network Externalities.

AB The present paper analyzes how a technological standard emerges in the long run, under the presence of bandwagon effects or network externalities. First, we present a set of axioms to capture what are popularly termed "bandwagon effects" in a general setting where there are more than two technological standards. The existing literature mainly assumes that the value of a technology is an increasing function of its own market share. However, the value is also affected by the composition of other technologies, because they bear various degrees of compatibility to the technology under consideration. Our formulation explicitly considers those cross effects. This enables us to examine the most likely way of dominating the market. We examine the long run technology choice according to stochastic evolutionary game theory, which determines the unique outcome even when multiple equilibria exist. In particular, we show that pairwise risk dominance determines the long run standard, when bandwagon effects are strong enough.

Kane, Thomas J.

PD January 1993. **TI** Labor Market Returns to Two- and Four-Year Colleges: Is a Credit a Credit and Do Degrees

Matter? **AU** Kane, Thomas J.; Rouse, Cecilia E. **AA** Kane: Kennedy School of Government and National Bureau of Economic Research. Rouse: Princeton University. **SR** National Bureau of Economic Research Working Paper: 4268; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** \$5.00. **JE** J31, I21. **KW** Education. Wages.

AB In CPS data, the 20% of the civilian labor force with 1-3 years of college earn 15% more than high school graduates. We study the distinct returns to 2-year and 4-year college attendance and degree completion. Controlling for background and measured ability, wage differentials for both 2-year and 4-year college credits are positive and similar. We find that the average 2-year and 4-year college student earned roughly 5% more than high school graduates for every year of credits completed. Second, average bachelor and associate degree recipients did not earn significantly more than those with similar numbers of college credits and no degree, suggesting that the credentialing effects of these degrees are small. We also pursue two IV strategies to identify measurement error and selection bias. We find that in our data the two biases roughly cancel each other, suggesting that the results above are, if anything, understated.

Kantor, Shawn Everett

PD February 1993. **TI** The Economic Consequences of Legislative Oversight: Theory and Evidence from the Medical Profession. **AU** Kantor, Shawn Everett; Legros, Patrick. **AA** Kantor: University of Arizona and National Bureau of Economic Research. Legros: Cornell University. **SR** National Bureau of Economic Research Working Paper: 4281; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 31. **PR** \$5.00. **JE** L51, D72. **KW** Regulatory Agencies. Principal-Agent Model.

AB This paper provides a positive analysis of how formal, periodic legislative oversight of regulatory agencies can influence market outcomes and the welfare of regulated industries. Whereas previous research has focused on the political distinction between passive and active legislative oversight, this paper shows that there exists an important economic difference between the two mechanisms as well. We develop a principal-agent model that describes how a regulatory agent's incentives are influenced if its actions are publicly scrutinized. Our empirical analysis supports our claim that formal oversight leads to measurable economic effects.

Kaplan, Steven N.

PD February 1993. **TI** "Outside" Intervention in Japanese Companies: Its Determinants and Its Implications for Managers. **AU** Kaplan, Steven N.; Minton, Bernadett A. **AA** Kaplan: University of Chicago and National Bureau of Economic Research. Minton: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 4276; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 26. **PR** \$5.00. **JE** M10, L21. **KW** Board of Directors. Stock Performance.

AB This paper estimates the determinants of appointments of "outsiders" - directors previously employed by banks or other non-financial firms - to the boards of large (non-financial) Japanese companies. Appointments of both types of "outsiders" increase with poor stock performance; those of bank outsiders

also increase with negative current income. Appointments of bank outsiders are related to firm debt levels; those of corporate outsiders, to shareholder concentration and group affiliation. Both types of outsider appointments appear to be disciplinary - top executive turnovers increase substantially in the same year. Additional evidence on subsequent firm performance suggests that "bank" directors are appointed in financially distressed or contracting firms, while "corporate" directors are appointed in firms with temporary problems.

Kaplow, Louis

PD October 1992. **TI** Accuracy in the Determination of Liability. **AU** Kaplow, Louis; Shavell, Steven. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4203; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 15. **PR** \$5.00. **JE** K13, K41, K42. **KW** Legal Rules. Law Enforcement.

AB Many legal rules, notably rules of procedure and evidence, are concerned with achieving accuracy in the outcome of adjudication. In this article, we study accuracy in the conventional model of law enforcement. We consider why reducing error in determining liability is socially valuable and how error and its reduction affect the optimal probability and magnitude of sanctions.

PD January 1993. **TI** Shifting Plaintiffs' Fees Versus Increasing Damage Awards. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4263; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 9. **PR** \$5.00. **JE** K41. **KW** Lawsuits. Litigation Process.

AB Shifting successful plaintiffs' fees to defendants and increasing damage awards are alternative ways to achieve similar results: increasing plaintiffs' incentives to sue and raising defendants' expected payments. This paper shows that relying on higher damage awards is more efficient than shifting plaintiffs' fees. The reason is that fee-shifting is, perversely, more valuable for plaintiffs with higher litigation costs. Thus, it is possible to substitute higher damage awards for fee-shifting in a manner that leaves deterrence unaffected while eliminating the suits of plaintiffs with the highest litigation costs.

PD March 1993. **TI** Accuracy in the Assessment of Damages. **AU** Kaplow, Louis; Shavell, Steven. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4287; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 21. **PR** \$5.00. **JE** K41, K13. **KW** Litigation. Precautionary Behavior.

AB Assessment of damages is a principle issue in litigation and, in light of this, we consider the social justification for, and the private benefits of, accurate measurement of harm. Greater accuracy induces parties to exercise levels of precaution that better reflect the magnitude of the harm they are likely to generate, and related, it stimulates uninformed parties to learn about risks before acting. However, accuracy in the assessment of harm cannot influence the behavior of parties - and is therefore of no social value - to the degree that parties lack knowledge of the harm they might cause when deciding on their precautions. In addition, regardless of the social value of

accuracy, litigants generally gain by devoting resources toward proof of damages, leading often to socially excessive private incentives to establish damages.

PD March 1993. **TI** Optimal Insurance Contracts When Establishing the Amount of Losses is Costly. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4290; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 13. **PR** \$5.00. **JE** G22, D82. **KW** Insurance Claims.

AB The problem of establishing the amount of losses covered by public and private insurance is often characterized by asymmetric information, in which the claimant already knows the extent of a loss but this can be demonstrated to the insurer only at a cost. It is shown that a simple arrangement, which provides greater coverage whenever individuals demonstrate unusually high losses, gives claimants an excessive incentive to establish the amount of their losses. This paper determines what insurance claims process, consistent with the form typically employed in existing insurance arrangements, is optimal.

PD March 1993. **TI** Human Capital and the Income Tax. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4299; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 24. **PR** \$5.00. **JE** H24, J24. **KW** Human Capital. Income Tax.

AB This article examines how to treat human capital - perhaps the vast majority of the capital stock - under an ideal, Haig-Simons income tax. Innate ability, investments in human capital, and uncertainty in future earnings are considered. It is demonstrated that conventional income tax treatment and proposed modifications are closer to implementing a consumption tax than an income tax. Approximating ideal income tax treatment may be feasible, but assessing its desirability would require further inquiry.

Kapur, S.

PD May 1992. **TI** Irreversible Investment and Aggregate Instability. **AA** University of Cambridge. **SR** University of Cambridge Economic Theory Discussion Paper: 175; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 17. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** D81, E22. **KW** Investment Decisions. Alternative Investments.

AB The irreversibility of investment decisions often restricts the investor's ability to react to future changes in the decision environment. Hence the anticipation of significant changes in the relative profitability ranking of alternative projects could motivate a postponement of the investment decision. This paper suggests the possibility of pauses in investment activity as investors withhold current investment to learn more about the profitability of alternative investment projects.

PD May 1992. **TI** Flexibility and Information. **AA** University of Cambridge. **SR** University of Cambridge Economic Theory Discussion Paper: 177; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 17. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** D81, D83. **KW** Sequential Decision Problems.

AB In the context of sequential decision problems, this note examines the nature of complementarity between the "flexibility of initial actions" and the "precision of anticipated information". Sufficient conditions for the so-called "monotonicity result" are developed, and their applicability to a class of economic models is outlined.

Karni, Edi

PD February 1993. **TI** Unbounded Behaviorally Consistent Stopping Rules. **AU** Karni, Edi; Safra, Zvi. **AA** Karni: Johns Hopkins University. Safra: Tel Aviv University. **SR** Johns Hopkins Department of Economics Working Paper: 299; Department of Economics, Johns Hopkins University, Baltimore, Maryland 21218. **PG** 13. **PR** no charge. **JE** D83, D81. **KW** Search. Nonexpected Utility. Dynamic Consistency.

AB In this paper we study behaviorally consistent stopping rules in an unbounded search from a known distribution with no recall and positive search cost. We show that if the searcher's preferences are quasi-convex in the probabilities then behaviorally consistent search strategies in the unbounded case are obtained as limits of the corresponding bounded search strategies and are characterized by reservation levels property. Unlike optimal stopping rules under expected utility theory, however, the reservation levels may not be monotonic increasing in the number of permissible stages of the search process and, in the unbounded case, may not be unique.

PD March 1993. **TI** Utility Theory with Probability Dependent Outcome Valuations: Extensions and Applications. **AU** Karni, Edi; Schlee, Edward. **AA** Karni: Johns Hopkins University. Schlee: Arizona State University. **SR** Johns Hopkins Department of Economics Working Paper: 303; Department of Economics, Johns Hopkins University, Baltimore, Maryland 21218. **PG** 27. **PR** no charge. **JE** D81. **KW** Nonexpected Utility. Independence Axiom.

AB This paper extends Karni's (1992) Utility Theory with Probability Dependent Outcome Valuations (UTPDV) to accommodate a wider set of preferences, and applies the new representation to a variety of decision problems under risk. First, we present a new, more general, axiomatization of UTPDV. Second, we develop sufficient conditions under which UTPDV satisfies the betweenness and the ordinal independence axioms. Finally, we examine restrictions on the UTPDV model that render it consistent with several well known departures from the independence axiom.

Kashyap, Anil K.

PD November 1992. **TI** Credit Conditions and the Cyclical Behavior of Inventories: A Case Study of the 1981-82 Recession. **AU** Kashyap, Anil K.; Lamont, Owen A.; Stein, Jeremy C. **AA** Kashyap: University of Chicago and National Bureau of Economic Research. Lamont: Massachusetts Institute of Technology. Stein: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4211; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 29. **PR** \$5.00. **JE** E22, E52, E32. **KW** Bank Lending. Monetary Policy.

AB This paper examines micro data on U.S. firms' inventories during different macroeconomic episodes. Much of the analysis focuses on the 1981-82 recession, a recession that was apparently precipitated by tight monetary policy. We find

important cross-sectional effects in this period: firms that were "bank-dependent" were much more prone to shed inventories than their non-bank-dependent counterparts. In contrast, such cross-sectional differences are largely absent during a period of "loose" monetary policy later in the 1980's. Our findings are consistent with the view that 1) there is a bank lending channel of monetary policy transmission; 2) the lending channel is likely to be particularly important in explaining inventory fluctuations during downturns.

Kasuya, Munehisa

TI The Reconstruction and Stabilization of the Postwar Japanese Economy: Possible Lessons for Eastern Europe? **AU** Hamada, Koichi; Kasuya, Munehisa.

Katz, Lawrence F.

PD March 1993. **TI** A Comparison of Changes in the Structure of Wages in Four OECD Countries. **AU** Katz, Lawrence F.; Blanchflower, David G.; Loveman, Gary W. **AA** Katz: Harvard University and National Bureau of Economic Research. Blanchflower: Dartmouth College and National Bureau of Economic Research. Loveman: Harvard Business School. **SR** National Bureau of Economic Research Working Paper: 4297; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 29. **PR** \$5.00. **JE** J31, O57. **KW** Skill Differentials. Wage Differentials.

AB This paper compares changes in the structure of wages in France, Great Britain, Japan, and the United States over the last twenty years. Wage differentials by education and occupation (skill differentials) narrowed substantially in all four countries in the 1970's. Overall wage inequality and skill differentials expanded dramatically in Great Britain and the United States and moderately in Japan during the 1980's. In contrast, wage inequality did not increase much in France through the mid-1980's. Industrial and occupational shifts favored more-educated workers in all four countries throughout the last twenty years. Reductions in the rate of the growth of the relative supply of college-educated workers in the face of persistent increases in the relative demand for more-skilled labor can explain a substantial portion of the increase in educational wage differentials in the United States, Britain, and Japan in the 1980's. Sharp increases in the national minimum wage (the SMIC) and the ability of French unions to extend contracts even in the face of declining membership helped prevent wage differentials from expanding in France through the mid-1980's.

TI Comment on David Neumark and William Wascher, "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws. **AU** Card, David; Katz, Lawrence F.; Krueger, Alan B.

Keeble, D.

PD September 1992. **TI** Small Firm Creation, Innovation and Growth and the Urban-Rural Shift. **AA** University of Cambridge. **SR** University of Cambridge Small Business Research Centre Working Papers: 24; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 22. **PR** \$10.00(L5.00); checks payable to University of Cambridge. **JE** D92, L11, O18, R32. **KW** Firm Location. Firm Characteristics.

AB The paper reviews the extent, nature and possible causes

of the urban-rural shift of manufacturing and service industry in the United Kingdom during the 1980's. It presents a wide range of original findings on this phenomenon drawn from the Cambridge University Small Business Research Centre's 1991 survey of nearly 2000 small and medium-sized UK enterprises (SME's). These show that significant differences exist in SME origins, performance and innovative characteristics as between urban and rural businesses. Rural firms are younger, record faster employment growth, are more likely to have been set up by unemployed founders, and serve more specialized and consumer-oriented markets. They are also significantly more innovative and technologically-intensive than urban firms. Differences in the level of constraints on growth are less clearcut, with the exception of greater skilled labor shortages and lower frequency of use of external business advice in rural areas. The latter findings do justify policy concern and intervention.

Keeler, Andrew

TI Incomplete Enforcement with Endogenous Regulatory Choice. AU Garvie, Devon; Keeler, Andrew.

Kehoe, Patrick J.

TI Dynamics of the Trade Balance and the Terms of Trade: The S-Curve. AU Backus, David K.; Kehoe, Patrick J.; Kydland, Finn E.

TI Relative Price Movements in Dynamic General Equilibrium Models of International Trade. AU Backus, David K.; Kehoe, Patrick J.; Kydland, Finn E.

Kehoe, Timothy J.

PD October 1992. TI Assessing the Economic Impact of North American Free Trade. AA University of Minnesota. SR University of Minnesota Center for Economic Research Discussion Paper: 265; Department of Economics, 1035 Management and Economics, University of Minnesota, Minneapolis, MN 55455. PG 28. PR no charge. JE F14, F43, D58. KW NAFTA. Endogenous Growth. Trade Liberalization.

AB The current tool of choice for analyzing the impact of the North American Free Trade Agreement on the economies of Canada, Mexico, and the United States is the static applied general equilibrium model. Although this type of model can do a good job in analyzing, and even in predicting, the impact of trade liberalization or tax reform on relative prices and resource allocation over a short time horizon, it does not attempt to capture the impact of government policy on growth rates. For this we need a dynamic model. This paper describes the results of some studies of the NAFTA, including the impact on growth rates. Simple calculations based on preliminary empirical work indicate that the dynamic benefits of increased openness could dwarf the static benefits found by more conventional applied general equilibrium models.

Kelsey, David

PD August 1992. TI The Arbitrage Pricing Theorem with Non Expected Utility Preferences. AU Kelsey, David; Milne, Frank. AA Kelsey: University of Birmingham. Milne: Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 866; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 26. PR \$3.00 + GST Canada; \$3.50 U.S. and foreign.

JE G12, D81. KW Asset Pricing. Machina Preferences.

AB The arbitrage pricing theorem of finance shows that in certain circumstances the price of a financial asset may be written as a linear combination of the prices of certain market factors. This result is usually proved with von Neumann-Morgenstern preferences. In this paper we show that the result is robust in the sense that it will remain true if certain kinds of non expected utility preferences are used. We consider Machina preferences, the rank dependent model and non-additive subjective probabilities.

PD September 1992. TI The Existence of Equilibrium and the Objective Function of the Firm. AU Kelsey, David; Milne, Frank. AA Kelsey: University of Birmingham. Milne: Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 867; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 22. PR \$3.00 + GST Canada; \$3.50 U.S. and foreign. JE D21, D71, D52. KW Collective Decision. Incomplete Markets. Exchange Equilibrium.

AB We consider an economy in which firms' decisions are made by a collective decision of the shareholders. The main result shows that the simultaneous existence of an exchange equilibrium in the market for shares and a voting equilibrium in the internal decisions of firms. We present our results in a general framework, with a measure space of agents. Our framework covers the cases of incomplete markets and externalities between firms and shareholders. We show that a voting rule due to Kramer is a special case.

Keppe, Hans-Jurgen

PD October 1991. TI Judged Knowledge and Ambiguity Aversion. AU Keppe, Hans-Jurgen; Weber, Martin. AA University of Kiel. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-382; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 21. PR no charge. JE D81. KW Competence. Uncertainty.

AB Competence has been recently proposed as an explanation for the degree of ambiguity aversion. Using general knowledge questions we presented subjects with simple lotteries in which they could bet on an event and against the same event. We show that the sum of certainty equivalents for both bets depends on the judged knowledge of the class of events. We also elicited the decision weights for events and complementary events. We found a similar effect of knowledge on the sum of decision weights.

Kiem, Donald B.

TI On the Predictability of Common Stock Returns: World-Wide Evidence. AU Hawawini, Gabriel; Kiem, Donald B.

King, Maxwell L.

TI Comments on Testing Economic Theories and the Use of Model Selection Criteria. AU Granger, Clive W. J.; King, Maxwell L.; White, Halbert.

Kleinman, Mark

PD July 1992. TI Policy Response to Changing Housing Markets: Towards a European Housing Policy. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and

Related Disciplines Working Paper: WSP/73; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 46. PR no charge. JE R31. KW Housing Policy. European Integration.

AB The process of European integration is leading to increasing interest in the cross-national study of housing policies. This paper has four main aims. First, housing policy developments are placed in the context of key recent trends in European housing markets. Secondly, the broad lines of policy development in the major European economies over the last two decades are identified and analyzed. Thirdly, some suggestions are made about how, at a theoretical level, we should understand the current process of policy change. Fourthly, the possibility of a truly European housing policy emerging is discussed. The simple notion of convergence of different countries' housing policies is rejected, but some common themes are identified: a weakened perception of housing as a national issue; the attempt by the state to reduce its won share of housing costs; and the devolution of the state's responsibility for housing to lower level authorities.

PD September 1992. TI European Social Policy: Models and Rationales. AU Kleinman, Mark; Piachaud, David. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: WSP/77; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 41. PR no charge. JE H11, I00. KW European Community. Social Policy.

AB The European Community currently lacks any consistent or comprehensive social policy. State intervention in the form of social policy, justified mainly on grounds of efficiency, equity or solidarity, appropriate to the European level cannot be separated from the wider question of the type of Europe that is envisaged. Four models are considered: a Customs Union; economic integration (1992); federation; and a European super-state. The implications of each of these models of the EC for social policy is considered. It is concluded that the general rationale for a European social policy is relatively weak, although there are specific arguments that carry more weight, particularly those relating to redistribution, to the protection of minorities, and to the creation of a sense of social citizenship. But to be effective any European social policy will need to challenge the current European economic orthodoxy.

Kletzer, Kenneth M.

TI Permanent International Productivity Growth Differentials in an Integrated Global Economy. The Roles of Households, Non-Tradedness, Self-Financing and Fiscal Policy. AU Buiter, Willem H.; Kletzer, Kenneth M.

TI Permanent International Productivity Growth Differentials in an Integrated Global Economy. AU Buiter, Willem H.; Kletzer, Kenneth M.

Knight, John L.

PD April 1992. TI Efficiency Considerations in the Negative Exponential Failure Time Model. AU Knight, John L.; Satchell, Stephen E. AA Knight: University of Western Ontario. Satchell: Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 10/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 22. PR not available. JE C10. KW Maximum Likelihood.

AB For the negative exponential regression model, we derive the exact distribution of the maximum likelihood estimator in the case of a constant and an exogenous dummy. We calculate the efficiency relative to log-linear least squares. We consider the more general case of a constant and a discrete exogenous variable and construct an approximate estimator with certain optimal properties.

PD May 1992. TI Asymptotic Expansions for Random Walks with Normal Errors. AU Knight, John L.; Satchell, Stephen E. AA Knight: University of Western Ontario. Satchell: Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 11/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 9. PR not available. JE C10, C12. KW Asymptotic Distribution. Numerical Integration.

AB The asymptotic distribution of the least squares estimators in the random walk model was first found by White (1958) and is described in terms of functionals of Brownian Motion with no closed form expression known. Evans and Savin (1981, 1984) and others have examined numerically both the asymptotic and finite sample distribution. The purpose of this paper is to derive an asymptotic expansion for the distribution. We proceed by assuming that the errors are normally distributed and expand the characteristic function directly. Then, via numerical integration, we invert the characteristic function to find the distribution. The approximation is shown to be extremely accurate for all sample sizes greater than or equal to 25, and can be used to construct simple tests for the presence of a unit root in a univariate time series model.

PD not available. TI Exact Critical Regions and Confidence Intervals for Maximum Likelihood Estimators in the Negative Exponential Regression Model. AU Knight, John L.; Satchell, Stephen E. AA Knight: University of Western Ontario. Satchell: Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 12/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 7. PR not available. JE C12. KW Hypothesis Testing. Critical Regions.

AB This paper illustrates how to calculate exact confidence intervals for testing the presence of exogenous variables in linear relationships. Calculations are given which show that the exact results will lead to different models than those that would arise from asymptotic theory.

Kokko, Ari

TI Policies to Encourage Inflows of Technology Through Foreign Multinationals. AU Blomstrom, Magnus; Kokko, Ari.

Konishi, Toru

PD February 1993. TI Stochastic Trends and Short-Run Relationships Between Financial Variables and Real Activity. AU Konishi, Toru; Granger, Clive W. J.; Ramey, Valerie A. AA Konishi and Granger: University of California, San Diego. Ramey: University of California, San Diego and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4275; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 17. PR \$5.00. JE E44, C22. KW Error Correction. Financial Variables.

AB This paper re-examines the relationship between

financial variables and real activity in a unified statistical framework. Using the methods of cointegration and separation, we characterize the long-run and short-run relationships among three sets of variables and then use the framework to assess the predictive power of alternative financial variables for real activity. Three main results emerge from the analysis. First, we show that although two sets of variables may not share the long-run trend, the error correction terms from one set of variables may have important explanatory power for the variables in another set. Second, we show that some of the key variables discussed in the literature can be interpreted as error correction terms from another system. Third, comparing two key error correction terms, M2 velocity and the interest rate spread between commercial paper and Treasury bills, we find that M2 velocity appears to be a more consistent predictor of output than is the interest rate spread.

Konrad, Kai A.

PD December 1992. TI Capital Income Taxation and Risk Spreading with Adverse Selection. AU Konrad, Kai A.; Richter, Wolfram F. AA Konrad: University of Munich. Richter: University of Dortmund. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TIDI/155; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 30. PR no charge. JE D61, G14, H21, D81, D82. KW Risk Taking, Capital Income Taxation, Adverse Selection.

AB Domar and Musgrave (1944) showed that taxing the return from risky investments may encourage risk taking. The effect has come under attack as being one of partial analysis that would disappear in general equilibrium. This paper shows that the contrary is true if capital markets suffer from adverse selection. Asymmetric information induces investors to bear risk that could be spread in the capital market. The tendency to such behavior may be increased by a tax on risky capital income. In that case, social risk spreading decreases, while the opposite effect would hold if general equilibrium repercussions were ignored.

PD December 1992. TI Bandwagon Effects in Two-Party Majority Voting. AU Konrad, Kai A.; Chew, Soo Hong. AA Konrad: University of Munich. Chew: University of California. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TIDI/156; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 25. PR no charge. JE D72, D81. KW Bandwagon Effect, Non-Expected Utility, Rank-Dependent Utility.

AB Empirical studies of voting behavior provide evidence for the existence of bandwagon effects. Some voters, who believe that a particular party or candidate will win, vote for this alternative, although they would prefer the other alternative. This paper explains such behavior using non-expected utility theory. The paper also shows that opinion polls can change the voting outcome and can support a strictly Pareto dominated voting equilibrium.

Kopp, Raymond J.

PD January 1992. TI Ethical Motivations and Nonuse Value. AA Resources for the Future. SR Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-10; Quality of the Environment Division, Resources for

the Future, 1616 P Street, NW, Washington, DC 20036. PG 46. PR \$2.25 prepaid, U.S. funds. JE D63, H41. KW Existence Value, Public Goods, Ethics.

AB Almost 25 years ago John Krutilla (1967) raised the point that many individuals value and desire to preserve particular natural environments, not because they obtain value from their use or planned use, but rather due to some other motivation. Since Krutilla, that other motivation has been variously labeled nonuse value, existence value, bequest value, intrinsic value and option value. This paper argues that much of what we term nonuse value is motivated by individuals' "ethical" concerns, and that understanding motivation in this regard assists us in the development of theory for the explanation of behavior related to nonuse value and provides insight into the provision of very pure public goods in the form of environmental and natural resources.

PD March 1992. TI Economic Incentives and Point Source Emissions: Choice of Modeling Platform. AA Resources for the Future. SR Resources for the Future Quality of the Environment Division Discussion Paper: QE92-01-Rev; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 48. PR \$2.25 prepaid, U.S. funds. JE D61, L51, Q28, P11. KW Economic Transition, Environmental Regulation.

AB Economists have long argued that the traditional command and control approach to environmental regulation is less efficient than regulations based on economic incentives (e.g., taxes, fees, tradable permits, etc.) The potential use of incentives may be great in the rapidly developing economies of the Pacific Rim and the in transitional economies of Eastern Europe and the Commonwealth. In these cases, no long-standing reliance on command and control regulation exists and the relative efficiency of regulation may be important to capital constrained economies. This paper reviews and recommends a modeling platform for the analysis of regulations designed to control point source emissions. The platform is intended to provide quantitative information on the efficacy and efficiency of several alternative incentive based and command and control regulatory policies that might be adopted by rapidly developing and transitional economies. Considerable attention is paid to the informational requirements of such a model.

Kramarz, F.

PD November 1992. TI Coordination Games with Incomplete Information. AA INSEE. SR Unite de Recherche Document de Travail ENSAE/INSEE: 9221; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. PG 33. PR no charge. JE C72, D83. KW Coordination Games.

AB This paper will analyze repeated two-persons coordination games with incomplete information on both sides. As computer science literature demonstrates, such games are complex. Thus, we study the two-actions, two-types case for which we give the set of rules that minimizes the expected coordination date. For larger games, we show that our rules allow for coordination with probability 1 except in a class for which no other rule can do better. This analysis, based on what we call here interactive rationality, provides insights on the content of concepts such as forward induction, organizational culture and focal rules.

Krishna, Kala

PD December 1992. TI License Price Paths: I. Theory II. Evidence From Hong Kong. AU Krishna, Kala; Tan, Ling Hui. AA Krishna: Tufts University and National Bureau of Economic Research. Tan: National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4237; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 19. PR \$5.00. JE F13, F12. KW Quota License. Imperfect Competition.

AB In the first of the two companion papers, we show that the dynamic aspects of the license utilization decision in an uncertain environment, together with the usual policy of rewarding high license utilization with future license allocations, creates four components of the license price. These are the scarcity, asset, option, and renewal value components. Each of these components are identified and explored in the context of the existing literature. In the second paper, we use monthly data on license prices and utilization to test for the presence of imperfect competition in the market for apparel quota licenses in Hong Kong. A competitive structural model which respects the dynamic aspects of the problem is developed and estimated. We argue that concentration could affect the supply side as well as the demand side by affecting the cost associated with the search.

Krueger, Alan B.

TI Union Membership in the United States: The Decline Continues. AU Farber, Henry S.; Krueger, Alan B.

TI Minimum Wages and Employment: A Case Study of the Fast Food Industry in new Jersey and Pennsylvania. AU Card, David; Krueger, Alan B.

TI Comment on David Neumark and William Wascher, "Employment Effects of Minimum and Subminimum Wages: Panel Data on State Minimum Wage Laws. AU Card, David; Katz, Lawrence F.; Krueger, Alan B.

Krugman, Paul

PD November 1992. TI A Dynamic Spatial Model. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4219; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 39. PR \$5.00. JE R12, R10. KW Geography. Location. Market Access.

AB Any interesting model of economic geography must involve a tension between "centripetal" forces that tend to produce agglomerations and "centrifugal" forces that tend to pull them apart. This paper explores one such model, and shows that the model links together a number of themes in the geography literature. These include: the role of market access, as measured by a measure of "market potential", in determining manufacturing location; the role of forward and backward linkages in producing agglomerations; the potential for "catastrophes", i.e., discontinuous changes in location in response to small changes in exogenous variables; and the idea that the economy is a "self-organizing system" that evolves a self-sustaining locational structure.

TI Trade Policy and the Third World Metropolis. AU Elizondo, Raul Livas; Krugman, Paul.

Kydland, Finn E.

TI Dynamics of the Trade Balance and the Terms of Trade: The S-Curve. AU Backus, David K.; Kehoe, Patrick J.; Kydland, Finn E.

TI Relative Price Movements in Dynamic General Equilibrium Models of International Trade. AU Backus, David K.; Kehoe, Patrick J.; Kydland, Finn E.

Laixuthai, Adit

PD February 1993. TI Youth Alcohol Use and Public Policy. AU Laixuthai, Adit; Chaloupka, Frank J. AA Laixuthai: University of Illinois. Chaloupka: University of Illinois and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4278; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 17. PR \$5.00. JE H24, D11. KW Drinking Age. Excise Tax.

AB This paper examines the frequency of youth drinking and heavy drinking in 1982 and 1989. The effects of minimum legal drinking ages and beer excise taxes are considered separately for each year. In both years, drinking is found to be responsive to changes in prices resulting from higher excise taxes. However, the price sensitivity of youth alcohol use fell after the change to a uniform legal drinking age of 21.

Lamont, Owen A.

TI Credit Conditions and the Cyclical Behavior of Inventories: A Case Study of the 1981-82 Recession. AU Kashyap, Anil K.; Lamont, Owen A.; Stein, Jeremy C.

Landesmann, Michael A.

PD November 1992. TI Trade in Producer Services: International Specialisation and European Integration. AU Landesmann, Michael A.; Petit, Pascal. AA Landesmann: University of Cambridge. Petit: CEPREMAP. SR University of Cambridge Department of Applied Economics Working Paper: 9217; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 31. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE F14, F15, L80. KW International Trade. Economies of Scope.

AB This paper discusses tendencies of trade in producer services among advanced economies. A number of theoretical approaches are assessed on their ability to approach the problem of trade specialization in this fast growing area of international trade. The paper advocates an approach which makes use of current concepts of industrial organization theory, such as economies of scope, organizational economies, etc. to explain the complex pattern of trade specialization in producer services. The link of trade in producer services with the internationalization of goods production and thus with international direct investment and trade in goods is emphasized. The paper ends with an assessment of how European economic integration has and might in the future affect the pattern of trade in producer services.

PD January 1993. TI Industrial Policy and the Transition in East-Central Europe. AA University of Cambridge. SR University of Cambridge Discussion Papers on Economic Transition: DPET9204; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3

9DE, UNITED KINGDOM. PG 21. PR \$5.00 (L2.50); checks payable to University of Cambridge. JE L52, L51, P33, P51. KW Eastern Europe. Economic Transition.

AB This paper advocates the use of Western-style industrial policies in the difficult phase of transition currently experienced in the Central and East European (CEE) economies. In addition to the traditional arguments underlying the use of industrial policy instruments, the paper argues the CEE economies face a dramatic "stock-flow" problem in the current process of industrial restructuring. Industrial policies are also important because the adoption by state-administrative bodies of policy instruments which assist the development of a competitive Western-style market economy also induces a more general change in their behavior.

Lanjouw, Jean Olson

PD July 1992. TI Under Threat: Potential Competition, Litigation and the Private Value of Patent Protection. AA Yale University and London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: EI/6; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 33. PR no charge. JE O31, O34. KW Patent Litigation. Patent Renewal Model.

AB This paper investigates the effect of the threat and occurrence of patent litigation on the private value of patent protection. Potential challenges are introduced into a renewal model as a factor in patentee decisions as to whether a patent is worth maintaining. The model yields testable predictions about renewal possibilities. Data for post WWII German patents support the hypothesis that the need to defend patent rights influences patentee behavior. The paper concludes with a discussion of how this factor may be incorporated in patent value estimations and what the results imply for the interpretation of patent data.

Lapham, Beverly J.

PD December 1992. TI Markov Puppy Dogs and Other Related Animals. AU Lapham, Beverly J.; Ware, Roger. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 869; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 23. PR \$3.00 + GST Canada; \$3.50 U.S. and Foreign. JE C73. KW Dynamic Games. Markov Perfect Equilibrium.

AB It is shown that steady state Markov perfect equilibria of discrete time, infinite horizon, quadratic, adjustment cost games differ from equilibria of their infinitely repeated counterpart games with zero adjustment costs even though no adjustment costs are paid in the steady state. In contrast to continuous time games, the limit of these equilibria as adjustment costs approach zero is the same as the equilibria of their static counterpart games. A classification scheme is presented and it is shown that the taxonomy is identical to that of analogous two stage games such as those analyzed by Fudenberg and Tirole (1984). This classification is useful in that it implies that steady state equilibria need not be explicitly calculated to analyze qualitatively the effects of adjustment costs in strategic environments. It is also argued that estimated conjectural variations parameters may capture a well defined property of strategic interaction in a dynamic game.

TI Exit and Entry, Increasing Returns to Specialization, and

Business Cycles. AU Devereux, Michael B.; Head, Allen C.; Lapham, Beverly J.

TI The Stability of Economic Integration and Endogenous Growth. AU Devereux, Michael B.; Lapham, Beverly J.

Le Breton, Michel

PD January 1991. TI A Note on the Core and von Neumann-Morgenstern Solutions of Simple Games. AU Le Breton, Michel; Weber, Shlomo. AA Le Breton: Universite d'Aix-Marseille and EHESS, France. Weber: York University, Canada and University of Bonn. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-332; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 9. PR no charge. JE D72, D71, C72. KW Voting Game. Cooperative Decision Problem.

AB Following the results of Nakamura (1979) and Muto (1984), we derive, for a given proper voting game G, the bound on the size of the space of alternatives, which guarantees that the core constitutes a von Neumann-Morgenstern solution for any profile of voters' preferences. In particular, we show that if the space of alternatives consists of more than two elements, then, in general, the core is not a von Neumann-Morgenstern solution.

Lee, K. C.

TI Choice Between Disaggregate and Aggregate Specifications Estimated by Instrumental Variable Methods. AU Pesaran, M. Hashem; Pierse, R. G.; Lee, K. C.

Legros, Patrick

TI The Economic Consequences of Legislative Oversight: Theory and Evidence from the Medical Profession. AU Kantor, Shawn Everett; Legros, Patrick.

Leidy, Michael P.

PD December 1992. TI What to Expect from Regional and Multilateral Trade Negotiations: A Public Choice Perspective. AU Leidy, Michael P.; Hoekman, Bernard M. AA Leidy: International Monetary Fund. Hoekman: GATT. SR CEPR Discussion Paper: 747; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 22. PR Pounds 4.00 or \$8.00. JE F13. KW Regional Trade Agreements. Multilateral Negotiations.

AB It is commonly observed that international trade negotiations repeatedly fail to achieve outcomes that would appear to satisfy the criteria of efficiency and mutual advantage. It can be argued that this is due principally to the influence of interest groups. This paper develops an analytical structure for assessing the process of international trade negotiations that includes interest groups and self-interested negotiators as fundamental elements. The central conclusion of the analysis is that it is likely to be very difficult for a government that wishes to promote national welfare to do so. The political economy analysis suggests there are strong incentives facing politicians to produce agreements whose profile appears distinctly liberalizing while significant protectionist character flaws tend to be buried in the esoterica.

TI Holes and Loopholes in Integration Agreements: History and Prospects. AU Hoekman, Bernard M.; Leidy, Michael P.

Lemieux, Thomas

TI Alcohol, Marijuana, and American Youth: The Unintended Effects of Government Regulation. AU DiNardo, John; Lemieux, Thomas.

TI Wage Dispersion, Returns to Skill, and Black-White Wage Differentials. AU Card, David; Lemieux, Thomas.

Levinsohn, James

TI Automobile Prices in Market Equilibrium: Part I and II. AU Berry, Steven; Levinsohn, James; Pakes, Ariel.

Lewis, Karen K.

TI Does Foreign Exchange Intervention Signal Future Monetary Policy? AU Kaminsky, Graciela L.; Lewis, Karen K.

Lewit, Eugene M.

PD December 1992. TI Expenditures on Health Care for Children and Pregnant Women. AU Lewit, Eugene M.; Monheit, Alan C. AA Lewit: Center for the Future of Children and National Bureau of Economic Research. Monheit: Agency for Health Care Policy and Research. SR National Bureau of Economic Research Working Paper: 4221; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 24. PR \$5.00. JE I11, I18, J13. KW Medical Care. Health Insurance.

AB The chronic health care crisis in the United States is primarily the result of rapidly rising health care costs which leave millions of children and pregnant women without health insurance, with restricted access to health care, and at risk for poor health. A better understanding of the current system is key to any reform effort. The authors analyze estimates of annual expenditures on medical care services for children covering the period from conception through age 18 years, including expenditures on pregnancy and delivery. Because there has been a decline in the relative share of expenditures accounted for by children, efforts to expand third-party financing of their health care will be less likely to overwhelm the system than would efforts to expand coverage to other groups. Efforts at cost containment may be most effective if focused on pregnancy and newborn care. If expansion of health insurance coverage for children in the near term were to be incremental, expanded coverage for children 3 to 12 years old would probably have the smallest budgetary impact of any expansion in access to care.

Li, Shuhe

PD January 1993. TI A Unified Framework for Implementation, the Revelation Principle, and Optimal Approximation. AA University of Minnesota. SR University of Minnesota Center for Economic Research Discussion Paper: 266; Department of Economics, 1035 Management and Economics, University of Minnesota, Minneapolis, MN 55455. PG 28. PR no charge. JE D82, L14. KW Mechanism Design. Private Information. Principal-Agent Model.

AB This paper attempts to provide a unified framework for capturing both private information (hidden type) and private action (hidden action) aspects. (We generalize the Mount-Reiter triangle to a "square".) In addition, it takes a different approach to studying mechanism design. Given a goal we search for an optimal mechanism in the sense that it best

approximates the given goal among all the conceivable mechanisms. We extend privacy-preserving and the revelation principle to this more general setting. Based on the discussion of the properties of the space of incentive compatible mechanisms, the existence of an optimal incentive compatible mechanism is investigated. Stochastic mechanisms are also examined.

PD January 1993. TI Competitive Matching Equilibrium and Multiple Principal-Agent Models. AA University of Minnesota. SR University of Minnesota Center for Economic Research Discussion Paper: 267; Department of Economics, 1035 Management and Economics, University of Minnesota, Minneapolis, MN 55455. PG 40. PR no charge. JE C73, L14. KW Contracts. Externalities.

AB This paper studies one-to-one two-sided matchings with externalities and explores their application to multiple principal-agent models with principal-agent assignment being endogenously determined. Each individual has to make two strategic decisions: to choose a partner and to sign a contract with his partner. Each individual may care about not only to whom he matches and what contract he signs but also other people's matchings and contracts, that is, there may exist externalities. Equilibrium is defined inductively. A blocking pair takes all the equilibria in the residual market into account. To reflect the asymmetric distribution of power between principals and agents, the concept principal-equilibrium is introduced, which refines the equilibrium. This paper provides a unified framework for one-to-one two-sided matching models such as job matchings, housing markets, auctions and marriages. A generalization of this framework to a social partitioning game is provided.

Lindbeck, Assar

PD February 1992. TI Price Inertia and Production Lags. AU Lindbeck, Assar; Snower, Dennis J. AA Lindbeck: University of Stockholm. Snower: Birkbeck College. SR Birkbeck College Discussion Papers in Economics: 5/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. PG 23. PR not available. JE E12, E31, E32, D57. KW Price Rigidities. New Keynesianism.

AB The paper shows how prolonged price inertia can arise in a macroeconomic system in which there are temporary price rigidities as well as production lags in the use of intermediate goods. In this context, changes in product demand - generated, say, by changes in the money supply - have long-lasting and quantity effects. Specifically, a temporary demand shift generates "persistence" in price-quantity decisions, in the sense that the price-quantity effects of this shift persist for long after the shift has disappeared. A permanent demand shift generates "sluggishness" in price-quantity decisions, in the sense that the full price effects of the shift take a long time to appear and that meanwhile quantity effects are present.

TI Patterns of Unemployment: An Insider-Outsider Analysis. AU Snower, Dennis J.; Lindbeck, Assar.

Ling, Ts'ai

PD February 1993. TI Chiang Ching-Kuo and the 1986 KMT Political Reform. AU Ling, Ts'ai; Myers, Ramon H. AA Stanford University. SR Stanford Hoover Institute International Studies Working Paper: I-93-7; The Hoover Institution, Stanford University, Stanford, CA 94305. PG 37.

PR no charge. **JE** D72, D78, O53. **KW** Taiwan. Political Parties. Election Reform.

AB The year 1986 marks a watershed in political life for the Republic of China on Taiwan (ROC). The nation's ruling party, the KMT, began studying how to lift martial law, legalize political parties to compete in national elections, and elect new representatives for various branches of the ROC government. Why did only one political leader in the ROC's ruling KMT, Chiang Ching-Kuo, decide to undertake political reform in the spring of 1986, and not earlier or later? We postulate that the political reform planned by the KMT occurred because (1) Chiang Ching-kuo was in a particular situation in which he was motivated to act; (2) the most likely course of action Chiang Ching-kuo could take was to initiate political reform; (3) Chiang Ching-kuo had a definite purpose; (4) to resolve the special problems that confronted him, Chiang Ching-kuo was determined to solve them through political reform in the spring of 1986; and (5) political reform constituted the means for Chiang Ching-kuo to accomplish his purpose.

PD February 1993. **TI** Confrontation, Consensus, and Political Reform: The Spring 1992 Second National Assembly Convention. **AU** Ling, Ts'ai; Myers, Ramon H. **AA** Stanford University. **SR** Stanford Hoover Institute International Studies Working Paper: I-93-8; The Hoover Institution, Stanford University, Stanford, CA 94305. **PG** 41. **PR** no charge. **JE** D78, D74, O53. **KW** Taiwan. Constitutional Reform.

AB Since 1949, the Kuomintang (KMT) had spared no effort to uphold the ROC's constitutional law, confirming Aristotle's observation that "constitutions are preserved when their destroyers are at a distance, and sometimes also because they are near, for the fear of them makes the government keep in hand the constitution. After lifting martial law in July 1987, political discussion and activity increasingly focused on how to revise the 1947 Constitution. At the National Affairs Conference to Decide the Destiny of the Country, held June-July 1990, discussion shifted to popular election for the highest leaders of the state, a position requiring radical revision of the constitution: namely, eliminating the National Assembly and possibly several branches of the government. This radical reform position shifted further in late summer of 1991 when the Democratic Progressive Party decided to draft a new constitution based on a three-power, rather than a five-power, system of governance. By early spring 1992, when the newly elected Second National Assembly was about to convene, the reform of the constitution occupied center stage in ROC political life.

Lipman, Barton L.

PD January 1993. **TI** Information Processing and Bounded Rationality: A Survey. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 872; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 32. **PR** \$3.00 + GST Canada; \$3.50 U.S. and Foreign. **JE** D81, D83. **KW** Limited Information. Computation Costs.

AB This paper surveys some recent attempts to formulate a plausible and tractable model of bounded rationality. I focus in particular on models which view bounded rationality as stemming from limited information processing. I discuss computability, partitional models (such as automata, perceptrons, and optimal networks), nonpartitional models, and axiomatic approaches.

PD January 1993. **TI** Logics for Nonomniscient Agents: An Axiomatic Approach. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 874; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 20. **PR** \$3.00 + GST Canada; \$3.50 U.S. and Foreign. **JE** D81, C70. **KW** Logical Omniscience. Bounded Rationality.

AB It has long been recognized that solving the logical omniscience problem requires using some kind of nonstandard possible worlds. While many such logics have been proposed, none has an obvious claim as the "right" logic to use to describe the reasoning of agents who are not logically omniscient. I show how to derive such nonstandard worlds as part of a representation of an agent's preferences. In this sense, the agent's logic is given the same basis as a utility function or subjective probability. As an illustration, I give conditions on preferences which imply that the agent's logic is a version of the logic of inconsistency proposed by Rescher and Brandom [1979].

Lloyd-Sherlock, Peter

PD August 1992. **TI** Social Insurance Reform in an Ageing World: The Case of Latin America. **AA** London School of Economics. **SR** London School of Economics Sutory-Toyota International Centre for Economics and Related Disciplines Working Paper: DEP/39; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 51. **PR** no charge. **JE** H55, J14. **KW** Aging. Social Insurance. Latin America.

AB Social insurance programs in most Latin American countries have suffered from acute funding crises in recent years. These have resulted from a combination of factors, including maladministration, the misappropriation of funds and poor economic performances during the 1980's. With the exception of Argentina, the proportion of over 65's to economically active population has not had a major effect on social insurance finances to date. However, this factor will take on increased importance in the future, as the region experiences a sudden acceleration in population aging. The problems faced by social insurance programs have prompted a combination of desperate measures and innovative reforms. This paper seeks to emphasize the enormous challenges confronting social insurance in Latin America.

Lockwood, Ben

TI Wage Inflation, Electoral Uncertainty and the Exchange Rate Regime: Theory and U.K. Evidence. **AU** Alogoskoufis, George S.; Lockwood, Ben; Philippopoulos, Apostolis.

PD January 1993. **TI** Wage Setting and the Tax System: Theory and Evidence for the UK. **AU** Lockwood, Ben; Manning, Alan. **AA** Lockwood: University of Exeter. Manning: London School of Economics. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 115; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 22. **PR** no charge. **JE** J50, H23, D31. **KW** Taxation. Wage Bargaining.

AB This paper analyzes the effects of a non-linear tax system on wage bargaining. The main conclusions are: an increase in the marginal income or payroll tax rate reduces the pre-tax wage; in the iso-elastic case, an increase in the average tax rate increases the pre-tax wage by more than the tax increase, and a measure of the progressivity of the tax system (residual income

progression) is a sufficient measure of the effect of the tax system on wage pressure. Empirical evidence is presented to support these propositions, and the predictions of the model regarding the effect of recent changes to the U.K. tax system on the distribution of earnings discussed.

London School of Economics

PD October 1992. TI Review of the Year's Work: 1991-92. AA London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 107; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 79. PR no charge. JE A10. KW Current Research. AB none.

Lopez-de-Silanes, Florencio

TI What Do Firms Do with Cash Windfalls? AU Blanchard, Olivier J.; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

Loveman, Gary W.

TI A Comparison of Changes in the Structure of Wages in Four OECD Countries. AU Katz, Lawrence F.; Blanchflower, David G.; Loveman, Gary W.

Lucas, Deborah

TI Evaluating the Effects of Incomplete Markets on Risk Sharing and Asset Pricing. AU Heaton, John; Lucas, Deborah.

Lucas, Robert E.

PD January 1993. TI Real Effects of Monetary Shocks in an Economy with Sequential Purchases. AU Lucas, Robert E.; Woodford, Michael. AA University of Chicago and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4250; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 49. PR \$5.00. JE E52. KW Money Supply. Pricing Strategy. AB We study the effects of monetary disturbances in an economy in which sellers must deal with potential buyers in sequence, rather than being able to sell their goods in a Walrasian auction market. Because of the structure of trading assumed, the current state of demand is not revealed to sellers until after the process of sequential transactions has concluded. As a consequence, unanticipated changes in nominal spending flows induce less-than-proportional responses in nominal transaction prices, and changes in the same direction in real output. These effects are similar to those obtained if sellers must commit themselves in advance to money prices, but do not depend upon any cost of changing prices. We fully characterize the stationary intertemporal equilibrium of an economy subject to i.i.d. money supply shocks. We show how the ex ante distribution of monetary shocks affects sellers' pricing strategies, and hence the equilibrium relation between the money supply, the distribution of transaction prices, and the degree to which available productive capacity is utilized.

Lumsdaine, Robin L.

PD October 1992. TI Pension Plan Provisions and Retirement: Men & Women, Medicare, and Models. AU Lumsdaine, Robin L.; Wise, David A.; Stock, James H.

AA Lumsdaine: Princeton University and National Bureau of Economic Research. Wise: National Bureau of Economic Research. Stock: Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4201; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 29. PR \$5.00. JE J33. KW Retirement. Pension Plans.

AB The ongoing analysis of the effects of pension plan provisions on retirement is pursued in this paper. A primary objective of this paper is to test the validity of models previously developed and estimated with data from a Fortune 500 company, here using data from a second large company. The evidence confirms that changes in the retirement rates by age correspond closely to provisions of the firm pension plan. There is essentially no difference in the retirement behavior of men and women. As in previous work, it is found that a simpler "option value model" of retirement yields very similar results to the considerably more complex stochastic dynamic programming specification. Both fit the data well and predict rather well the effect on retirement of a special retirement window plan. Some consideration is also given to the effects of firm health insurance and median coverage on retirement.

Lyon, Andrew B.

TI Progressivity of Capital Gains Taxation with Optimal Portfolio Selection. AU Haliassos, Michael; Lyon, Andrew B.

Machin, Stephen

PD February 1992. TI The Economic Effects of Multiple Unionism: Evidence from the 1984 Workplace Industrial Relations. AU Machin, Stephen; Stewart, Mark; Van Reenan, John. AA Machin: University College London and London School of Economics. Stewart: University of Warwick. Van Reenan: University College London. SR University College London Discussion Paper: 92-03; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 29. PR 3 pounds; checks payable to Department of Economics, UCL. JE J52, J53, J31, J50. KW Bargaining. Wages. Industrial Action.

AB This paper uses establishment-level data from the 1984 Workplace Industrial Relations Survey to investigate the relationship between the presence of multiple recognized unions and wages, financial performance and the incidence of industrial action. Where multiple unions are present, it is found to be important to distinguish between whether they bargain separately or jointly, and the most important effects are isolated where separate bargains occur. The results suggest that plants with multi-unionism and separate bargaining arrangements pay higher wages, have lower financial performance and are more prone to strike action lasting at least one day.

PD April 1992. TI Minimum Wages, Wage Dispersion and Employment: Evidence from the U.K. Wages Council. AU Machin, Stephen; Manning, Alan. AA Machin: University College London, and London School of Economics. Manning: London School of Economics. SR University College London Discussion Paper: 92-05; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 28. PR 3 pounds; check payable to Department of Economics, UCL. JE J42, J38. KW Wages Councils. Minimum Wages. Wage Inequality. AB In this paper we look at the existing system of minimum

wage legislation in Britain, namely the Wages Councils which, in 1990, set minimum rates of pay for around 2.5 million workers. We find that the toughness of minimum wage legislation declined in the 1980's that this was a contributory factor to rising wage inequality among covered workers, but no evidence of an increase in employment from the decline in the effectiveness of the Wages Councils. Our results suggest that evidence for the current U.K. Government's proposal to abolish the Councils (based on the claim that the Wages Council system inhibited job creation) is at best weak and that abolition may do no more than substantially increase wage inequality.

TI Price and Quantity Adjustment over the Business Cycle: Evidence from Survey Data. AU Baskar S.; Machin, Stephen; Reid, Gavin C.

TI Union Recognition in the U.K.: A Theoretical and Empirical Analysis. AU Disney, Richard; Machin, Stephen; Gosling, Amanda.

TI The Dynamics of Corporate Growth. AU Geroski, Paul; Machin, Stephen.

TI Innovation, Profitability and Growth over the Business Cycle. AU Geroski, Paul; Machin, Stephen.

Mackie-Mason, Jeffrey K.

TI Tax Distortions to the Choice of Organizational Form. AU Gordon, Roger H.; Mackie-Mason, Jeffrey K.

MacLeod, W. Bentley

PD October 1992. **TI** Specific Investment and Wage Profiles in Labour Markets. AU MacLeod, W. Bentley; Malcolm, James M. AA MacLeod: University of Montreal. Malcolm: University of Southampton. **SR** University of Southampton Discussion Paper in Economics and Econometrics: 9228; Department of Economics, University of Southampton, Southampton 509 5NH, ENGLAND. **PG** 10. **PR** no charge. **JE** D23, D82, J41. **KW** Wages. Specific Investment. Incomplete Contracts.

AB Wage contracts, like all civil contracts can be renegotiated by mutual consent. This paper assesses the implication for the form contracts take when there are specific investments. The possibility of renegotiation reverses some widely accepted arguments about this. It is shown that: (1) specific investment by firms is not a reason for them to offer wages above market clearing wages, contrary to what has been suggested by Becker (2) specific investment by employees, rather than by firms, may be a reason for positive tenure effects; and (3) wages that do not respond to changing market conditions are often better than those that do.

Madan, Dilip B.

PD July 1992. **TI** Incomplete Diversification and Asset Pricing. AU Madan, Dilip B.; Milne, Frank; Elliott, Robert. AA Madan: University of Maryland. Milne: Queen's University. Elliott: University of Alberta. **SR** Queen's Institute for Economic Research Discussion Paper: 865; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 36. **PR** \$3.00 + GST Canada; \$3.50 U.S. and Foreign. **JE** G12, D52. **KW** Investor Specific Risk. Asset Markets.

AB Investors in equilibrium are modeled as facing investor specific risk exposures arising from incomplete diversification

of personal risks across the space of assets. Personalized asset pricing models reflect these risks. Averaging across the pool of investors we obtain a market asset pricing model that reflects market risk exposures. It is observed on invoking a law of large numbers applied to an infinite population of investors that many personally relevant risk considerations can be eliminated from the market asset pricing model. Examples illustrating the effects of undiversified labor income and taste specific price indices are provided. Suggestions for future work on asset pricing include a need to focus on identifying and explaining investor specific risk exposures.

PD November 1992. **TI** Contingent Claims Valued and Hedged by Pricing and Investing in a Basis. AU Madan, Dilip B.; Milne, Frank. AA Madan: University of Maryland. Milne: Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 868; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. **PG** 32. **PR** \$3.00 + GST Canada; \$3.50 U.S. and Foreign. **JE** G13. **KW** Asset Pricing. Hedging. Derivative Securities.

AB Contingent claims with payoffs depending on finitely many asset prices are modeled as a separable Hilbert space. Under fairly general conditions, including market completeness, it is shown that one may change measure to a reference measure under which asset prices are Gaussian and for which the family of Hermite polynomials serve as an orthonormal basis. Basis pricing synthesizes claim valuation and basis investment provides static hedging opportunities. For claims written as functions of a single asset price we infer from observed option prices the implicit prices of basis elements and use these to construct the implied equivalent martingale measure density with respect to the reference measure which in this case is the Black Scholes Geometric Brownian motion model. Data on S&P 500 options from the Wall Street Journal is used to illustrate the calculations involved.

Madsen, Peter

TI 1) The Carbon Tax: Economic and Policy Issues and 2) A UK Carbon/Energy Tax: The Macroeconomic Effects. AU Barker, Terry; Baylis, Susan; Madsen, Peter.

Magill, Michael

PD August 1992. **TI** Infinite Horizon Incomplete Markets. AU Magill, Michael; Quinzii, Martine. AA Magill: University of Southern California. Quinzii: University of California, Davis. **SR** Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-384; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. **PG** 45. **PR** no charge. **JE** D52, G12. **KW** General Equilibrium Model. Speculative Bubbles. Financial Markets.

AB The general equilibrium model with incomplete markets is extended to the case of an open-ended future. Such a model provides a natural setting for analyzing many problems of macroeconomics. The paper provides an initial step for such an analysis by establishing conditions under which an equilibrium exists. With short-lived numeraire assets an equilibrium always exists; with long-lived assets an equilibrium exists for a dense set of payoff structures. The prices of infinite-lived securities in zero net supply are shown to permit speculative bubbles which affect (do not affect) the equilibrium allocation if markets are incomplete (complete). The prices of securities in positive net supply do not have bubbles.

Mailath, George J.

PD April 1993. TI When Do Regulators Close Banks? When Should They? AU Mailath, George J.; Mester, Loretta J. AA Mailath: University of Pennsylvania. Mester: Federal Reserve Bank of Philadelphia and University of Pennsylvania. SR Federal Reserve Bank of Philadelphia Research Working Paper: 93-10; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. PG 28. PR no charge except overseas airmail, \$2.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE G28, G21. KW Banking Regulation. Bank Failure.

AB When does a regulator close a bank, and how does the bank respond to the regulator's closure policy? The recently enacted FDIC Improvement Act mandates "prompt corrective action" by regulators to resolve failing banks. While regulators are instructed to close "critically undercapitalized" banks, they are still given some discretion over the closure decision, which is a complicated one. This paper investigates the incentives of a regulator to close depository institutions, recognizing an institution's risk-taking will be influenced by the closure policy. We focus on the dynamic aspects of the decision. In making its closure decision, the regulator should focus not on the current health of the bank, but on the bank's future health, since at the time of the closure decision, the bank's previous asset selections are a irreversible decision. We consider two different objective functions for the regulator: maximizing society's welfare, or minimizing the costs of closure.

Malcolm, James M.

TI Specific Investment and Wage Profiles in Labour Markets. AU MacLeod, W. Bentley; Malcolm, James M.

Mangelsdorff, Lukas

PD July 1992. TI Testing Choquet Expected Utility. AU Mangelsdorff, Lukas; Weber, Martin. AA University of Kiel. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-383; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 26. PR no charge. JE D81. KW Ellsberg Paradox. Ambiguity.

AB Many theories have been developed to model decision behavior under ambiguity. In this paper we empirically investigate theories which are based on non-additive probabilities, i.e. Choquet expected utility (CEU) theories. We first replicated Ellsberg-paradox behavior. Then we elicited the individual non-additive probabilities, the so called capacities. Those capacities did not have all properties theoretically required. Finally we found that CEU is not really superior to EU in predicting the participants' decisions.

Mankiw, N. Gregory

TI Capital Mobility in Neoclassical Models of Growth. AU Barro, Robert J.; Sala-i-Martin, Xavier; Mankiw, N. Gregory.

Manning, Alan

TI Minimum Wages, Wage Dispersion and Employment: Evidence from the U.K. Wages Council. AU Machin, Stephen; Manning, Alan.

TI Wage Setting and the Tax System: Theory and Evidence for the UK. AU Lockwood, Ben; Manning, Alan.

Mariotti, Marco

TI Bargaining with a Composite Player: An Application to the Uruguay Round of GATT Negotiations. AU Basevi, Giorgio; Delbono, Flavio; Mariotti, Marco.

Matsaganis, Manos

TI The English and Swedish Health Care Reforms. AU Glennerster, Howard; Matsaganis, Manos.

Matsuyama, Kiminori

PD August 1992. TI Making Monopolistic Competition More Useful. AA Northwestern University. SR Hoover Institute Working Papers in Economics: E-92-18; Domestic Studies Program Working Paper Series, Hoover Institution, Stanford University, Stanford, CA 94305. PG 55. PR not available. JE D43, L13. KW Chamberlin. Multiple Equilibria. Positive Feedback.

AB The monopolistic competition literature exclusively focuses on the group equilibrium where firms in the group supply products that are close substitutes. While faithful to Chamberlin, this restricts the ability of the monopolistic competition paradigm to yield the predictions that are significantly different from those of perfect competition. This paper demonstrates that the case where firms supply complementary products naturally arises in the standard models of monopolistic competition and explores its implications. It is shown that the presence of positive feedback effects lead to agglomeration phenomena, which are discussed in the context of urban and interregional economics, as well as economic development and technology choices.

McCallum, Bennett T.

PD December 1992. TI Specification of Policy Rules and Performance Measures in Multicountry Simulation Studies. AA Carnegie Mellon University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4233; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 23. PR \$5.00. JE F31, F33, E61. KW Exchange Rates. Policy Coordination.

AB Much recent analysis of international monetary and fiscal policy issues, such as the choice of an exchange-rate regime or the design of a policy coordination scheme, has been conducted by stochastic simulations with multicountry econometric models. In these studies it has become standard practice to consider alternative policy rules of a particular form that calls for departures of a policy instrument, from some "baseline" reference path, that are proportional to deviations of a specified target variable from its own baseline path. The present paper argues, however, that this standard rule form is seriously defective for evaluating such issues because the implied rules (1) often fail to be operational and (2) have associated performance measures that can be misleading in important cases. An example is presented that concerns the international "assignment problem" of optimally pairing instruments with policy objectives.

McCarty Nolan M.

PD September 1992. TI The Spatial Mapping of Congressional Candidates and Contributors. AU McCarty Nolan M.; Poole, Keith T. AA Carnegie Mellon University. SR Carnegie-Mellon Graduate School of Industrial Administration (GSIA) Working Paper: 1992-46; Working

Paper Secretary, GSIA, Carnegie-Mellon University, Schenley Park, Pittsburgh, PA 15213-3890. PG 56. PR no charge. JE D70, D72. KW Spatial Theory of Elections. Congressional Candidates.

AB Testing and estimating spatial models of politics has not advanced as far as the theoretical applications of spatial theory. In particular, much of the spatial theory of elections depends on the location of challengers vis a vis incumbents. Currently, the only available estimates for congressional candidates are from voter survey data. We use a much richer set of data from political action committee contributions in order to estimate the location of congressional candidates. Our model is one of probabilistic campaign contribution in a spatial framework. From this model, we develop a multinomial logit estimation procedure to estimate the spatial positions of political action committees and of congressional candidates. We find that most Congressional elections are a polarized choice between distinct platforms.

Meeks, G.

TI Forecasting and Explaining Corporate Failure: A Study of Contingent Financial Statements. AU Goudie, A. W.; Meeks, G.

PD September 1992. TI An Accounting Theory of Merger. AA University of Cambridge. SR University of Cambridge Discussion Papers in Accounting and Finance: AF2; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 12. PR \$10.00 (L5.00); checks payable to University of Cambridge. JE G34, G14. KW Mergers. Information.

AB The paper outlines and illustrates some circumstances in which rational utility maximizing owners or managers might still embark on mergers even if no improvement is expected in underlying performance. Merger offers opportunities legally to restate the information published in companies' annual reports. In some cases the restatements alter the information set publicly available about a security - with potential consequences for shareholder wealth in a capital market which is semi-strong efficient. In other cases the restatements alter variables specified in loan or salary contracts - with consequences for size, capital structure and managers' pay.

Meghir, Costas

TI Dynamic Investment Models and the Firm's Financial Policy. AU Bond, Stephen; Meghir, Costas.

PD November 1992. TI The Evolution of Wages in the UK: Evidence from Micro Data. AU Meghir, Costas; Whitehouse, Edward. AA Meghir: Institute for Fiscal Studies and University College London. Whitehouse: Institute for Fiscal Studies. SR Institute for Fiscal Studies (IFS) Working Paper: W92/16; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, ENGLAND. PG 33. PR 3 pounds. JE J31. KW Individual Wages. Labor Market.

AB The increased dispersion of wages has prompted a great deal of interest in factors influencing individual wages. In this paper we use data from the repeated Family Expenditure Survey cross sections for the years 1969-1986, to investigate the extent to which wages of different cohorts behave differently over time. We find remarkable similarities across these different groups both in the overall trend in wages and in their cyclical behavior, although there is evidence that the wages of those who entered the labor market in the late 70's

early 80's do behave differently over the sample period.

Melitz, J.

PD October 1992. TI National Insurance Against Unevenly Distributed Shocks in a European Monetary Union. AU Melitz, J.; Vori, S. AA Melitz: INSEE. Vori: Banca d'Italia. SR Unite de Recherche Document de Travail ENSAE/INSEE: 9219; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. PG 17. PR no charge. JE F41, F42, F33. KW Regional Insurance. Fiscal Federalism.

AB We examine proposals to introduce in the European Community national insurance against unevenly distributed shocks. This insurance would operate differently from tax and government spending activities that now yield regional insurance within countries, since the latter are mainly designed for other purposes such as income redistribution and general revenue-raising. According to our evidence, the appeal of such insurance is very limited because the risks are too highly correlated and there is an excessive chance that a country in difficulty would not receive aid. The costs of a continuing program are likely to exceed the benefits.

Mester, Loretta J.

TI When Do Regulators Close Banks? When Should They? AU Mailath, George J.; Mester, Loretta J.

Metcalf, Gilbert E.

PD January 1993. TI The Lifetime Incidence of State and Local Taxes: Measuring Changes During the 1980's. AA Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4252; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 31. PR \$5.00. JE H22, H71. KW Sales Tax. Progressive Taxation. Life Cycle.

AB I compare the lifetime tax incidence of the major state and local taxes used in the United States during the 1980's. Using data from the Consumer Expenditure Survey, I show that over the life cycle, general sales taxes are progressive and equally as progressive as state and local income taxes. While the progressivity of sales taxes has not changed between 1984 and 1989, income taxes have become less progressive over that five-year period. Property taxes on the other hand have become more progressive. The system of state and local taxes is mildly progressive over the life cycle and has become slightly more progressive between 1984 and 1989. Finally, eliminating deductibility for sales taxes in 1986 appears to have had little effect on the overall progressivity of the tax system.

Meyer, Colin

TI Restructuring Enterprises in Eastern Europe. AU Carlin, Wendy; Meyer, Colin.

TI The Treuhandanstalt: Privatization in State and Market. AU Carlin, Wendy; Meyer, Colin.

Micklewright, J.

TI The Distribution of Income in Eastern Europe. AU Atkinson, A. B.; Micklewright, J.

Milesi-Ferretti, Gian-Maria

PD November 1992. TI How Cynical Can an Incumbent

Be? Strategic Policy in a Model of Government Spending. AU Milesi-Ferretti, Gian-Maria; Spolaore, Enrico. AA Milesi-Ferretti: London School of Economics. Spolaore: Harvard University. SR London School of Economics Centre for Economic Performance Discussion Paper: 105; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 27. PR no charge. JE D72, E62. KW Public Spending, Elections.

AB When governments with different preferences compete for election, strategic manipulation of state variables can occur even with rational, forward-looking voters. In particular, policy commitments may be used to introduce "strategic inefficiencies" for electoral purposes. This paper presents a simple model of government spending, in which government resources can be used "productively" - for the benefit of all voters - or "unproductively" - for the sole benefit of the ruling party's constituency. We show that a government may choose to limit the efficiency with which some public resources are extracted if it is more likely to use them unproductively, because in so doing it limits the importance of spending decisions in the electoral process. More generally, we highlight the strategic role of economic policy decisions which affect incentives and constraints faced by future governments, and their impact on election results. We also analyze how the time horizon and electoral uncertainty affect the incentives for strategic behavior.

PD November 1992. TI Wage Claims, Incomes Policy and the Path of Output and Inflation in a Formerly Centrally Planned Economy. AA London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 106; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 35. PR no charge. JE E63, E64, P21, L33. KW Wage Controls. Economic Reform.

AB The corporate governance problem of state enterprises in formerly centrally planned economies can give rise to excess wage claims and/or capital decumulation if workers and managers try to appropriate the firm's assets before it is "commercialized" or privatized. Since state enterprises still produce a dominant fraction of total output, these problems can have serious macroeconomic consequences. This paper provides a simple dynamic framework to address these issues, and studies the impact of wage controls on the behavior of the fiscal deficit, inflation, private consumption, and output in the presence of "excessive" wage claims. The latter can lead not only to high inflation, but also to suboptimally low levels of capital and output. If wage levels are initially excessive, simple incomes policy measures, such as a reduction in the degree of wage indexation, can be effective in reducing inflation and the fiscal deficit if nominal wage increases do not provide on average full protection against inflation.

PD February 1993. TI Wage Indexation and Time Consistency. AA London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 117; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 18. PR no charge. JE J38, E31, E52. KW Inflation, Real Shocks.

AB It has long been recognized that contemporaneous wage indexation stabilizes output and employment in the face of monetary shocks, but hampers the adjustment of the economy to real shocks that require changes in the real wage. Another

feature of wage indexing is that it reduces the incentive of the government to raise output through unexpected inflation, since wages react automatically to prices. In this paper I construct a simple model where the decision on the degree of wage indexation is not taken by atomistic agents, but by a "large" agent such as the government. Under this assumption I show that the optimal degree of indexing depends not only on the variance of real shocks, but also on the "inflation bias" of the government, due to the incentive to raise employment above the market-clearing level. In particular the model predicts that wage indexation will be low not only if real shocks are large, but also if the government is inflation-averse.

TI On the Credibility of Big Bang Programs: A Note on Wage Claims and Soft Budget Constraints in Economies in Transition. AU Coricelli, Fabrizio; Milesi-Ferretti, Gian-Maria.

Milne, Frank

TI Incomplete Diversification and Asset Pricing. AU Madan, Dilip B.; Milne, Frank; Elliott, Robert.

TI The Arbitrage Pricing Theorem with Non Expected Utility Preferences. AU Kelsey, David; Milne, Frank.

TI The Existence of Equilibrium and the Objective Function of the Firm. AU Kelsey, David; Milne, Frank.

TI Contingent Claims Valued and Hedged by Pricing and Investing in a Basis. AU Madan, Dilip B.; Milne, Frank.

PD February 1993. TI Dominance Relations Among Standardized Variables. AU Milne, Frank; Neave, Edwin H. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 877; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 17. PR \$3.00 + GST Canada; \$3.50 U.S. and Foreign. JE D11, D81. KW Stochastic Dominance.

AB This paper examines stochastic dominance relations among discrete random variables defined on a common integer domain. While these restrictions are minimal, they lead both to new theoretical results and to simpler proofs of existing ones. The new results, obtained for dominance criteria of any degree, generalize an SSD result of Rothschild - Stiglitz to describe how for any dominance criterion a dominated variable is equal in distribution to a dominated variable plus perturbation terms. If the variables are comparable under FSD the perturbations are downward shift terms, while under SSD (TSD) all but two (three) of the perturbations are zero mean disturbance terms (noise). Under SSD the remaining perturbations are shift terms and under TSD noise and shift terms. However, under either SSD or TSD these remaining terms are identically zero if the variables to be compared have equal means. The paper also finds new proofs of well known results relating dominance criteria to preferences.

Minton, Bernadett A.

TI "Outside" Intervention in Japanese Companies: Its Determinants and Its Implications for Managers. AU Kaplan, Steven N.; Minton, Bernadett A.

Mitchell, Olivia S.

TI The Role of Pensions in the Labor Market. AU Gustman, Alan L.; Mitchell, Olivia S.; Steinmeier, Thomas L.

Monheit, Alan C.

TI Expenditures on Health Care for Children and Pregnant Women. AU Lewit, Eugene M.; Monheit, Alan C.

Moore, George

TI Estimating the Linear-Quadratic Inventory Model: Maximum Likelihood versus Generalized Method of Moments. AU Fuhrer, Jeff; Moore, George; Schuh, Scott.

Moore, John

TI The Economics of Bankruptcy Reform. AU Aghion, Philippe; Hart, Oliver; Moore, John.

Morris, Stephen

PD April 1993. TI Bid Ask Spreads with Two Sided Private Information. AA University of Pennsylvania. SR University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-09; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. PG 15. PR no charge. JE D82. KW Trading. Signals. AB An individual's willingness to trade depends on the information implicit in the willingness of others to trade with him. Trading behavior is said to exhibit a bid ask spread property if each individual is willing to buy an object, at any price below some bid price, and to sell it at any price above some ask price, but is not prepared to either buy or sell at prices between the bid and ask. This paper shows that such behavior occurs if each individual puts as much weight on his own signal as his trading partner does, and signals are distributed continuously and sufficiently smoothly. It is not true, for example, in a finite signal model. This paper thus extends existing informational models of bid ask spreads [Copeland and Galai (1983) and Glosten and Milgrom (1985)] to situation of two sided private information.

PD April 1993. TI Risk, Uncertainty and Hidden Information. AA University of Pennsylvania. SR University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-10; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. PG 30. PR no charge. JE D81, D82. KW Bid Ask Spread. Prior Beliefs.

AB People are less willing to accept bets about an event when they do not know the true probability of that event. Such "uncertainty aversion" has been used to explain certain economic phenomena. This paper considers how far standard private information explanations (with strategic decisions to accept bets) can go in explaining phenomena attributed to uncertainty aversion. This paper shows that if two individuals have different prior beliefs about some event, and two sided private information, then each individual's willingness to bet will exhibit a bid ask spread property. Each individual is prepared to bet for the event, at sufficiently favorable odds, and against, at sufficiently favorable odds, but there is an intermediate range of odds where each individual is not prepared to bet either way. This is only true if signals are distributed continuously and sufficiently smoothly. It is not true, for example, in a finite signal model.

Morrisette, Peter M.

PD November 1991. TI Political Structure and Global Resource Use: A Typology. AA Resources for the Future. SR Resources for the Future Energy and Natural Resources Division Discussion Paper: ENR92-04; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 23. PR \$5.00 prepaid, U.S. funds. JE O13, Q23, Q24, Q28. KW Political Structure. Economic Development. Deforestation.

AB How does political structure determine how a country uses land and other natural resources, and how it provides for ecological stewardship? A review of the political science and environmental policy literature reveals a wide range of perspectives on the role of political structure. This paper has two principal objectives: first, to review some of the existing theoretical arguments on the role of political structure as a driving force affecting land and resource use; second, to develop a political typology for assessing global patterns of land and resource use and, using this typology, ask some general questions about the role of political structure as a driving force behind these patterns.

PD March 1992. TI Perspectives on Global Climate Change: A Review of the Adaptation and Mitigation Approaches. AA Resources for the Future. SR Resources for the Future, Energy and Materials Division Discussion Paper: ENR92-09; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 29. PR \$5.00 prepaid, U.S. funds. JE Q20, Q28, Q25. KW Global Warming Policy. Adaptation Strategies. Mitigation Strategies.

AB The purpose of the paper is to provide some background on the different perceptions and perspectives that are presently shaping the policy debate on how to respond to the problem of global warming. This debate has focused primarily on whether to adapt to climate change in the future or to mitigate climate change in the present. The two approaches, as this paper notes, are not mutually exclusive; in fact, they share much in common. Differences, however, can be found in how proponents of each view the risks of global climate change. This paper provides a brief outline of the progression of global warming from an obscure scientific concern into a leading international political issue, reviews previous efforts by social scientists to assess attitudes and positions on global warming, and examines in detail the adaptation and mitigation perspectives and assesses how they differ on the basis of different conceptions of uncertainty and risk, equity, and technology.

Mulligan, Casey B.

PD September 1992. TI U.S. Money Demand: Surprising Cross-Sectional Estimates. AU Mulligan, Casey B.; Sala-i-Martin, Xavier. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 671; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 60. PR \$2.00 plus postage. JE E41. KW Money Demand.

AB We estimate money demand functions using cross-sections of U.S. states over the period 1929-1990. We arrive at a number of interesting conclusions: First, our estimates of the income elasticity lie between 1.3 and 1.5, significantly above one. Second, money demand is a stable function over an impressive sample period, 1929-1990. Third, income per capita is a better scale variable than consumption. And finally, after

having been fairly constant between 1950 and 1980, the rate of technological progress (which determines the amount of money demanded for given incomes, price levels and interest rates) accelerated substantially over the 1980's.

Murphy, Stephen

TI The State of North American and Japanese Motor Vehicle Industries: A Partially Calibrated Model to Examine the Impacts of Trade Policy Changes. AU Fuss, Melvyn; Murphy, Stephen; Waverman, Leonard.

Muvandi, Ityai

TI The Demographic Transition in Southern Africa: Another Look at the Evidence from Botswana and Zimbabwe. AU Thomas, Duncan; Muvandi, Ityai.

Myers, Ramon H.

TI Chiang Ching-Kuo and the 1986 KMT Political Reform. AU Ling, Ts'ai; Myers, Ramon H.

TI Confrontation, Consensus, and Political Reform: The Spring 1992 Second National Assembly Convention. AU Ling, Ts'ai; Myers, Ramon H.

Nason, James M.

TI Effects of the Hodrick-Prescott Filter on Trend and Difference Stationary Time Series. AU Cogley, Timothy; Nason, James M.

TI Do Real Business Cycle Models Pass the Nelson-Plosser Test? AU Cogley, Timothy.; Nason, James M.

Neave, Edwin H.

TI Dominance Relations Among Standardized Variables. AU Milne, Frank; Neave, Edwin H.

Neumark, David

PD November 1992. TI Are Rising Wage Profiles a Forced-Saving Mechanism? AA University of Pennsylvania and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4213; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR \$5.00. JE E21, H22, H24. KW Income Tax. Withholding. Earnings Profile.

AB This paper tests the hypothesis that rising earnings profiles are a mechanism by which individuals engage in forced saving. It does this by examining the cross-sectional relationship between overwithholding on income tax payments - behavior that is consistent with a preference for forced saving - and the slopes of age-earnings profiles. The forced-saving hypothesis receives some support from earnings regression estimates. Individuals who receive tax refunds are on earnings profiles that are steeper and have lower intercepts, although the evidence is statistically significant in only a subset of the specifications estimated. On average, individuals who receive refunds have about one percentage point faster earnings growth per year.

TI Are OLS Estimates of the Return to Schooling Biased Downward? Another Look. AU Blackburn, McKinley; Neumark, David.

PD January 1993. TI Sex Discrimination and Women's Labor Market Interruptions. AA University of Pennsylvania and National Bureau of Economic Research. SR National

Bureau of Economic Research Working Paper: 4260; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR \$5.00. JE J71, J16, J22, J31. KW Wage Differentials. Labor Supply.

AB The human capital explanation of sex differences in wages is that women intend to work in the labor market more intermittently than men, and therefore invest less. This lower investment leads to lower wages and wage growth. The alternative "feedback" hypothesis consistent with the same facts is that women experience labor market discrimination and respond with career interruptions and specialization in household production. This paper explores the relationship between self-reported discrimination and subsequent labor market interruptions to test this alternative hypothesis, attempting to remove biases associated with using data on self-reported discrimination. The paper provides evidence consistent with the feedback hypothesis. Working women who report experiencing discrimination are significantly more likely subsequently to change employers, and to have additional children (or a first child). On the other hand, women who report experiencing discrimination, and who consequently have a greater tendency for career interruptions of these types, do not subsequently have lower wage growth.

Nevison, Douglas

TI Investing in Skill: To Stay On or Not to Stay On? AU Bennett, Robert; Glennerster, Howard; Nevison, Douglas.

Newell, Andrew

PD February 1993. TI Macroeconomic Consequences of Taxation in the 80's. AU Newell, Andrew; Symons, James. AA Newell: University of Sussex. Symons: London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 121; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 18. PR no charge. JE F41, E62, H24. KW Supply Side Economics. Tax Rates.

AB During the 1980's the OECD countries experienced divergent trends in taxation. In some countries governments took to cutting tax rates, especially income tax rates, influenced perhaps by the supply-side economists. In other countries, tax rates continued to rise as had generally been the case through the 1970's. In this paper we investigate the effects of this divergence on macroeconomic performance, measured various ways, across countries. From a conventional, neo-classical, open economy setting, we generate a number of predictions for the consequences of tax rate changes, which we subsequently investigate empirically. We find robust and important effects suggesting that a large proportion of the divergence of economic performance through the 1980's can be explained by the supply-side effects of tax policy. We subsequently investigate why tax policy diverged, and find that the state of public finances at the beginning of the decade, as well as changes in the political persuasion of government were both important influences on the direction of taxation policy.

Nickell, Stephen

PD February 1993. TI Cohort Size Effects on the Wages of Young Men in Britain 1961-89. AA University of Oxford. SR London School of Economics Centre for Economic Performance Discussion Paper: 120; Centre for Economic

Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 6. PR no charge. JE J31, J51. KW Unions. Youth.

AB This paper investigates the relationship between the pay of young men relative to adult men and the size of the youth cohort. The evidence presented indicates that during the post war period, relative hourly earnings and relative union negotiated wage rates were both negatively influenced by the size of the youth cohort. This fact indicates that the relative availability of young workers influences their rates of pay even if these are the outcome of union negotiations.

Nicodano, Giovanna

PD December 1992. TI Corporate Information Sales and Market Liquidity: A Property Right Approach to Insider Trading. AA Universita di Torino. SR Centre for Economic Policy Research, European Science Foundation, Working Paper: 25; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, ENGLAND. PG 29. PR not available. JE G14, G32, K22, D82. KW Insider Trading. Asset Market Equilibrium.

AB Shareholders are attributed a residual right to use information on corporate prospects, which is produced within the firm. The firm allocates these rights to the highest bidder on behalf of shareholders. It is argued that this allocation is the natural benchmark for assessing the impact of insider trading on asset market equilibrium and for deriving policy implications.

Nicolai, J. P.

TI Probabilistic Foundations of a Causal Analysis in a Stationary Vectorial Autoregressive Model. AU Bruneau, C.; Nicolai, J. P.

Noble, Benjamin

PD May 1992. TI Sea-Level Rise and Coastal Management Policies in the United States. AA University of Washington. SR Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-12; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 48. PR \$5.00 prepaid, U.S. funds. JE Q24, Q25, R52. KW Global Warming. Coastal Zone Management. Land Use.

AB Among the possible effects of greenhouse warming, one of the most consequential may be a rise in sea level, threatening human settlements, infrastructure, and natural ecological resources in low-lying coastal areas. Potential impacts will, to an important degree, depend on the extent of present and future developments in vulnerable coastal regions. Where such development occurs unmindful of these future climatic risks and, is, in fact, encouraged by public policies that subsidize coastal investment in excess of market-driven levels, the exposure to undesirable consequences intensifies. The present report reviews coastal development policies in the United States and provides a tentative assessment of how these policies, and the decisions that spring from them, support or undermine efforts to deal effectively and responsibly with a prospective rise in sea level.

Nolan, Peter

PD August 1992. TI Transforming Stalinist Systems: China's Reforms in the Light of Russian and East European Experience. AA University of Cambridge. SR University

of Cambridge Discussion Papers on Economic Transition: DPET9203; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 43. PR \$5.00 (L2.50); checks payable to University of Cambridge. JE O57, P51, P27, L33. KW Transition Economy. Economic Reform.

AB In the 1980's, China's government took the authoritarian path towards the transition from Stalinism, with small concessions to increased democracy, a fundamentally altered approach towards economic management in comparison with the Stalinist era, but still with powerful elements of planning. In the former communist countries of Eastern Europe and in Russia, the reforms since 1989 have produced desperately poor short-term economic results. China's incremental path produced outstanding economic advances over the course of a decade and a half. However, a simple homogeneous package of political economy cannot be recommended to all the reforming socialist countries regardless of their size, location, income level and historically bequeathed political conditions. The dangers of a wild leap out of a Stalinist and into a capitalist economy ought now to be clear enough. However, an incremental path of economic reform may be much more difficult to effect in countries which lack as strong a political leadership as China possessed in the 1980's.

Oates, Wallace E.

PD November 1991. TI Pollution Charges as a Source of Public Revenues. AA University of Maryland. SR Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-05; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 27. PR \$2.25 prepaid, U.S. funds. JE H20, H21, H23, Q28. KW Pollution Taxes. Effluent Charges. Taxation of Externalities.

AB This paper explores the role of pollution charges as a revenue instrument. In an optimal taxation setting, such charges can serve to reduce the reliance on distorting taxes and can improve the efficiency properties of the overall revenue system. However, in a public choice setting, where there is a conflict between environmental-management and revenue objectives, things become more complicated. A revenue-maximizing agency, for example, may use this simply as a source of additional revenues. Interestingly, it is impossible to determine, in general terms, whether such an agency will employ a higher or lower tax rate than the "environmental optimum." The paper also argues against the earmarking of funds from such taxes for environmental projects.

Obstfeld, Maurice

PD February 1993. TI Model Trending Real Exchange Rates. AA University of California, Berkeley, National Bureau of Economic Research and Centre for Economic Policy Research. SR University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-011; IBER, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. PG 19. PR no charge. JE F31, F41. KW Interest Differentials. Nontradables.

AB The multilateral real exchange rates of major industrial countries often contain deterministic time trends. This note develops a simple stochastic model of a small open economy with a deterministically trending real exchange rate. Real exchange rate trends are caused by differential productivity

growth in tradables and nontradables. Although the model assumes complete price flexibility, it can produce a correlation between the real exchange rate and the international real interest-rate differential similar to the one that arises in sticky-price overshooting models dominated by monetary shocks.

PD March 1993. **TI** Are Industrial-Country Consumption Risks Globally Diversified? **AA** University of California, Berkeley, National Bureau of Economic Research and Centre for Economics Policy Research. **SR** University of California at Berkeley Center for International and Development Economics Research Working Paper: C93-014; **IBER**, 156 Barrows Hall, University of California, Berkeley, Berkeley, CA 94720. **PG** 34. **PR** no charge. **JE** G15, F36. **KW** International Diversification. Financial Integration.

AB What idiosyncratic consumption risks can countries trade away on international asset markets? This paper develops an empirical methodology for answering the question. The tests are based on the proposition that in an integrated world asset market with representative national agents, the ex post difference between two countries' intertemporal marginal rates of substitution in consumption is uncorrelated with any random variable on which contractual payoffs can be conditioned. This result is applied to annual time-series data for the seven largest industrial countries over 1950-88. Of these countries, Germany seems to have been most successful at internationally diversifying its consumption risks.

Oliner, Stephen D.

PD February 1993. **TI** Is There a Bank Credit Channel for Monetary Policy? **AU** Oliner, Stephen D.; Rudebusch, Glenn D. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System Finance and Economics Discussion Series: 93-08; **C/O** Stephen A. Sharpe, Mail Stop 89, Federal Reserve Board, Washington, DC 20551. **PG** 35. **PR** no charge. **JE** E52, E51. **KW** Bank Lending. Debt Mix.

AB Using data for the U.S. manufacturing sector, we investigate the existence of a credit channel for monetary policy that operates through bank lending. Our test is based on the behavior of the mix of bank and nonbank debt after a shift in monetary policy. We extend previous research on the debt mix by allowing for a differential response of small firms and large firms to monetary policy and by accounting for movements in all major types of nonbank debt (including trade credit and long-term debt). In contrast to earlier work, we find no support for a bank credit channel.

Oswald, Andrew J.

TI International Wage Curves. **AU** Blanchflower, David G.; Oswald, Andrew J.

TI Wages, Profits and Rent-Sharing. **AU** Blanchflower, David G.; Oswald, Andrew J.; Sanfey, Peter.

TI Entrepreneurship, Happiness and Supernormal Returns: Evidence from Britain and the U.S. **AU** Blanchflower, David G.; Oswald, Andrew J.

TI International Wage Curves. **AU** Blanchflower, David G.; Oswald, Andrew J.

Pakes, Ariel

TI Automobile Prices in Market Equilibrium: Part I and II. **AU** Berry, Steven; Levinsohn, James; Pakes, Ariel.

Palmer, Karen

PD October 1991. **TI** Comparing the Costs and Benefits of Diversification by Regulated Firms. **AU** Palmer, Karen; Brennan, Timothy. **AA** Palmer: Resources for the Future. Brennan: University of Maryland. **SR** Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-02; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. **PG** 37. **PR** \$2.25 prepaid, U.S. funds. **JE** L10, L51. **KW** Cross-Subsidies. Economies of Scope. Regulation.

AB Previous work on diversification of regulated firms has focused either exclusively on the costs of cross-subsidy or on the welfare gains resulting from economies of scope. Using analytical techniques and numerical simulations, we identify conditions under which gains from economies of scope and increased competition tend to outweigh the costs of cross-subsidization. We use a perfect competition model of the unregulated market to measure the costs and benefits of economies of scope; the effects of increased competition are studied using Cournot models with linear and constant elasticity demands. Diversification tradeoffs depend upon variables that regulators can observe.

PD February 1992. **TI** Contracting Incentives in Electricity Generation Fuel Markets. **AU** Palmer, Karen; Fox-Penner, Peter; Simpson, R. David; Toman, Michael A. **AA** Palmer, Simpson and Toman: Resources for the Future. Fox-Penner: Charles River Associates. **SR** Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-07; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. **PG** 97. **PR** \$5.00 prepaid, U.S. funds. **JE** L14, L94, L95, L51, Q48. **KW** Transaction Costs. Utility Regulation. Fuel Supply.

AB Regulatory changes and growing competition in the electricity and natural gas industries have heightened interest in the incentives for different transactional arrangements between electricity generators (utilities or independent generators) and their fuel suppliers. In this study we examine the current and prospective milieu for coal and gas supply transactions. Theory provides two broad rationales for different transactional arrangements: transaction costs and risk sharing. Our examination of influences on coal and gas supply broadly consistent with the transaction cost hypothesis. Long-term relationships have value. However, price rigidity is less and less prevalent because of its effect on risks of contract breach. Risk-sharing appears to be less important in many contractual arrangements; where it does matter, vertical integration often is more effective than long-term contracting. Overall, observed transactions appear to be more or less efficient given existing regulation in the gas and electricity industries.

Papke, Leslie E.

PD January 1993. **TI** What Do we Know About Enterprise Zones? **AA** Michigan State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 4251; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 48. **PR** \$5.00. **JE** R58, H24, E24. **KW** Revitalization. Tax Incentives. Employment.

AB In the last decade, most states have targeted certain depressed areas for revitalization by providing a combination of labor and capital tax incentives to firms operating in an "enterprise zone" (EZ). A partial equilibrium model is used to

analyze the theoretical effects of various EZ incentives on zone wages and employment. I review empirical evidence on the operational success of EZ programs in Britain and the U.S., and present new evidence from the 1990 Census on the success of the Indiana program. How do zones perform relative to what would have been their performance in the absence of zone designation? Evidence on this issue is summarized for the state of Indiana, where the zone program appears to have increased inventory investment and reduced unemployment claims. But new evidence based on the 1990 Census of Population indicates that the economic well-being of zone residents in Indiana has not appreciably improved.

Parker, Jonathan A.

TI Measuring the Cyclicity of Real Wages: How Important is Composition Bias? AU Solon, Gary; Barsky, Robert; Parker, Jonathan A.

Paterson, Donald G.

PD August 1992. TI Banks for "The Industrious Classes of Her Majesty's Subjects." AU Paterson, Donald G.; Shearer, Ronald A. AA University of British Columbia. SR University of British Columbia Department of Economics Discussion Paper: 92-20; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. V6T 1Z1 CANADA. PG 35. PR JE N21, G21. KW Banking History. Savings Banks. AB The first Canadian savings banks, dating from 1819, were charitable institutions, designed as instruments of self-help social welfare. The organization of such institutions is described and new quarterly data are presented which document the evolution of deposits in two major savings banks, 1820-1848. By detailed examination of one bank in the crisis of 1826 the management problems of this type of institution are highlighted. The success of the institutions, in a financial system lacking a money market, depended on close association with a sizable commercial bank.

TI The Supply of Canadian Money, 1824-1871: The Estimates. AU Shearer, Ronald A.; Paterson, Donald G.

TI The Supply of Canadian Money 1824-1871. AU Shearer, Ronald A.; Paterson, Donald G.

TI Was the Farmer's Bank Given a Bum Rap? AU Shearer, Ronald A.; Paterson, Donald G.

Pattanasio, Orazio

PD April 1992. TI On the Aggregation of Euler Equations for Consumption in Simple OLG Models. AU Pattanasio, Orazio; Weber, Guglielmo. AA Pattanasio: Stanford University. Weber: University College London, IGIER, Institute for Fiscal Studies, and CEPR. SR University College London Discussion Paper: 92-04; Department of Economics. University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 19. PR 3 pounds; checks payable to Department of Economics, UCL. JE E21, D91. KW Overlapping Generations. Life-Cycle Model.

AB Simple Overlapping Generations models with productivity shocks generate an Euler equation for aggregate consumption which involves terms reflecting entries and exits. In this paper we solve for the general equilibrium interest rate and sign its covariance with these terms. We also use Monte Carlo experiments to evaluate the econometric consequences of

omitting them in estimation. Under plausible assumptions on capital-labor substitutability, the estimate of the elasticity of intertemporal substitution is downward biased, and there is excess sensitivity to expected labor income growth.

Payne, John W.

TI Does the Framing of Risk Information Influence Mitigation Behavior? AU Smith, V. Kerry; Desvousges, William H.; Payne, John W.

Pearson, Mark

TI Tax Reform in Czechoslovakia. AU Heady, Christopher; Pearson, Mark; Rajah, Najma; Smith, Stephen.

Peck, J.

TI Correlated Equilibrium and Sunspot Equilibrium. AU Forges, F.; Peck, J.

Perraudin, William R. M.

TI Asymmetry in the ERM: A Case Study of French and German Interest Rates Since Basel-Nyborg. AU Gardner, Edward H.; Perraudin, William R. M.

Pesaran, Bahram

PD July 1992. TI A Non-Nested Test of Level-Differenced versus Log-Differenced Stationary Models. AU Pesaran, Bahram; Pesaran, M. Hashem. AA Pesaran, B.: Bank of England. Pesaran, M. H.: University of Cambridge, and University of California, Los Angeles. SR University of Cambridge Department of Applied Economics Working Paper: 9222; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 9. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE C12, C15, E21, G35. KW Cox Statistic. Aggregate Consumption Function. Dividends.

AB This paper considers the application of the simulation method of computing the Cox statistics for testing non-nested models recently developed by Pesaran and Pesaran (1992) to test linear against log-linear models, and first-differenced stationary models against log-differenced stationary models. The paper also considers two empirical applications of this testing procedure: one to the problem of testing linear versus log-linear versions of an error correction formulation of the aggregate consumption function in the United Kingdom, and the other to univariate time series models of dividends in the United States.

Pesaran, M. Hashem

PD 1992. TI A Generalised R squared Criterion for Regression Models Estimated by the Instrumental Variable Method. AA University of Cambridge and University of California, Los Angeles. SR University of Cambridge Department of Applied Economics Working Paper: 9220; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 12. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE C12, C52. KW Instrumental Variables. Model Selection. Non-Nested Hypotheses.

AB The paper first establishes that the adjusted R squared is not an appropriate model selection criterion in the case of models estimated by the IV method. It shows that the problem lies in the use of IV residuals in the computation of R squared,

while the relevant measures of fit to use in the context of IV regressions are the prediction errors. Accordingly, a new goodness-of-fit measure is proposed for IV regressions based on prediction errors, which are generalizations of R squared and the adjusted R squared, and are referred to as Generalized R squared and Generalized Adjusted R squared. It is shown that the use of Generalized Adjusted R squared provides an asymptotically valid model selection criterion for choosing between regression models (nested or non-nested) estimated by the IV method. The paper also provides a link between the model selection criterion proposed in this paper and the non-nested hypothesis testing procedures discussed in the literature.

PD July 1992. **TI** A Generalisation of the Non-Parametric Henriksson-Merton Test of Market Timing. **AU** Pesaran, M. Hashem; Timmermann, Allan G. **AA** Pesaran: University of Cambridge and University of California, Los Angeles. Timmermann: Birkbeck College. **SR** University of Cambridge Department of Applied Economics Working Paper: 9218; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 9. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** C14, G11. **KW** Contingency Tables. Independence.

AB The paper shows that the Henriksson-Merton (1981) test of market timing is better interpreted as an exact test of independence with a 2x2 contingency table in which the column and row sums are fixed. We provide a generalization of the test of market timing from the special case of a 2x2 contingency table to the case with n categories. This generalization has a number of potential applications in the forecasting and finance literature. The generalized test is used to analyze the market timing performance of a two-fund investment strategy in the presence of transaction costs.

TI A Non-Nested Test of Level-Differenced versus Log-Differenced Stationary Models. **AU** Pesaran, Bahram; Pesaran, M. Hashem.

PD August 1992. **TI** Choice Between Disaggregate and Aggregate Specifications Estimated by Instrumental Variable Methods. **AU** Pesaran, M. Hashem; Pierce, R. G.; Lee, K. C. **AA** Pesaran: University of Cambridge and University of California, Los Angeles. Pierce: London Business School. Lee: University of Cambridge. **SR** University of Cambridge Department of Applied Economics Working Paper: 9219; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 15. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** C12, C43, C52, J23. **KW** Aggregation. Instrumental Variables. Labor Demand.

AB A choice criterion is proposed for discriminating between disaggregate and aggregate models estimated by the instrumental variables method. The criterion, based on prediction errors, represents a generalization of criteria developed in the context of classical regression models. The paper also derives general tests for aggregation bias in the instrumental variables context. The criterion and the tests are applied in an analysis of U.K. employment demand. It is shown that a model disaggregated by 40 industries predicts aggregate employment better than an aggregate model, and that significant biases exist in estimates of the long-run wage and output elasticities obtained from the aggregate model.

PD August 1992. **TI** Theory and Evidence in Economics. **AU** Pesaran, M. Hashem; Smith, Ron. **AA** Pesaran:

University of Cambridge and University of California, Los Angeles. Smith: Birkbeck College and London Business School. **SR** University of Cambridge Department of Applied Economics Working Paper: 9224; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 23. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** C10, C53, C61. **KW** Shadow Prices. Dynamic Stochastic Optimization.

AB This paper discusses the way that theory is used in applied econometrics. The traditional strategy of marrying theory and evidence relied on the fact the older theory implied explicit restrictions on the conditional distribution of the observables and could be evaluated in terms of the conditional predictions of the model embodying the theoretical restrictions. However, this is not true of newer theories based on dynamic stochastic optimization of models which do not have quadratic costs and linear constraints. Because these models do not usually have closed-form solutions, they tend to be calibrated rather than estimated and cannot be readily evaluated in terms of their conditional predictions. The application of the Maximum Principle to such models results in Lagrange multipliers which are not observed by the econometrician. The approach suggested in this paper is to substitute out the Lagrange multipliers in terms of their determinants, just as is done with expectations.

PD September 1992. **TI** The Interaction Between Theory and Observation in Economics. **AU** Pesaran, M. Hashem; Smith, Ron. **AA** Pesaran: University of Cambridge and University of California, Los Angeles. Smith: Birkbeck College and London Business School. **SR** University of Cambridge Department of Applied Economics Working Paper: 9223; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 20. **PR** \$5.00 (L2.50), checks payable to University of Cambridge. **JE** B41, C52, C10. **KW** Statistical Models. Economic Methodology.

AB In economics both theories and observations tend to be very heterogeneous. This paper discusses the methodological difficulties that are involved in relating theories and observations and the characteristics of each that influence the way they interact. We examine the factors that influence the impact of observation on theory in terms of the precision of measurement of the observations; the correspondence of the measurements to the theoretical concepts; the applicable domain of the theory, i.e. the extent to which it has implications for observable features of the economy; and the importance of the results to decision makers. In this interaction between theory and observations, statistical models play a central role and we discuss how this role evolved in the context of four statistical models: single equation and multivariate regressions, ARIMAs and VARs. The paper concludes with a brief discussion of an approach to modeling theories which do not impose standard restrictions on these statistical models.

Petit, Pascal

TI Trade in Producer Services: International Specialisation and European Integration. **AU** Landesmann, Michael A.; Petit, Pascal.

Pfann, Gerard

TI Turnover and the Dynamics of Labor Demand. **AU** Hamermesh, Daniel S.; Pfann, Gerard.

Philippopoulos, Apostolis

TI Wage Inflation, Electoral Uncertainty and the Exchange Rate Regime: Theory and U.K. Evidence. AU Alogoskoufis, George S.; Lockwood, Ben; Philippopoulos, Apostolis.

Piachaud, David

TI European Social Policy: Models and Rationales. AU Kleinman, Mark; Piachaud, David.

Pierse, R. G.

TI Choice Between Disaggregate and Aggregate Specifications Estimated by Instrumental Variable Methods. AU Pesaran, M. Hashem; Pierse, R. G.; Lee, K. C.

Piketty, Thomas

PD November 1992. TI Imperfect Capital Markets and Persistence of Initial Wealth Inequalities. AA Ecole Normale Supérieure, DELTA, and London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TE/92/255; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 57. PR no charge. JE D30, D63, D82, E43, E44. KW Wealth Distribution. Credit Rationing. Multiplicity.

AB We consider an infinite-horizon inter-generational economy with identical agents differing only in their inherited wealth and with a constant-returns to-scale technology using capital and labor (called "effort") and displaying a purely idiosyncratic risk. If effort is contractable, full insurance contracts make the production function deterministic and initial wealth inequalities cannot persist (just as in a neoclassical growth model). But if efforts are not contractable the ability to commit is an increasing function of initial wealth so that in equilibrium poorer agents face tougher credit rationing and take smaller projects (i.e. use less capital); although there is no poverty trap, the initial distribution may have long-run effects: there can be multiple long-run stationary distributions, and all are continuous and ergodic on the same interval, but have different equilibrium interest rates, (and therefore different degrees of intergenerational mobility).

Pikkarainen, Pentti

TI Country Characteristics and the Choice of the Exchange Rate Regime: Are Mini-Skirts Followed by Maxis? AU Honkapohja, Seppo; Pikkarainen, Pentti.

Pines, David

TI Tiebout Setup as a System of Spatial-Clubs Agglomerations. AU Hochman, Oded; Pines, David.

Pong, C. K. M.

PD May 1992. TI The Determinants of Audit Fees: Some Empirical Models. AU Pong, C. K. M.; Whittington, G. AA University of Cambridge. SR University of Cambridge Discussion Papers in Accounting and Finance: AF5; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 33. PR \$10.00 (L5.00); checks payable to University of Cambridge. JE M41. KW Accounting.

AB This paper proposes a model of audit fee determination based upon size and other characteristics of the auditee and the auditor, and upon whether there has been a recent change of

auditor (which might lead to a low-balling effect).

PD October 1992. TI The Working of the Auditing Practices Committee: Three Case Studies. AU Pong, C. K. M.; Whittington, G. AA University of Cambridge. SR University of Cambridge Discussion Papers in Accounting and Finance: AF6; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 45. PR \$10.00 (L5.00); checks payable to University of Cambridge. JE M41. KW Audits. Accounting.

AB This is a study of the development of three different auditing guidelines by the Auditing Practices Committee (APC) of the UK and the Irish Republic. The guidelines are those on analytical review, fraud, and general insurance business. The evidence is derived from the archives of the APC and includes agendas, minutes, working papers and correspondence of working parties and of the main Committee, in addition to published sources. The evidence is used to assess the validity of the recent reforms of the system.

Poole, Keith T.

TI The Spatial Mapping of Congressional Candidates and Contributors. AU McCarty Nolan M.; Poole, Keith T.

Poterba, James M.

TI Income Inequality and the Incomes of Very High Income Taxpayers: Evidence From Tax Returns. AU Feenberg, Daniel R.; Poterba, James M.

PD December 1992. TI Capital Budgets, Borrowing Rules, and State Capital Spending. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4235; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 21. PR \$5.00. JE H61, H63, H50. KW Public Spending. Budgeting Practices. Financing Rules.

AB This paper uses cross-section data on the U.S. states to test the hypothesis that budgeting and borrowing rules affect the level and composition of public spending. It employs a 1963 data set with detailed information on state capital budgeting practices to compare capital spending in states that maintain separate budgets for capital and operating expenditures and states that employ a unified budget. It also investigates the impact of financing rules, in particular pay-as-you-go rules for capital projects, on the level of spending. States with capital budgets tend to spend more on public capital, especially if they do not impose pay-as-you-go requirements for financing capital projects.

Prasad, Kislaya

TI Asset Specificities, International Trade and Multinational Firms. AU Beladi, Hamid; Prasad, Kislaya.

PD February 1992. TI Choice Under Uncertainty with Costly Computations. AA University of Cambridge. SR University of Cambridge Economic Theory Discussion Paper: 172; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 13. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE D81. KW Interval Probability. Computational Choice.

AB This paper examines preferences among uncertain alternatives and its representation when computational choice

is modeled as part of the overall decision problem. When computations are costly, the decision maker may not find it worthwhile to obtain every fact relevant to decision - creating an additional source of uncertainty. The two kinds of uncertainty can be separated, leading to the question whether they should be treated at par, as in the Savage framework? An alternative, interval probability representation is suggested, a key feature being that when all computations (perceived to be relevant) are performed, the interval collapses to a point. The framework of Schmeidler (1989) is modified so that such a representation is obtained from preferences among actions which include computational choice.

Preston, Ian

TI The Distinction Between Income and Consumption in Measuring the Distribution of Household Welfare. **AU** Blundell, Richard; Preston, Ian.

PD January 1992. **TI** Large Sample Estimation and Inference for Poverty Measures. **AA** University College London. **SR** University College London Discussion Paper: 92-02; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 15. **PR** 3 pounds, checks payable to Department of Economics, UCL. **JE** C12, C13, I32. **KW** Asymptotic Distribution. Poverty.

AB This paper aims to extend knowledge of the statistical properties of poverty indices and to explore the implications of choice of poverty index and of method of estimation for inference regarding poverty comparisons. An illustration of the implications of such considerations is provided by an application to regional poverty measures computed from the 1983 U.K. Family Expenditure Survey.

Pudney, Stephen

PD June 1991. **TI** Economic Transformation and Income Distribution in Hungary: Can the Tax Benefit System Cope? **AA** University of Cambridge. **SR** University of Cambridge Discussion Papers on Economic Transition: DPET9201; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 41. **PR** \$5.00 (L2.50); checks payable to University of Cambridge. **JE** D31, H53, O52, P27. **KW** Transition Economy. Unemployment. Taxation.

AB This paper explores the possible consequences of economic transformation on net household incomes in Hungary. Survey data on household earnings are transformed using non-parametric methods so that the distribution of gross earnings and the incidence of unemployment have the same shape as those typical of a Western economy (the UK). The effect of the Hungarian tax-benefit system on this pattern of gross earnings is then simulated, to give an estimate of the eventual post-reform net income distribution. The implications of economic transformation for the cost and redistributive consequences of the tax-benefit system are then discussed.

PD December 1991. **TI** Dynamic Simulation of Pensioners' Incomes: Methodological Issues and a Design for a Computer Model for Great Britain. **AA** University of Cambridge. **SR** University of Cambridge Microsimulation Policy Modelling Unit Paper: MPMU9201; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 43. **PR** \$5.00 (L2.50); checks payable to University of

Cambridge. **JE** C15, J14, H55, H31. **KW** Microsimulation. Retirement. Income Distribution.

AB This paper considers alternative approaches to the micro-simulation of pensioners' incomes over a long forecast period. A hybrid approach is favored, in which a combination of dynamic re-weighting and dynamic simulation is used. The paper outlines a model design based on a composite database constructed from various sources of UK survey data. The computer implementation of the model is currently under development.

PD March 1992. **TI** The Statistical Reliability of Microsimulation Estimates: Results for a UK Tax-Benefit Model. **AU** Pudney, Stephen; Sutherland, Holly. **AA** University of Cambridge. **SR** University of Cambridge Microsimulation Policy Modelling Unit Paper: MPMU9202; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 22. **PR** \$5.00 (L2.50); checks payable to University of Cambridge. **JE** C15, C81, D31, H23. **KW** Confidence Intervals. Survey Data.

AB The authors calculate asymptotic confidence intervals for a variety of measures summarizing the results of typical survey-based tax-benefit simulations. The confidence intervals take account of re-weighting to correct for differential survey response. The results suggest that some commonly-performed simulations may be very imprecise estimates of population effects.

PD May 1992. **TI** Social Security Reform in Urban China: The Case of Shanghai. **AA** University of Cambridge. **SR** University of Cambridge Discussion Papers on Economic Transition: DPET9202; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. **PG** 45. **PR** \$5.00 (L2.50); checks payable to University of Cambridge. **JE** H55, O53, G23. **KW** Pensions. Retirement. Surplus Labor.

AB This paper focuses on the reform of pensions, unemployment support and income maintenance in Shanghai province. Pension projections suggest that pension costs can be controlled under a policy involving major changes to the existing system. To protect redundant workers (who are typically older), we propose a temporary continuation of the policy of forced retention of surplus labor by enterprises, backed by a cohort-specific social security contribution rebate designed to produce a more even distribution of the burden of surplus labor on enterprises. We stress the need for tax reform to accompany social security reform.

Qian, Yingyi

PD December 1992. **TI** Innovation and Financial Constraints in Centralized and Decentralized Economies. **AU** Qian, Yingyi; Xu, Chenggang. **AA** London School of Economics. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 109; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 33. **PR** no charge. **JE** O31, P51, O32, H43. **KW** Screening Mechanisms. Imperfect Information. Commitment Problem.

AB Because of the "too-early-to-know" feature of innovation, the promotion of innovation in a given system critically depends on the screening mechanisms which terminate inefficient projects. Information imperfection together with sunk costs may cause commitment problems which relax

financial constraints and thus disable the screening capability in a centralized economy. This leads to the "too-late-to-stop" consequence, that is, the continuation of inferior projects. As an optimal organizational response to this problem, centralized economies often use bureaucratic procedures based on prior information to pre-screen projects. However, pre-screening mitigates the problem at the cost of rejecting promising projects and delaying innovation. Innovation in decentralized economies may still be more efficient than in centralized economies.

Quandt, Richard E.

TI The Competition for Rationed Resources.
AU Goldfeld, Stephen M.; Quandt, Richard E.

Quinzii, Martine

TI Infinite Horizon Incomplete Markets. AU Magill, Michael; Quinzii, Martine.

Rabault, G.

PD May 1992. TI Une Application du Modele de Hamilton a l' Estimation des Cycles Economiques. AA INSEE. SR Unite de Recherche Document de Travail ENSAE/INSEE: 9210; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. PG 17. PR no charge. JE C22, E32. KW Business Cycles. Nonlinear Filters. Asymmetry.

AB Hamilton (1989) proposes an elegant univariate switching regression model based on a Markov chain to describe business cycles. It has been successfully estimated on U.S. G.N.P. In this paper, we examine its ability to reproduce the business cycles of six industrialized countries as well as O.C.D.E. as a whole. Only three countries show a satisfying coincidence between the Markovian transitions and the cycle chronology: United States, Germany and Japan. The model also allows to test the asymmetry of the business cycle. It is almost always rejected. Finally, this work underlines the fragility of maximum likelihood estimation, for multiple local maxima are often found. A smoothing algorithm due to Kitagawa is implemented, which should encourage the use of E.M. estimation.

Rahi, Rohit

PD November 1992. TI Partially Revealing Rational Expectations Equilibria with Nominal Assets. AA Stanford University. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-387; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 13. PR no charge. JE D51, D52, D82, D84. KW Exchange Economy. Private Information. Incomplete Markets.

AB This paper studies a static exchange economy with nominal assets and a finite state space. Agents have private information and learn from prices. It is shown that any structure of information revealed by prices that is consistent with the absence of arbitrage, can be embedded in a rational expectations equilibrium. This is in sharp contrast to the case of real assets, in which prices are generically fully revealing.

Rajah, Najma

TI Tax Reform in Czechoslovakia. AU Heady, Christopher; Pearson, Mark; Rajah, Najma; Smith, Stephen.

Ramey, Valerie A.

TI Stochastic Trends and Short-Run Relationships Between Financial Variables and Real Activity. AU Konishi, Toru; Granger, Clive W. J.; Ramey, Valerie A.

PD March 1993. TI How Important is the Credit Channel in the Transmission of Monetary Policy? AA University of California, San Diego and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4285; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 37. PR \$5.00. JE E52, G21. KW Bank Loans. Bank Holdings.

AB This paper empirically tests the importance of the credit channel in the transmission of monetary policy. Three credit variables are analyzed: total bank loans, bank holdings of securities relative to loans, and the difference in the growth rate of short-term debt of small and large firms. In order to determine the marginal effect of the credit channel over the standard money channel, the significance of the credit variables is studied in a model that includes money (M2). In most cases, the credit variables play an insignificant role in the impact of monetary policy shocks on output.

Ravikumar, B.

TI Strategic Complementarity in Business Formation: Aggregate Fluctuations and Sunspot Equilibria. AU Chatterjee, Satyajit; Cooper, Russell W.; Ravikumar, B.

Razin, Assaf

PD November 1992. TI Business Cycle Volatility and Openness: An Exploratory Cross-Section Analysis. AU Razin, Assaf; Rose, Andrew. AA Razin: Tel Aviv University and National Bureau of Economic Research. Rose: University of California, Berkeley. SR National Bureau of Economic Research Working Paper: 4208; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 30. PR \$5.00. JE E32, F15, F32, C23, F41. KW Capital Mobility. Trade Barriers.

AB This paper links business cycle volatility to barriers on international mobility of goods and capital. Theory predicts that capital market integration should lower consumption volatility while raising investment volatility, if most shocks are country-specific and transitory. The removal of barriers to trade in goods should enhance specialization and hence output volatility. We test these ideas using a unique panel data set which includes indicators of barriers to trade in both goods and capital flows. However, our empirical results indicate that neither the degree of capital mobility, nor the degree of goods mobility is strongly correlated with the volatility of consumption, investment or output. This may reflect the fact that many business cycle shocks are both persistent and common to many countries.

PD November 1992. TI Convergence in Growth Rates: The Role of Capital Mobility and International Taxation. AU Razin, Assaf; Yuen, Chi-Wa. AA Razin: Tel Aviv University and National Bureau of Economic Research. Yuen: Hong Kong University. SR National Bureau of Economic Research Working Paper: 4214; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR \$5.00. JE O19, F41, F32, H21. KW Long-Term Growth. Growth Differentials.

AB We consider the role of capital mobility and international

taxation in explaining the observed diversity in long-term growth rates. Our major finding is that, under capital mobility, international differences in taxes will not matter for total growth differentials. Policy differences have a role to play in per capita growth differentials, however, when they lead to a divergence in the after-tax rates of return on capital across countries, as when the residence principle is adopted universally. When this is the case, how tax differences affect the growth rates of population and human capital will depend on the relative preference of the individual household towards these two engines of growth. Optimal tax policies are found to be growth-equalizing with and without policy coordination.

PD December 1992. **TI** International Migration and International Trade. **AU** Razin, Assaf; Sadka, Efraim. **AA** Razin: National Bureau of Economic Research and Tel Aviv University. Sadka: Tel Aviv University. **SR** National Bureau of Economic Research Working Paper: 4230; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 42. **PR** \$5.00. **JE** F22, F10, H31. **KW** Immigration. Welfare State.

AB This paper surveys key developments in the theory of international migration and international trade, and provides a few stylized facts. International migration can be a complement to international flows of commodities. In the presence of a productivity difference that is generated by an external economy effect of human capital, physical capital has weak incentives to flow from developed to underdeveloped countries, while pressures for international migration from poor to rich countries are strong. The balancing factors underlying an efficient global dispersion of population are those which generate advantages to size, such as public goods and those which generate disadvantages to size, such as congestion effects in the utilization of public services. The modern welfare state typically redistribute income from the rich to the poor in a way which attracts poor migrants from the less developed countries.

PD January 1993. **TI** Convergence in Growth Rates: The Role of Capital Mobility and International Taxation. **AU** Razin, Assaf; Yuen, Chi-Wa. **AA** Razin: Tel-Aviv University. Yuen: Hong Kong University of Science and Technology. **SR** CEPR Discussion Paper: 760; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 27. **PR** Pounds 4.00 or \$8.00. **JE** F21, F43, H21, J24, O41. **KW** Economic Growth. Population Growth. Human Capital Accumulation.

AB We consider the role of capital mobility and international taxation in explaining the observed diversity in long-term income growth rates. Under perfect capital mobility, international differences in taxes will not matter for total growth differentials. Policy differences have a role to play in per capita growth differentials, however, when they lead to a divergence in the after-tax rates of return on capital across countries. When this is the case, how tax differences affect the growth rates of population and human capital will depend on the relative preference of the individual household towards these two engines of growth. Optimal tax policies are found to be growth-equalizing with and without policy coordination.

Redish, Angela

PD August 1992. **TI** The Evolution of the Classical Gold Standard: The Case of France. **AA** University of British Columbia. **SR** University of British Columbia Department

of Economics Discussion Paper: 92-22; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. V6T 1Z1 CANADA. **PG** not available. **PR** JE F31, N13. **KW** Gold Standard. Bimetallism. Gresham's Law.

AB The emergence of the classical gold standard in 1880 ushered in an era of fixed exchange rates that lasted until 1914. The majority of nations- excepting Britain which had been on the gold standard since 1816-adopted the gold standard in the 1870's. The traditional explanation for this emphasizes the role of the fall in the price of silver and the desire of European nations to "hitch their (economic) wagons" to Britain's economic success. I argue that this explanation ignores a necessary precondition for the emergence of the gold standard: the issue of a subsidiary token coinage. Bimetallic standards were used prior to the gold standard era because they provided a superior medium of exchange. Only when governments could issue token coins that were expected to circulate at par could a gold standard provide an equally useful medium of exchange.

Reichlin, Lucrezia

TI Information, Forecasts and Measurement of the Business Cycle. **AU** Evans, George; Reichlin, Lucrezia.

Reid, Gavin C.

TI Price and Quantity Adjustment over the Business Cycle: Evidence from Survey Data. **AU** Baskar S.; Machin, Stephen; Reid, Gavin C.

Richardson, Ray

PD January 1993. **TI** The Shorter Working Week in Engineering: Surrender Without Sacrifice? **AU** Richardson, Ray; Rubin, Marcus. **AA** London School of Economics. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 113; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 42. **PR** no charge. **JE** J51, J22, J31. **KW** Unions.

AB The paper examines the effect of recent reductions in the working week of manual workers on the competitiveness of the engineering industry. This analysis was followed by a number of factory visits to obtain a management perspective on what lay behind the collective agreements and on their effects. The results of these visits were used in the design of a postal survey of factory-level managers. The survey shows that the managers expected the over half the cost of the reduction would be absorbed by productivity improvements and lower wage increases linked to the cut in the working week. The two-hour reduction added less than one per cent to expected manual labor costs when the responses were weighted by factory size. Expected costs were less for larger factories in particularly turbulent circumstances and where managers judged that union resistance to change had declined.

Richter, Wolfram F.

TI Capital Income Taxation and Risk Spreading with Adverse Selection. **AU** Konrad, Kai A.; Richter, Wolfram F.

Risager, Ole

PD November 1992. **TI** Labour Substitution in Denmark. **AA** University of Aarhus. **SR** Aarhus Institute of Economics Memo: 1992-16; Institute of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus

C, DENMARK. PG 14. PR no charge. JE J23. KW Labor Substitution. Wage Differentials.

AB This paper analyzes Danish firms' demand for skilled and unskilled labor. The main focus is on the degree of long-run substitutability, and the paper therefore applies the cointegration method. The paper finds that there is a high degree of substitutability between the two types of labor. Moreover, price increases on imported raw materials lead to a fall in the demand for unskilled labor relative to the demand for skilled labor. The decline in wage differentials and the adverse OPEC shocks in the 1970's therefore explain why unskilled workers have had a more unfavorable employment performance than skilled workers.

Rob, Rafael

TI Bandwagon Effects and Long Run Technology Choice. AU Kandori, Michihiro; Rob, Rafael.

PD February 1993. TI A Note on the Incentives to Agglomerate Under Demand Uncertainty. AA University of Pennsylvania. SR University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-06; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. PG 20. PR no charge. JE L22, L11. KW Concentration. Excess Demand. Agglomeration.

AB In this note I examine the hypothesis that firms agglomerate because the demands they face are uncertain and their capacities are limited. By concentrating their businesses firms can absorb each other's excess demand, rather than lose sales altogether (when demand exceeds capacity). On the other hand, when businesses are concentrated competition is fiercer which leads to lower prices. I determine the conditions under which the agglomeration benefit exceeds the cost. I also examine the clustering pattern in industries, and relate it to the industry's underlying characteristics.

Roberts, Kevin

PD September 1992. TI Valued Opinions or Opinionated Values: The Double Aggregation Problem. AA London School of Economics. SR London School of Economics Suntory-Toyota International Centre for Economics and Related Disciplines Working Paper: TE/92/253; London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 42. PR no charge. JE D63, D71. KW Social Choice. Interpersonal Comparison. Dictatorship.

AB A new powerful dictatorship result is presented. It is well known that in social choice problems, the negativism of the original Arrow result can be overcome by admitting information based on interpersonal comparisons. But what if individuals in society have different opinions about these interpersonal comparisons? This paper shows that even in the most favorable circumstances, one individual's opinions must be dictatorial- social choice can be based upon an evaluation of gains and losses to different individuals but must be based upon one individual's opinion about those gains and losses.

Rodrigues, Anthony P.

TI The Constrained Asset Share Estimation (CASE) Method: Testing Mean-Variance Efficiency of the U.S. Stock Market. AU Engel, Charles; Frankel, Jeffrey A.; Froot, Kenneth A.; Rodrigues, Anthony P.

Rogerson, Richard

TI Keeping People Out: Income Distribution, Zoning and the Quality of Public Education. AU Fernandez, Raquel; Rogerson, Richard.

Romer, David

TI Inflation and the Informativeness of Prices. AU Ball, Laurence; Romer, David.

Rose, Andrew

TI Business Cycle Volatility and Openness: An Exploratory Cross-Section Analysis. AU Razin, Assaf; Rose, Andrew.

Rosen, Harvey S.

TI Intertemporal Analysis of State and Local Government Spending: Theory and Tests. AU Holtz-Eakin, Douglas; Rosen, Harvey S.; Tilly, Schuyler.

Rosen, Richard

TI Corporate Control, Portfolio Choice, and the Decline of Banking. AU Gorton, Gary; Rosen, Richard.

Roubini, Nouriel

TI "Excessive Deficits": Sense and Nonsense in the Treaty of Maastricht. AU Buiter, Willem H.; Corsetti, Giancarlo; Roubini, Nouriel.

Rouse, Cecilia E.

TI Labor Market Returns to Two- and Four-Year Colleges: Is a Credit a Credit and Do Degrees Matter? AU Kane, Thomas J.; Rouse, Cecilia E.

PD February 1993. TI Democratization or Diversion? The Effect of Community Colleges on Educational Attainment. AA Princeton University. SR Princeton Industrial Relations Section Working Paper: 313; Industrial Relations Section, Department of Economics, Princeton University, Princeton, NJ 08544-2098. PG 15. PR \$1.50. JE I28, I21. KW Junior Colleges. Educational Attainment.

AB Throughout the late 1970's and the early 1980's, over 50% of all first-time first-year college students started in a junior college. Despite such a large role in higher education, we know relatively little about how well they serve their role of providing an education for all who want to attend college. Junior colleges affect educational attainment in two ways. First, the schools provide a place in higher education for those who might not have otherwise attended college, the democratization effect; however, they also draw away some students who might otherwise have attended a four-year college, the diversion effect. This paper attempts to sort out the overall impact of junior colleges on educational attainment. I use the natural experiment arising from variation in access to junior colleges across cities and states to address the problem of self-selection into types of colleges. The results suggest that on net junior colleges increase total years of schooling, but do not change the likelihood of attaining a BA.

Rubin, Marcus

TI The Shorter Working Week in Engineering: Surrender Without Sacrifice? AU Richardson, Ray; Rubin, Marcus.

Rudebusch, Glenn D.

TI Is There a Bank Credit Channel for Monetary Policy?

AU Oliner, Stephen D.; Rudebusch, Glenn D.

Rydqvist, Kristian

PD February 1993. TI The Division of Takeover Gains in Sweden. AA Stockholm School of Economics. SR Centre for Economic Policy Research, European Science Foundation, Working Paper: 31; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, ENGLAND. PG 23. PR not available. JE G34, G12, C78. KW Bargaining. Division of Gains.

AB The paper estimates the gains from takeover in a sample of Swedish public-tender offers and analyzes its division between target and bidder shareholders. It finds that target and bidder shareholders collectively gain 6% in merger bids and 3% in minority buyouts, and that target shareholders collect approximately 80% of the gain in both transaction types. The skewed division of the gain is surprising given that the tender offer prices in our data are bilaterally negotiated between the bidder and the target. A free-riding-type model designed for the Swedish institutional environment is developed to explain how bilateral negotiations can systematically give one party a larger share of the gain from trade.

Sadka, Efraim

TI International Migration and International Trade. AU Razin, Assaf; Sadka, Efraim.

Safra, Zvi

TI Unbounded Behaviorally Consistent Stopping Rules. AU Kami, Edi; Safra, Zvi.

Sala-i-Martin, Xavier

PD June 1992. TI Public Welfare and Growth. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 666; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 32. PR \$2.00 plus postage. JE K42, I38, O40. KW Public Welfare. Growth.

AB In this paper I develop a simple model of optimal criminal behavior to analyze the role of public welfare policies such as redistributional transfers or wage subsidies. I show that public welfare acts as a crime-preventing device since it increases the opportunity cost of committing crimes. I argue that transfers and wage subsidies can be thought of a productive public goods subject to congestion, as with police protection and national defense. Transfers and wage subsidies are productive because they reduce the criminal-induced aggregate distortions in the economy. They are subject to congestion because when a person decides to increase his output he also increases the average output in the economy and, therefore, the reward to others of criminal actions. I find the growth-maximizing size of the public welfare-program and I show that public welfare should be financed with income (not lump-sum) taxes, despite the fact that income taxes are distortionary.

TI U.S. Money Demand: Surprising Cross-Sectional Estimates. AU Mulligan, Casey B.; Sala-i-Martin, Xavier.

TI Capital Mobility in Neoclassical Models of Growth. AU Barro, Robert J.; Sala-i-Martin, Xavier; Mankiw, N. Gregory.

Sanfey, Peter

TI Wages, Profits and Rent-Sharing. AU Blanchflower,

David G.; Oswald, Andrew J.; Sanfey, Peter.

Satchell, Stephen E.

TI Efficiency Considerations in the Negative Exponential Failure Time Model. AU Knight, John L.; Satchell, Stephen E.

TI Asymptotic Expansions for Random Walks with Normal Errors. AU Knight, John L.; Satchell, Stephen E.

TI Apprenticeships and Job Tenure: A Competing Risks Model with Time-Varying Covariates. AU Booth, Alison L.; Satchell, Stephen E.

TI Exact Critical Regions and Confidence Intervals for Maximum Likelihood Estimators in the Negative Exponential Regression Model. AU Knight, John L.; Satchell, Stephen E.

Scheinkman, Jose

TI Aggregate Fluctuations from Independent Sectoral Shocks: Self-Organized Criticality in a Model of Production and Inventory Dynamics. AU Bak, Peter; Chen, Kan; Scheinkman, Jose; Woodford, Michael.

Schlee, Edward

TI Utility Theory with Probability Dependent Outcome Valuations: Extensions and Applications. AU Kami, Edi; Schlee, Edward.

Schmidt, Klaus M.

PD November 1992. TI Privatization and Management in the Transition Period in Eastern Europe. AU Schmidt, Klaus M.; Schnitzer, Monika. AA Massachusetts Institute of Technology and Bonn University. SR Massachusetts Institute of Technology Department of Economics Working Paper: 92-17; Department of Economics, Massachusetts Institute of Technology, Cambridge, MA 02139. PG 27. PR \$8.00 Domestic; \$10.00 overseas; \$5.00 students. JE L51, P51, L33. KW Principal-Agent Theory. Economic Reform. Economic Transition. AB not available.

Schmidt, Roland

PD November 1992. TI Nonlinearities and Risk Premia in Daily Dollar-Mark Exchange Rate Movements. AA University of Bonn. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: B-226; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 27. PR no charge. JE F31. KW Risk Neutral Investors. Brownian Motions.

AB The paper starts by discussing the role of nonlinearities in the existence of risk premia in economies with only risk neutral investors. It proceeds by tests for Brownian motions, leading to a clear rejection of the hypothesis of independent and normally distributed increments in the dollar-mark exchange rate. Finally, it shows that in times of higher exchange rate risk the German government has paid a risk premium.

Schmitt, John

PD March 1993. TI The Changing Structure of Male Earnings in Britain, 1974-88. AA London School of Economics. SR London School of Economics Centre for

Economic Performance Discussion Paper: 122; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 28. PR no charge. JE J31, J22, J23. KW Skilled Labor. Wages. Labor Supply.

AB The paper uses data from the annual British General Household Survey to examine changes in the structure of weekly earnings for full-time male employees aged 16 to 64 during the period 1974-1988. The principal findings are: (1) earnings inequality fell slightly in the second half of the 1970's only to grow sharply during the 1980's; (2) rising financial returns to education and labor market experience in the 1980's account for between one-third and one-half of the growth in earnings inequality during the 1980's; (3) the earnings of low-skilled workers increased by over 15 percent in real terms between 1974 and 1988. Rising returns to skills in the face of a large increase in the supply of skilled labor suggest a substantial shift in labor demand in favor of skilled workers. Changes in British labor market institutions, particularly the decline in trade union density may also help to explain part of the rise in inequality during the 1980's.

Schnitzer, Monika

TI Privatization and Management in the Transition Period in Eastern Europe. **AU** Schmidt, Klaus M.; Schnitzer, Monika.

Scholz, John Karl

TI Private Saving and Public Policy. **AU** Bernheim, B. Douglas; Scholz, John Karl.

Schuh, Scott

TI Estimating the Linear-Quadratic Inventory Model: Maximum Likelihood versus Generalized Method of Moments. **AU** Fuhrer, Jeff; Moore, George; Schuh, Scott.

Schultz, T. Paul

PD April 1992. **TI** The Relationship Between Local Family Planning Expenditures and Fertility in Thailand, 1976-1981. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 662; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. **PG** 47. **PR** \$2.00 plus postage. **JE** J13, J16, J18. **KW** Family Planning, Fertility, Female Education.

AB This paper assesses the effectiveness of government subsidies to public and private family planning delivery systems to reduce fertility in Thailand before 1980. A significant share of the variation in fertility is associated with the provincial level of expenditure on family planning. Additional hypotheses are tested for which segments of the population benefited most from local family planning cost effectiveness programs activities, whether the private and public programs are substitutes or complements for each other in the production of more effective birth control, and the differential returns to scale in the private and public delivery of family planning. The findings strongly suggest that the rapid increase in female education and the range of public subsidies extended to voluntary family planning programs in Thailand were both critically important in accounting for the rapid decline in that country's fertility.

PD April 1992. **TI** Measurement of Returns to Adult Health: Morbidity Effects on Wage Rates in Cote d'Ivoire and Ghana. **AU** Schultz, T. Paul; Tansel, Aysit. **AA** Yale

University. **SR** Yale Economic Growth Center Discussion Paper: 663; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. **PG** 53. **PR** \$2.00 plus postage. **JE** I12, J13. **KW** Adult Health. Labor Productivity. West Africa.

AB Sickness should make individuals less productive by reducing their capacity to do work. Measurement of this effect of morbidity on productivity involves several measurement problems. First, there is no consensus on how to measure adult morbidity in a household survey of a low-income population. Second, if part of earnings are used to improve health, how is the impact of morbidity on productivity inferred? To consider the first problem, surveys from Cote d'Ivoire and Ghana are examined to assess whether self-reported functional activity limitation due to illness is a reasonable indicator of morbidity for wage earners. To deal with both the measurement and joint determination problems, an instrumental variable estimation approach using local food prices and public services is implemented for assessing how morbidity impacts on wages and earnings. These estimates indicate that morbidity is linked among men to declines in hourly wage rates, and associated with reduced hours of work for wages, and a reduced probability of entering the wage labor force.

PD August 1992. **TI** The Role of Education and Human Capital in Economic Development: An Empirical Assessment. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 670; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. **PG** 30. **PR** \$2.00 plus postage. **JE** I20, I21, J24, O47. **KW** Human Capital. Economic Growth.

AB Estimates of aggregate production functions from intercountry data have strengthened speculations that human capital is an important determinant of modern economic growth and a critical factor in explaining the convergence in growth across countries. For this macro literature to shed more empirical light on the growth contribution of education and other forms of human capital, measures of the stock of human capital must be improved and disaggregated. In particular, connections between diet, disease, height, stature and labor productivity imply that aggregate growth theories should seek to incorporate health, as well as education. Micro economic studies of individual wage differentials derived from household survey are available from many low income countries. A host of difficult to resolve econometric problems cloud the interpretation of the partial association between the logarithm wage rates and the years of education a worker has obtained. Nonetheless, this association between wage productivity and schooling provides a useful, if imperfect, estimate of private returns.

Schurger, Klaus

PD December 1992. **TI** On the Existence of Equivalent Submartingale Measures. **AA** University of Bonn. **SR** Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: B-229; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. **PG** 7. **PR** no charge. **JE** G10. **KW** Measure Theory. Stochastic Financial Markets.

AB Let X be an $(\mathbb{R}$ to the d)-valued stochastic process defined on a probability space. We obtain conditions which are necessary and sufficient for X to have an equivalent submartingale measure Q .

Scott, Andrew

TI Consumer Confidence and Rational Expectations: Are Agents' Beliefs Consistent with the Theory? AU Acemoglu, Daron; Scott, Andrew.

Sedjo, Roger A.

PD November 1991. TI Managing the Forest for Timber and Ecological Outputs on the Olympic Peninsula. AU Sedjo, Roger A.; Bowes, Michael D. AA Resources for the Future. SR Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-02; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 70. PR \$5.00 prepaid, U.S. funds. JE Q23, Q28, Q24. KW Timber. Ecology. Forest Management.

AB This study examines alternative forest management regimes that the Department of Natural Resources (DNR), Washington State, might undertake on its forestlands which are held in trust, on the Olympic Peninsula. Traditional practices have involved clearcutting the mature (but not always old-growth), predominantly western hemlock stands and replanting in Douglas fir. For this study a number of alternative "ecological" management regimes have been identified. The "ecological" regimes include as management objectives the provision of both timber and ecological outputs, with an objective being the attainment of a forest with an "old-growth structure." Included importantly among the ecological outputs are old trees, multiple-storied canopy, and substantial amounts of dead wood to provide habitat. Various forms of tree retention schemes are examined. In addition, the ecological regimes provide a much greater reliance on natural regeneration. In addition to practices, the "ecological" regimes are compared with traditional management with respect to financial returns.

Selden, Thomas M.

TI Stoking the Fires? CO₂ Emissions and Economic Growth. AU Holtz-Eakin, Douglas; Selden, Thomas M.

Shaffer, Sherrill

PD February 1993. TI Stable Cartels with a Cournot Fringe. AA Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 93-8; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. PG 15. PR no charge except overseas airmail, \$2.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D43, L13. KW Cournot Oligopoly. Stackelberg Leader. Oligopoly. AB A stable cartel containing just over half of the firms in the market is derived in a simple linear model when the cartel behaves as a Stackelberg leader and behavior in the fringe is Cournot. Conditions are shown under which the Cournot behavior and Stackelberg sequence emerge endogenously. The criterion of cooperative stability is introduced where the cartel can exclude unwanted members, and is shown not to alter the size of the stable cartel. The usual welfare properties are shown to hold.

Shah, Atul K.

PD March 1993. TI The Role of Accounting in Financing Decisions: The Case of Goodwill and Convertibles. AA University of Bristol. SR University of Bristol Economics Working Paper: 93/348; Department of Economics,

University of Bristol, Alfred Marshall Building, 8 Woodland Road, Bristol BS8 1TN, ENGLAND. PG 21. PR no charge. JE G34, G32, M41. KW Acquisitions. Corporate Finance.

AB Finance theory cannot fully explain the popularity of convertibles in corporate financing. Shah (1993) found limited evidence that convertibles provided certain accounting advantages in respect of acquisitions. Those issues which were classified as equity in the balance sheet helped create a substantial reserve which could then be used to write off the goodwill arising from an acquisition. In this paper, we examine the extent to which the above finding is generalizable. The accounting policies and disclosures of eight U.K. companies which issued convertibles to finance acquisitions are discussed and analyzed. The evidence suggests a significant advantage presented by equity classified convertibles in the writeoff of acquisition goodwill. Data is presented on all convertible issues between 1985 and 1990 which were used to finance acquisitions, and the accounting treatment adopted by these firms in respect of goodwill. The evidence does suggest quite strongly that the method of financing acquisitions was influenced by accounting considerations.

PD March 1993. TI Accounting Policy Choice: The Case of Convertible Securities. AA University of Bristol. SR University of Bristol Economics Working Paper: 93/349; Department of Economics, University of Bristol, Alfred Marshall Building, 8 Woodland Road, Bristol BS8 1TN, ENGLAND. PG 41. PR no charge. JE M41. KW Accounting Policy. Accounting Rules.

AB What factors influence firms to make particular accounting choices in areas where accounting rules are vague or incomplete? That is the central question addressed in this paper. The case study of Burton Group plc and its accounting policy choices relating to complex convertible securities are examined and analyzed. Press and analyst comments on these choices are also evaluated, and an attempt is made to develop a comprehensive understanding of the factors which influence accounting choice in practice. Management appears to actively exploit loopholes in the rules and auditors are unable (or unwilling) to restrain them in their actions. Analysts and the press did not appear to examine the financial statements closely and this made it easier for the firm to choose those accounting policies which portrayed it in a favorable light. The implications of the findings for positive accounting theory are discussed towards the end of the paper.

PD March 1993. TI The Process of Financial Engineering. The Case of Convertible Securities Issued by U.K. Companies During 1985-90. AA University of Bristol. SR University of Bristol Economics Working Paper: 93/350; Department of Economics, University of Bristol, Alfred Marshall Building, 8 Woodland Road, Bristol BS8 1TN, ENGLAND. PG 62. PR no charge. JE G32, M41. KW Financial Instruments. Regulation. Accounting.

AB Between 1985 and 1990, there was significant innovation in the types of convertible securities issued by U.K. companies in the Domestic and Eurobond markets. Shah (1993) found evidence suggesting that the innovation in the market was driven by accounting considerations. Conventional finance theory would reject such a motive. Evidence is presented on the principal variants of the conventional convertible which were developed, and how they evolved over time. At the time these securities were issued, there was no specific accounting standard, and hence accounting policy was to be drawn from

Generally Accepted Accounting Principles. The terms of each type are explained in detail, and their accounting treatment is also considered. Evidence on the costs of issue of these sophisticated instruments is presented and it is shown that firms were prepared to pay much higher issue costs in comparison to conventional instruments. The evidence suggests quite strongly that at least in the U.K. convertibles market, innovation was influenced by accounting considerations.

Shariff, Abusaleh

TI A Comparative Study of Fertility Determinants in Togo and Uganda: A Hazard Model Analysis. **AU** Ahn, Namkee; Shariff, Abusaleh.

Sharpe, Steven A.

PD April 1993. **TI** Financial Market Imperfections, Firm Leverage and the Cyclicity of Employment. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System Finance and Economics Discussion Series: 93-10; C/O Stephen A. Sharpe, Mail Stop 89, Federal Reserve Board, Washington, DC 20551. **PG** 23. **PR** no charge. **JE** E24, G32, E32. **KW** Labor Hoarding, Debt.

AB The sensitivity of employment to temporary changes in demand is compared across firms of differing size and capital structures. Macroeconomic variables are used as instruments for demand in order to both avoid endogeneity problems as well as to highlight the effects of shifts in aggregate demand and credit supply. Employment at smaller firms and firms with higher leverage is found to be substantially and significantly more sensitive to demand-induced fluctuations in sales than employment at larger firms or those with lower leverage.

Shavell, Steven

TI Accuracy in the Determination of Liability. **AU** Kaplow, Louis; Shavell, Steven.

TI Accuracy in the Assessment of Damages. **AU** Kaplow, Louis; Shavell, Steven.

Shaw, Christine

PD January 1993. **TI** Patterns of Success: Twentieth-Century Entrepreneurs in the Dictionary of Business Biography. **AA** London School of Economics. **SR** London School of Economics Centre for Economic Performance Discussion Paper: 114; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. **PG** 24. **PR** no charge. **JE** M13, M21. **KW** Businessmen, Entrepreneurship.

AB This paper analyses a group of 278 "founders" of businesses active in the United Kingdom during the twentieth century, biographies of whom are included in the Dictionary of Business Biography and the Dictionary of Scottish Business Biography. All of the businessmen in this group were highly successful in their field, and the analysis aims to identify common factors behind their success and whether they managed to retain control of the firms they built up. In general, the unspectacular virtues of hard work and basic skills are the only identifiable causes of success; only in a few cases were personal contacts, or strokes of luck, or even help from relations, of crucial significance. Most managed to retain control of their business for as long as they cared to exercise it. The paper concludes that the dazzling rise and occasional

crashing fall of the few "showmen" entrepreneurs on whom the press tends to focus attention can mislead into believing that exceptional success must be due to exceptional circumstances or an outstanding personality.

Shearer, Ronald A.

TI Banks for "The Industrious Classes of Her Majesty's Subjects." **AU** Paterson, Donald G.; Shearer, Ronald A.

PD September 1992. **TI** The Supply of Canadian Money, 1824-1871: The Estimates. **AU** Shearer, Ronald A.; Paterson, Donald G. **AA** University of British Columbia. **SR** University of British Columbia Department of Economics Discussion Paper: 92-25; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. Canada V6T 1Z1. **PG** not available. **PR** **JE** N21, E51. **KW** Canadian Money Supply.

AB In this paper we present annual estimates of the supply of Canadian money, 1824-1871. The estimates are based on individual bank data from a variety of sources, including private banks and free banks as well as chartered banks. The estimates are presented in two parts. From 1824-1841 the underlying data are limited and infrequent. The estimates are intended as descriptive statistics. Based on more complete and more frequent records, the estimates for 1842-1871 are considerably more reliable. For the latter period, quarterly estimates are available from the authors.

PD October 1992. **TI** The Supply of Canadian Money 1824-1871. **AU** Shearer, Ronald A.; Paterson, Donald G. **AA** University of British Columbia. **SR** University of British Columbia Department of Economics Discussion Paper: 92-26; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. Canada V6T 1Z1. **PG** not available. **PR** **JE** N21, E51, C82. **KW** Canadian Money Supply.

AB These appendices describe the sources of data and the estimation techniques for the estimates of the supply of Canadian money reported in the discussion paper, "The Supply of Canadian Money, 1824-1871." The estimates are in two sections, 1824-1841 (Appendices 1 and 2) and 1842-1871 (Appendices 3-6). In addition to the discussion of data sources and estimation techniques and problems, considerable additional data are presented in these appendices. These include individual bank data for the 1824-1841 period and for the second period, quarterly as well as annual estimates and estimates for free banks and early government notes.

PD October 1992. **TI** Was the Farmer's Bank Given a Bum Rap? **AU** Shearer, Ronald A.; Paterson, Donald G. **AA** University of British Columbia. **SR** University of British Columbia Department of Economics Discussion Paper: 92-27; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. Canada V6T 1Z1. **PG** 16. **PR** **JE** N21. **KW** Canadian Banking History, Banking History, Bank Failures.

AB The Farmer's Bank was a private, note-issuing bank, established in Toronto in 1835. Acquired by Buffalo interests in 1848, it operated primarily in Buffalo until it failed in November 1854. It has been argued that it was a wildcat bank, managed by unscrupulous and deceitful operators. In this paper we argue that while this is a possible interpretation, it is more plausible that the bank was a legitimate business venture, an early example of a trans-border business, which met its obligations to note holders, promptly and from readily

accessible locations, until the very end. Then bank's business in Canada was frustrated by its failure to obtain a charter and common law which denied unincorporated joint stock companies legal status. Expansion in the U.S. was encouraged by state banking laws and as a method of tax avoidance. The failure of the bank was a result of excessive involvement in the financing of a shaky railway project coupled with a minor banking crisis.

Shekhar, Shashi

TI Real Time Planning to Minimize Response Time in Static and Dynamic Worlds. AU Dutta, Soumitra; Shekhar, Shashi; Hamidzadeh, Babak.

Shleifer, Andrei

TI What Do Firms Do with Cash Windfalls? AU Blanchard, Olivier J.; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

TI Princes and Merchants: European City Growth Before the Industrial Revolution. AU De Long, J. Bradford; Shleifer, Andrei.

Shubik, Martin

PD March 1993. TI A Strategic Market Game with Seigniorage Costs of Fiat Money. AU Shubik, Martin; Tsomocos, Dimitrios. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1043; Yale University, Cowles Foundation for Research in Economics, 30 Hillhouse Ave., Box 2125 Yale Station, New Haven, CT 06520. PG 17. PR no charge. JE D51. KW Transactions Costs. Currency.

AB A model that includes the cost of producing money is presented and the nature of the inefficient equilibria in the model are examined. It is suggested that if one acknowledges that transactions are a form of production, which requires the consumption of resources, then the concept of Pareto optimality is inappropriate for assessing efficiency. Instead it becomes necessary to provide an appropriate comparative analysis of alternative transactions mechanisms in the appropriate context.

Sicherman, Nachum

PD February 1993. TI Gender Differences in Departures from a Large Firm. AA Columbia University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4279; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 25. PR \$5.00. JE J16, J63. KW Quits. Job Switching. Job Tenure.

AB Looking at the personnel records of workers in a large company, where detailed reasons for worker departure are recorded, I find striking differences in the exit patterns between men and women. As is well known, a higher proportion of women leave for a variety of non-market reasons. Further, women state more often wages, and not opportunities, as a reason for switching jobs. Women, on average, are more likely to leave the firm. This is especially true in periods of early tenure. For both men and women, the likelihood of departure increases in the first two months of tenure, and then declines at a decreasing rate. This decline is stronger for women. Using a proportional hazard model, with controls for observed characteristics, I find that beyond five years tenure, women are less likely to leave the firm than men. Tenure turnover profiles

are computed for the different reasons of departure. This detailed breakdown provides additional insights into gender differences in quit behavior.

Simpson, R. David

TI Contracting Incentives in Electricity Generation Fuel Markets. AU Palmer, Karen; Fox-Penner, Peter; Simpson, R. David; Toman, Michael A.

PD May 1992. TI Transactional Arrangements and the Commercialization of Tropical Biodiversity. AA Resources for the Future. SR Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-11; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 52. PR \$5.00 prepaid, U.S. funds. JE Q29, L14, O34. KW Genetic Resources. Contracts. Property Rights.

AB There has been growing interest in recent years in the possibility of conducting "genetic prospecting" operations in tropical rainforests. This interest might be credited to both a growing realization of the possibilities of discovering products of pharmaceutical, agricultural, or industrial value and an increased concern with identifying means by which endangered ecosystems and the genetic resources they contain might be preserved. Economists generally believe that efficient allocation of resources requires that property rights to the resources be well defined. In this context, this means that the benefits of conservation must accrue to the people who have the power to prevent the destruction of the resources. It may be difficult to define complete property rights to genetic resources, however. This is because they are non-rival goods--goods for which one person's consumption does not affect another's ability to consume the same thing.

Sinn, Hans-Werner

TI Privatization, Risk-Taking, and the Communist Firm. AU Demougine, Dominique; Sinn, Hans-Werner.

TI Privatization, Risk-Taking, and the Communist Firm. AU Demougine, Dominique; Sinn, Hans-Werner.

Skinner, Jonathan

TI Fiscal Policy and Economic Growth. AU Engen, Eric; Skinner, Jonathan.

Smith, Ron

TI Theory and Evidence in Economics. AU Pesaran, M. Hashem; Smith, Ron.

TI The Interaction Between Theory and Observation in Economics. AU Pesaran, M. Hashem; Smith, Ron.

Smith, Stephen

TI Tax Reform in Czechoslovakia. AU Heady, Christopher; Pearson, Mark; Rajah, Najma; Smith, Stephen.

Smith, V. Kerry

PD October 1991. TI Does the Framing of Risk Information Influence Mitigation Behavior? AU Smith, V. Kerry; Desvousges, William H.; Payne, John W. AA Smith: North Carolina State University. Desvousges: Center for Economic Research, Research Triangle Institute. Payne: Duke University. SR Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-03; Quality of

the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 28. PR \$2.25 prepaid, U.S. funds. JE Q25, D81, H31. KW Decision Making, Information, Radon.

AB This paper reports the results of the first field study of a large number of households making mitigation decisions in response to a risk information program. More specifically, a sample of 2,300 households in New York had three radon monitors placed in their homes for a little over a year. The monitors were placed at different locations around the homes and were removed at different intervals. Participating households were interviewed four times over the course of their three years in the program. During that time they received two sets of radon readings along with one of six different information materials explaining radon's risk. The empirical analysis indicates that the framing of risk information does affect behavior. Households receiving information materials that were more directive, all else equal, were more likely to undertake some form of mitigation in comparison with any of the other forms of information considered.

PD December 1991. **TI** Can Hedonic Models Value Air Quality? A Meta-Analysis. **AU** Smith, V. Kerry; Huang, Ju Chin. **AA** North Carolina State University. **SR** Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-06; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. **PG** 48. **PR** \$2.25 prepaid, U.S. funds. **JE** Q25, R31. **KW** Hedonic Models, Air Quality, Property Value.

AB This paper reports the results of a meta-analytic summary of the performance of hedonic property value models involving air pollution. Two summary measures of the models' findings were considered: a qualitative variable defined by whether or not the model contained a statistically significant negative relationship between at least one air pollutant and the property value, and an estimate of the constant dollar marginal rate of substitution for particulate matter. Both measures provide support for the hedonic framework. Using the first measure, the estimates suggest that judgements made in implementing the model, air quality of the cities being studied, and economic conditions in local housing markets influence the ability of hedonic models to detect significant linkages between pollution and property values. Using the real MRS, the summary models suggest that implementation decisions had less influence than differences in economic conditions on the variation in estimates across studies.

TI Measuring Use and Nonuse Values for Landscape Amenities: A Contingent Behavior Analysis of Gypsy Moth Control. **AU** Jakus, Paul; Smith, V. Kerry.

PD March 1992. **TI** Nonmarket Valuation of Environmental Resources: An Interpretative Appraisal. **AA** North Carolina State University. **SR** Resources for the Future, Quality of the Environment Division Discussion Paper: QE92-12; Quality of the Environment Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. **PG** 40. **PR** \$2.25 prepaid, U.S. funds. **JE** D61. **KW** Nonmarket Valuation, Travel Cost, Contingent Valuation. **AB** This paper provides an interpretative review of the research to date on nonmarket valuation. By focusing on modeling strategies, the review seeks to gauge whether the methods are up to the tasks demanded of them and to identify new research priorities. The evaluation suggests that we can outline a protocol for implementing and using some methods,

while for others our experience base is still developing. Because demands for valuation information are increasing as our understanding of measurement methods is advancing, the paper suggests a next step in development: defining a systematic "commodity structure" for environmental services with current needs for valuation measures clearly providing conceptual underpinnings.

Snowder, Dennis J.

TI Price Inertia and Production Lags. **AU** Lindbeck, Assar; Snowder, Dennis J.

PD March 1992. **TI** Unemployment Persistence and the Unemployment-Productivity Relation. **AA** Birkbeck College. **SR** Birkbeck College Discussion Papers in Economics: 4/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. **PG** 8. **PR** not available. **JE** E24. **KW** Productivity Growth, Unemployment.

AB Ever since the late 1960's it has been appreciated that the rate of long-term productivity growth is an important determinant of the natural rate of unemployment, implying an inverse long-run relation between unemployment and productivity growth, which we will call the "unemployment-productivity relation" for short. More recently, a large literature has emerged on "unemployment persistence", of which hysteresis is an extreme case. A number of studies have shown how the degree of unemployment persistence depends on the magnitude of labor turnover costs, insider membership effects, and discouraged worker effects. However, little if anything has been done thus far to explore the interrelation between the degree of unemployment persistence and the unemployment-productivity tradeoff. This is the subject of this paper.

PD March 1992. **TI** Patterns of Unemployment: An Insider-Outsider Analysis. **AU** Snowder, Dennis J.; Lindbeck, Assar. **AA** Snowder: Birkbeck College. Lindbeck: University of Stockholm. **SR** Birkbeck College Discussion Papers in Economics: 6/92; Birkbeck College, Department of Economics 7/15 Gresse Street, London W1P 1PA, ENGLAND. **PG** 26. **PR** not available. **JE** E24, J63. **KW** Labor Turnover, Unemployment Persistence.

AB Theories of unemployment should be able to explain the following features of labor markets in the U.S. and many European countries: (1) Unemployment rates display a high degree of serial correlation. (2) The average rate of unemployment was higher in the U.S. than in Europe over the 1950's and 60's, but lower in the 80's. (3) The long-run unemployment rate appears to be independent of the level of productivity and the magnitude of the labor force. The aim of this paper is to present a simple insider-outsider model that can account simultaneously for all of the stylized facts above, as well as generate a number of further empirically testable hypotheses concerning the determinants and evolution of unemployment. The model rests on two general observations: (i) labor markets are characterized by significant labor turnover and (ii) labor turnover costs play an important role in firms' employment decisions and in enabling insiders to gain market power in the wage setting process.

Solomou, Solomos

PD July 1992. **TI** UK National Income 1920-1938: The Implications of Balanced Estimates. **AU** Solomou, Solomos; Weale, Martin. **AA** University of Cambridge.

SR University of Cambridge Department of Applied Economics Working Paper: 9221; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 7. PR \$5.00 (L2.50), checks payable to University of Cambridge. JE C43, E32, N14, O47. KW Disaggregated Data. Interwar Period. Business Cycles.

AB This paper uses methods of national income balancing to derive disaggregated national accounts for the UK economy during 1920-1939. The revised data have significant implications for our understanding of the cyclical path of the inter-war economy and its sectoral behavior.

Solon, Gary

PD October 1992. TI Measuring the Cyclicity of Real Wages: How Important is Composition Bias? AU Solon, Gary; Barsky, Robert; Parker, Jonathan A. AA Solon: University of Michigan. Barsky: University of Michigan and National Bureau of Economic Research. Parker: Massachusetts Institute of Technology. SR National Bureau of Economic Research Working Paper: 4202; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 33. PR \$5.00. JE E32, E24, C43. KW Business Cycles. Aggregation. Real Wages.

AB In the period since the 1960's, as in other periods, aggregate time series on real wages have displayed only modest cyclicity. Macroeconomists therefore have described weak cyclicity of real wages as a salient feature of the business cycle. Contrary to this conventional wisdom, our analysis of longitudinal microdata indicates that real wages have been substantially procyclical since the 1960's. In accordance with a conjecture by Stockman (1983), we show that the true procyclicality of real wages is obscured in aggregate time series because of a composition bias: the aggregate statistics are constructed in a way that gives more weight to low-skill workers during expansions than during recessions. We conclude that, because real wages actually are much more procyclical than they appear in aggregate statistics, theories designed to explain the supposed weakness of real wage cyclicity may be unnecessary, and theories that predict substantially procyclical real wages become more credible.

Spolaore, Enrico

TI How Cynical Can an Incumbent Be? Strategic Policy in a Model of Government Spending. AU Milesi-Ferretti, Gian-Maria; Spolaore, Enrico.

Stavins, Robert N.

TI Economic Incentives for Environmental Protection: Integrating Theory and Practice. AU Hahn, Robert W.; Stavins, Robert N.

Steagall, Jeffrey W.

TI An Analysis of Factors Influencing ITC Decisions in Antidumping, Countervailing Duty and Safeguard Cases. AU Baldwin, Robert E.; Steagall, Jeffrey W.

Stein, Jeremy C.

TI Credit Conditions and the Cyclical Behavior of Inventories: A Case Study of the 1981-82 Recession. AU Kashyap, Anil K.; Lamont, Owen A.; Stein, Jeremy C.

Steinmeier, Thomas L.

TI The Role of Pensions in the Labor Market. AU Gustman, Alan L.; Mitchell, Olivia S.; Steinmeier, Thomas L.

Sterdyniak, H.

PD March 1992. TI Equilibres Conjecturaux Coherents et Coordination des Politiques Economiques. AU Sterdyniak, H.; Villa, P. AA Sterdyniak: O.F.C.E.; Villa: INSEE. SR Unite de Recherche Document de Travail ENSAE/INSEE: 9220; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. PG 23. PR no charge. JE F42, C72, F31, E52, E62. KW Policy Coordination. Game Theory. Exchange Rate Regimes.

AB The literature on economic policy coordination gives an essential part to the concept of Nash equilibrium. But it assumes blind behavior of each country which would not consider that the partner countries will react to its action. On the contrary, in the Consistent Conjectural Equilibrium, each country takes perfectly into account the way the others react; the equilibrium which is obtained does not change with the choice of the instrument of economic policy. This concept is used to study three cases of coordination: fiscal policy, monetary policy and exchange rate regime. The Consistent Conjectural Equilibrium is not always more efficient than the inconsistent Nash equilibrium; however, in most cases, it rules out part of the inefficiency of uncoordinated economic policies.

Stern, Nicholas

TI Economic Reforms and Public Finance in China. AU Hussain, Athar; Stern, Nicholas.

Stewart, Mark

TI The Economic Effects of Multiple Unionism: Evidence from the 1984 Workplace Industrial Relations. AU Machin, Stephen; Stewart, Mark; Van Reenan, John.

Stiglitz, Joseph E.

PD March 1993. TI Endogenous Growth and Cycles. AA Stanford University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4286; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 45. PR \$5.00. JE E32, O30, O40. KW Business Cycles. Innovation. Capital Market Imperfections.

AB Schumpeter argued that economic downturns had positive effects, in the incentives that it provided for firms to increase their efficiency. Part I provides a simple model confirming Schumpeter's insight. At the same time, the model shows that there are real costs to economic fluctuations which extend well beyond the temporary losses in output: the future productivity of the economy is adversely affected. Traditional Schumpeterian analyses have focused on the relationships between market structure and innovation. They have paid less attention to the relationship between innovation and capital market imperfections. It is these capital market imperfections which give result in the deleterious effect of economic downturns on technological progress. Part II of the paper shows that the nexus between fluctuations and innovation goes in both directions: fluctuations in economic activity not only cause fluctuations in innovation, fluctuations in innovation may give rise to fluctuations in economic activity.

Stock, James H.

TI Pension Plan Provisions and Retirement: Men & Women, Medicare, and Models. AU Lumsdaine, Robin L.; Wise, David A.; Stock, James H.

Stulz, Rene M.

PD November 1992. TI Foreign Equity Investment Restrictions and Shareholder Wealth Maximization. AU Stulz, Rene M.; Wasserfallen, Walter. AA Stulz: Ohio State University and National Bureau of Economic Research. Wasserfallen: Study Center Gerzensee. SR National Bureau of Economic Research Working Paper: 4217; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 27. PR \$5.00. JE F21, G12, G15. KW Foreign Investors. Switzerland.

AB This paper provides a theory of foreign equity investment restrictions. In a setting where the demand function for domestic shares differs between domestic and foreign investors, domestic entrepreneurs can maximize firm value by discriminating between domestic and foreign investors. The empirical implications of this theory are supported by evidence from Switzerland. In contrast to mean-variance asset pricing models, the model correctly predicts that the relaxation of foreign equity investment restrictions decreases the value of shares available to foreign investors.

Sutherland, Holly

TI The Statistical Reliability of Microsimulation Estimates: Results for a UK Tax-Benefit Model. AU Pudney, Stephen; Sutherland, Holly.

Svensson, Lars E. O.

PD November 1992. TI Why Exchange Rate Bands? Monetary Independence in Spite of Fixed Exchange Rates. AA Stockholm University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4207; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 33. PR \$5.00. JE F31, E58, E51. KW Target Zones. Central Banks.

AB The paper argues that the reason real world fixed exchange rate regimes usually have finite bands instead of completely fixed exchange rates between realignments is that exchange rate bands, counter to the textbook result, give central banks some monetary independence, even with free international capital mobility. The nature and amount of monetary independence is specified, informally and in a formal model, and quantified with Swedish krona data. Altogether the amount of monetary independence appears sizable.

PD December 1992. TI Why Exchange Rate Bands? Monetary Independence in Spite of Fixed Exchange Rates. AA Stockholm University. SR CEPR Discussion Paper: 742; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. PG 33. PR Pounds 4.00 or \$8.00. JE F31, F33, F41, F42. KW Target Zones. Interest Rates. Monetary Policy.

AB The paper argues that real world fixed exchange rate regimes usually have finite bands instead of completely fixed exchange rates between realignments because exchange rate bands, contrary to the textbook result, give central banks some monetary independence even with free international capital mobility. The nature and amount of monetary independence is

specified, informally and in a formal model, and quantified with Swedish krona data. The amount of monetary independence thus achieved appears sizable. For instance, an increase in the Swedish krona band from zero to about +2% may reduce the krona interest rate's standard deviation by about 1/2.

Symons, Elizabeth

TI The Labour Supply of UK Lone Mothers: The Effects of Maintenance, and the Welfare System. AU Bingley, Paul; Symons, Elizabeth; Walker, Ian.

Symons, James

TI Macroeconomic Consequences of Taxation in the 80's. AU Newell, Andrew; Symons, James.

Szroeter, Jerzy

PD June 1992. TI Exact Finite-Sample Relative Efficiency of Sub-optimally Weighted Least Squares Estimates in Models with Ordered Heteroskedasticity. AA University College London. SR University College London Discussion Paper: 92-10; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 22. PR 3 pounds; checks payable to the Department of Economics, University College, London. JE C13, C20. KW Relative Efficiency. Weighted Least Squares. Ordered Heteroskedasticity.

AB This paper is concerned with regression models having heteroskedastic errors whose variances are not precisely known but can be ordered according to size. The object is to use this limited information to devise regression coefficient estimators which are more efficient in finite samples than the ordinary least squares (OLS) estimator. Three common relative efficiency measures (trace, determinant and extreme eigenvalue) are considered. A class of weighted least squares estimators is proved to be efficient relative to the OLS estimator on the trace and on the determinant measures. A counterexample shows that, surprisingly, no such proof is possible for the eigenvalue measure.

PD June 1992. TI An Empirically Operational Analytic Upper Bound on Time-Finite Sample Size of a Routine-One Degree-of-Freedom Test of Non-Nested Regression Models. AA University College London. SR University College London Discussion Paper: 92-11; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 14. PR 3 pounds; checks payable to Department of Economics, UCL. JE C12, C20. KW Encompassing. Cox Test.

AB An analytic upper bound on the true finite-sample size of a routinely-used one-degree-of freedom test of non-tested regression models is derived. The bound may be used to guard against the excessively large rejection probabilities that can arise from uncritical application of asymptotic distribution results.

PD June 1992. TI The Asymptotic Local Structure of the Cox Modified Likelihood Ratio Statistic Testing Non-Nested Hypothesis. AA University College London. SR University College London Discussion Paper: 92-12; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. PG 32. PR 3 pounds; checks payable to the Department of Economics, University College London. JE C12, C20. KW Cox Test. Encompassing.

AB It is shown that the Cox modified likelihood-ratio statistic for testing partially non-nested hypotheses H_0 and H_1 is asymptotically equivalent to a bilinear form in non-degenerate asymptotically-normal random vectors for sequences of data generating processes converging to the intersection of H_0 and H_1 but not necessarily belonging to either H_0 or H_1 . One of the asymptotically-normal vectors is the Complete Parametric Encompassing vector of Mizon and Richard, while the other is a close relative. The results are valid regardless of whether or not the data generating process is exponential and imply that the Cox statistic is not generally asymptotically locally normal. This corrects an assumption made in recent literature.

Tan, Goufu

PD August 1992. **TI** A Strategic Justification of the Egalitarian Bargaining Solution. **AU** Tan, Goufu; Bossert, Walter. **AA** Tan: University of British Columbia. Bossert: University of Waterloo. **SR** University of British Columbia Department of Economics Discussion Paper: 92-21; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. V6T 1Z1 CANADA. **PG** 14. **PR** **JE** C72, C78. **KW** Bargaining Solution. Non-Cooperative Game.

AB This paper provides a noncooperative justification of the egalitarian bargaining solution. A multi-stage variant of Nash's demand game is introduced, and it is shown that all Nash equilibria yield the egalitarian solution in the first stage of the game. The crucial feature of our game is that, in the case of incompatible demands, the game is allowed to continue and the player who demands the higher gain over the disagreement point is penalized by restricting her or his feasible demands in the following stage. Suitable modifications of our demand game yield justification of the lexicographic extension of the egalitarian solution, resp. the proportional solutions.

Tan, Ling Hui

TI License Price Paths: I. Theory II. Evidence From Hong Kong. **AU** Krishna, Kala; Tan, Ling Hui.

Tansel, Aysit

PD April 1992. **TI** Cigarette Demand, Health Scares and Education in Turkey. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 660; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. **PG** 24. **PR** \$2.00 plus postage. **JE** I10, I12, I20. **KW** Cigarette Demand. Health Scares. Education.

AB The purpose of this paper is to examine the demand characteristics of cigarettes in Turkey. Aggregate time series data for the 1960-1988 period are used in estimation. Income and price elasticities of cigarette demand are obtained. The effect of health warning is estimated to reduce cigarette consumption by about 9 percent since the inception of warnings in 1982. Imports of cigarettes have been allowed since 1984 in addition to advertising of cigarettes in non-electronic media. The effect of health warnings are found to be stronger than the opposing effect of advertising. The results also suggest that public education about adverse health effects of smoking may be more effective in reducing consumption and less regressive on consumer incomes than raising the price of cigarettes.

PD April 1992. **TI** Wage Employment, Earnings and Returns to Schooling for Men and Women

in Turkey. **AA** Yale University. **SR** Yale Economic Growth Center Discussion Paper: 661; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. **PG** 27. **PR** \$2.00 plus postage. **JE** J16, J31, I20. **KW** Wage Earners. Returns to Schooling. Gender.

AB This study estimates an earnings function for urban wage earners in Turkey together with a wage earner choice equation. Male and female wage earners are treated separately so as to identify the differential returns to these groups. Individual and household unearned incomes are used to identify the model which is estimated by maximum likelihood estimation providing consistent and efficient parameter estimates. Returns to education are found to increase with the level of schooling for both men and women wage earners. Returns to women are somewhat smaller than those to men. The highest returns are observed for the younger cohort of men which may be an indication of recent higher demand for educated personnel. Vocational and technical high school graduate men have not only a higher probability of working as wage earners but also significantly higher returns than general high school graduates. This suggests a policy of expansion of such educational opportunities.

TI Measurement of Returns to Adult Health: Morbidity Effects on Wage Rates in Cote d'Ivoire and Ghana. **AU** Schultz, T. Paul; Tansel, Aysit.

Tauchen, Helen

PD February 1993. **TI** Criminal Deterrence: Revisiting the Issue with a Birth Cohort. **AU** Tauchen, Helen; Witte, Ann Dryden; Griesinger, Harriet. **AA** Tauchen: University of North Carolina. Witte: Wellesley College and National Bureau of Economic Research. Griesinger: Unknown. **SR** National Bureau of Economic Research Working Paper: 4277; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **PG** 16. **PR** \$5.00. **JE** K14, H72, K42. **KW** Criminal Justice. Crime. Law Enforcement.

AB In this paper, we estimate the general deterrent effect of criminal justice resources on criminal behavior. Our panel data, which combine individual-level information on arrests and personal characteristics with aggregate measures of criminal justice resources, allow us to obtain deterrence measures that more closely reflect theoretical concepts and are of potential policy relevance. We find robust evidence of a general deterrent effect in our estimates of error components probit and Tobit models.

Taylor, Herbert E.

TI Monetary Policy and Oil Price Shocks: Empirical Implications of Alternative Responses. **AU** DeFina, Robert H.; Taylor, Herbert E.

Taylor, M. Scott

PD August 1992. **TI** "Quality Ladders" and Ricardian Trade. **AA** University of British Columbia. **SR** University of British Columbia Department of Economics Discussion Paper: 92-19; Department of Economics, University of British Columbia, 997-1873 East Mall, Vancouver, B.C. V6T 1Z1 CANADA. **PG** not available. **PR** **JE** F12, O41. **KW** Endogenous Growth. Ricardian Models. Trade Theory.

AB A model of endogenous growth and trade is developed that extends the continuum Ricardian model of Dornbusch, Fischer and Samuelson (1977) to a dynamic framework generalizes the "Quality Ladders" approach of Grossman and

Helpman (1991), and complements the work of Krugman (1987) on dynamic Ricardian economies. In contrast to earlier work the model incorporates heterogeneity across industries in research and production technologies, and in the technological opportunity for innovation. The importance of heterogeneity is demonstrated through a comparative steady state analysis. Several applications for the model are discussed and many others appear possible given its relatively simple structure.

Tesar, Linda L.

PD November 1992. TI Home Bias and the Globalization of Securities Markets. AU Tesar, Linda L.; Werner, Ingrid M. AA Tesar: University of California, Santa Barbara. Werner: Stanford University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4218; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 19. PR \$5.00. JE G15, F21, G11. KW Diversification. International Securities. Foreign Investment.

AB This paper documents the available evidence on international portfolio investment in five OECD countries. We draw three conclusions from the data. First, there is strong evidence of a home bias in national investment portfolios despite the potential gains from international diversification. Second, to the extent investors hold international securities, the composition of the portfolio of foreign securities seems to reflect factors other than diversification of risk. Third, the high volume of cross-border capital flows and the high turnover rate on foreign equity investments relative to domestic equity markets suggests that transactions costs and incomplete information are unlikely to be important deterrents to international investment. These observations suggest that a richer set of models is required to account for international investment behavior.

Thomas, Duncan

PD June 1992. TI The Demographic Transition in Southern Africa: Another Look at the Evidence from Botswana and Zimbabwe. AU Thomas, Duncan; Muvandi, Ityai. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 668; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 26. PR \$2.00 plus postage. JE J11, N37, O55, J13. KW Fertility. Botswana. Zimbabwe.

AB Botswana and Zimbabwe have been acclaimed as being on the vanguard of the demographic transition in sub-Saharan Africa. One set of data underlying this claim are the Contraceptive Prevalence Surveys and Demographic Health Surveys which were conducted in both countries. This paper examines the comparability of these data sources and finds that at least part of the observed decline in aggregate fertility rates in both countries can be attributed to differences in sample composition. In Botswana and Zimbabwe, women of the same cohort are better educated in the second survey relative to the first. Since education and fertility are negatively correlated, this fact explains part of the observed fertility decline across the surveys.

PD July 1992. TI The Distribution of Income and Expenditure with the Household. AA Yale University. SR Yale Economic Growth Center Discussion Paper: 669; Economic Growth Center, Yale University, Box 1987, Yale Station, New Haven CT 06520. PG 32. PR \$2.00 plus postage. JE D10, D12, J16. KW Consumption. Intra-

Household Analysis.

AB Most economic models of the household assume that it may be treated as if all members share the same preferences or one member (a dictator) makes all resource allocation decisions. That assumption is tested by asking whether income in the hands of men has the same impact on household commodity demand as income in the hands of women. Drawing on budget data from Brazil, we find that the distribution of income among men and women within the household does affect demand patterns and this is true for both non-labor income as well as total income. Income in the hands of women, relative to men, is associated with a larger increase in the share of the household budget devoted to human capital (household services, health and education) and also leisure (recreation and ceremonies) goods. The proportion of the budget spent on food declines more if the income is in the hands of women although food composition also changes and nutrient intakes rise faster as women's income increases.

TI Medicaid and Medical Care for Children. AU Currie, Janet; Thomas, Duncan.

Thomas, Stephen

TI Winners and Losers: UK Evidence for the Overreaction Hypothesis. AU Clare, Andrew; Thomas, Stephen.

TI Relative Price Variability and Inflation in an Equilibrium Price Misperceptions' Model: Evidence for the U.K. AU Clare, Andrew; Thomas, Stephen.

Tillmann, Georg

PD January 1992. TI Tax Evasion in an Open Economy. AA University of Groningen. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-377; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 42. PR no charge. JE H26, G11. KW Interest Income. Taxation. Portfolio Choice.

AB Evasion from interest income is an important problem. In contrast to labor, capital is extremely mobile, without problems it can be transferred abroad. That has at least two advantages for an individual agent: first, an investment abroad and income from it can hardly ever be detected (think of the Swiss bank account) and second the tax rates in the home and all foreign countries normally differ substantially, such that a consumer can pick out the most advantageous possibility for an investment. How should an individual split up his capital concerning inland and foreign investments? How should a government set taxes, fine parameters and audit probability to obtain maximal tax receipts and to hinder a huge capital exodus at the same time, which could lead to a big shortage of capital in the home country? It is the purpose of this paper to consider these questions in more detail.

PD September 1992. TI Interest Income Evasion in a Two Country Model. AA University of Groningen. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-378; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 36. PR no charge. JE G11, H24. KW Portfolio Choice. Interest Income.

AB We consider a model where agents can invest money at home and abroad. Their total income comprises interest income from these investments and labor income. Interest income can be evaded - at the risk of being detected and punished. We

analyze the optimal portfolio and evading decision of agents with different incomes. In a second step we scrutinize the optimal government policy, which has different instruments available to maximize total tax receipts thereby trying to hold capital as much as possible in the inland.

Tilly, Schuyler

TI Intertemporal Analysis of State and Local Government Spending: Theory and Tests. AU Holtz-Eakin, Douglas; Rosen, Harvey S.; Tilly, Schuyler.

Timmermann, Allan G.

TI A Generalisation of the Non-Parametric Henriksson-Merton Test of Market Timing. AU Pesaran, M. Hashem; Timmermann, Allan G.

Tobin, James

PD March 1993. TI An Old Keynesian Counterattacks. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1042; Yale University, Cowles Foundation for Research in Economics, 30 Hillhouse Ave., Box 2125 Yale Station, New Haven, CT 06520. PG 19. PR no charge. JE E12. KW Macroeconomics. New Keynesianism. Price Rigidity.

AB Both New Classical and New Keynesian macroeconomic theorists misunderstand and distort old Keynesian economies, alleging that its diagnoses and prescriptions depend on the indefensible assumption that money wages and prices are "rigid." Here it is argued that all Keynesian macro requires is that labor and product markets are not instantaneously and continuously cleared by perfectly flexible prices. Assuming imperfect flexibility, not necessarily rigidity, suffices to open the door for involuntary unemployment. Moreover, once the economy is displaced from full employment, it is far from clear that economy-wide movements of money wages and prices will, in the absence of Keynesian demand policies, restore equilibrium. The real balance effect is too feeble, and may be overcome by debt burdens. The processes of deflation and disinflation can be inherently destabilizing. These problems, stressed by Irving Fisher as well as by Keynes and Keynesians, are ignored in "new" macroeconomics.

Toman, Michael A.

PD December 1991. TI The Limits of Economic Instruments for International Greenhouse Gas Control. AU Toman, Michael A.; Gardiner, Stephen M. AA Toman: Resources for the Future. Gardiner: University of Colorado. SR Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-06; Energy and Materials Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. PG 24. PR \$5.00 prepaid, U.S. funds. JE Q28, F42. KW Climate Change. Policy Coordination.

AB As interest grows in an international agreement to limit greenhouse gases, attention increasingly is focusing on the use of economic incentives--taxes and tradable emission permits--in the hope of achieving greenhouse gas limitations cost-effectively. The potential cost savings of international incentive-based approaches may be substantial. However, practical implementation problems are likely to reduce cost savings relative to the theoretical potential. Tax programs would be hampered by undesirable side effects if tax rates are not uniform and difficulties in structuring redistribution if tax

rates are uniform. Permit programs would be hampered by inefficiencies if governments play a large role in the trading and by practical difficulties in constructing a more decentralized trading regime. Both approaches face serious challenges in monitoring. To achieve success in using economic incentives to limit greenhouse gases, the best initial steps may sacrifice some cost-effectiveness for ease of acceptance and implementation.

TI Contracting Incentives in Electricity Generation Fuel Markets. AU Palmer, Karen; Fox-Penner, Peter; Simpson, R. David; Toman, Michael A.

TI Energy Security Externalities and Policies. AU Bohi, Douglas R.; Toman, Michael A.

Tracy, Joseph S.

TI The Determinants of U.S. Labor Disputes. AU Cramton, Peter C.; Tracy, Joseph S.

Tsomocos, Dimitrios

TI A Strategic Market Game with Seigniorage Costs of Fiat Money. AU Shubik, Martin; Tsomocos, Dimitrios.

Turtelboom, Bart

TI Currency Substitution. AU Giovannini, Alberto; Turtelboom, Bart.

Udell, Gregory F.

TI Lines of Credit, Collateral, and Relationship Lending in Small Firm Finance. AU Berger, Allen N.; Udell, Gregory F.

Uzawa, Hirofumi

PD March 1993. TI An Endogenous Rate of Time Preference, the Penrose Effect, and Dynamic Optimality of Environmental Quality. AA University of Pennsylvania and Japan Academy. SR University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-08; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. PG 39. PR no charge. JE O11, Q20. KW Capital Accumulation. Intertemporal Preference.

AB In this paper, we should like to address ourselves to the analysis of the processes of capital accumulation and changes in environmental quality over time which are dynamically optimum in terms of the intertemporal preference ordering of the representative individual in the society in question. Our analysis will be conducted within the conceptual framework of the dynamic analysis of environmental quality. In the present paper, we will be particularly concerned with the implications of the intertemporal preference orderings with endogenous rates of time preference and the irreversibility of the processes of capital accumulation as expressed by the Penrose effect. The analysis then will be extended to the case where the natural environment plays the role of social overhead capital.

van der Ploeg, Frederick

TI Does Inequality Cause Inflation? The Political Economy of Inflation, Taxation and Government Debt. AU Beetsma, Roel M. W. J.; van der Ploeg, Frederick.

TI Environmental Policy, Public Finance and the Labour Market in a Second-Best World. AU Bovenberg, A. Lans; van der Ploeg, Frederick.

Van Reenan, John

TI The Economic Effects of Multiple Unionism: Evidence from the 1984 Workplace Industrial Relations. **AU** Machin, Stephen; Stewart, Mark; Van Reenan, John.

Vaughan, Richard N.

PD June 1992. **TI** Entry, Adjustment Costs, and Lucasian Industry Equilibrium. **AA** University College London. **SR** University College London Discussion Paper: 92-07; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 32. **PR** 3 pounds; cheque payable to Department of Economics, UCL. **JE** D21, D92, L11. **KW** Investment. Adjustment Costs. Market Structure.

AB The paper constructs a model of equilibrium industrial structure, within the context of an adjustment cost model of the firm initially developed by Lucas. (1967). Existing studies have suggested a set of industry equilibria in the presence of entry which appear mutually contradictory. The present paper attempts to reconcile such studies, and notes that a wider set of equilibria are generated than previously considered in the literature. The size distribution of firms is related to internal growth entry conditions, and the growth in market demand. The implications of the theory for the set of industry wide investment demand equations is also noted, and again a new set of such equations, previously unnoticed, is generated.

PD June 1992. **TI** Anticipated Welfare Loss in Monopolistic and Related Market Structures. **AA** University College London. **SR** University College London Discussion Paper: 92-08; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 24. **PR** 3 pounds; checks payable to Department of Economics, UCL. **JE** L11, D42, D43, D92. **KW** Welfare Loss. Monopoly. Q-Ratio.

AB The aim of the paper is to use techniques employed in modern financial economics to construct a framework in which welfare losses over time generated by alternative market structures may be estimated. An adjustment cost model of the firm under imperfect competition is developed, and the consequent equilibrium for an industry composed of a number of such firms determined. A comparison of the results of the present model with those of the Static Cournot Model is made and conditions are developed in which the static model may be embedded in the dynamic case. The concept of dynamic deadweight loss is defined and related to Tobin's average q ratio. An empirical example comparing static and dynamic deadweight loss is given.

PD June 1992. **TI** On the Microfoundations of Wealth Distribution Functions. **AA** University College London. **SR** University College London Discussion Paper: 92-09; Department of Economics, University College London, Gower Street, London WC1E 6BT, ENGLAND. **PG** 37. **PR** 3 pounds; checks payable to Department of Economics, University College London. **JE** D31, D91. **KW** Distribution of Wealth. Saving. Inheritance.

AB Existing literature on the theory of the size distribution of wealth has tended to emphasize those models which lead either to the lognormal or Pareto distributions as limiting forms of the evolutionary process. The present analysis attempts the construction of multi-asset model allowing the nesting of such approaches within a more general framework which lead to the generation of a much wider variety of equilibrium distributions.

The major factors encompassed include the roles of optimal portfolio and consumption choice, income and wealth transfers (in particular inheritance) which together with appropriately defined boundary conditions serve to determine the limiting distribution of wealth. Comparative statics relating wealth inequality to (i) attitudes to risk taking, (ii) myopia and finite horizons, and (iii) relative asset price movements are among the results considered.

Verdin, Paul J.

PD November 1992. **TI** Core Competence, Competitive Advantage and Industry Structure. **AU** Verdin, Paul J.; Williamson, Peter J. **AA** Verdin: INSEAD. Williamson: London Business School. **SR** INSEAD Working Papers: 92/78/SM; INSEAD, Boulevard de Constance, Fontainebleau, 77305 Cedex, FRANCE. **PG** 29. **PR** not available. **JE** D21, L22. **KW** Industry Positioning. Capability Development.

AB Theories of industry positioning and capability development are frequently pitted in opposition as alternative explanations of competitive advantage. This paper focuses on the links between the two. We begin by tracing Porter's cost and differentiation drivers back to the underlying assets on which they draw. Core competences are then viewed as catalysts which reduce the time and cost required for a business to expand its asset base in ways which allow it to deliver a more competitive product. We then develop a set of structural indicators which provide an objective basis for predicting which types of assets (and hence which core competences) will be most advantageous to a firm in a given industry. These indicators are based on differences in the value of customer relationships, channel and process experience assets across different markets. We present one empirical test of these indicators by examining their ability to predict differential survival chances of start-ups versus corporate ventures who can potentially benefit from corporate core competences.

Villa, P.

TI Equilibres Conjecturaux Coherents et Coordination des Politiques Economiques. **AU** Sterdyniak, H.; Villa, P.

PD December 1992. **TI** Productivite et Accumulation du Capital en France Depuis 1896. **AA** INSEE. **SR** Unite de Recherche Document de Travail ENSAE/INSEE: 9223; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. **PG** 39. **PR** no charge. **JE** J23, J24, O47, N33, N34. **KW** Labor Productivity. Profitability. Factor Demand.

AB The estimates of production factors demands on a long period in France is an occasion to reread French growth on a corpus of homogeneous data and to emphasize the significance of profitability (uncertainty), of labor duration and of relative cost of factors (fiscality, social security creation, and the distribution of the productivity rate of growth to the wage earners).

Visser, M.

PD April 1992. **TI** Analysis of Labor Market Histories with Panel Data. **AA** INRA and CREST. **SR** Unite de Recherche Document de Travail ENSAE/INSEE: 9209; INSEE, Unite de Recherche, 18 Bd. Adolphe Pinard, 75675 Paris cedex 14, FRANCE. **PG** 23. **PR** no charge. **JE** C14, C23, C41, J64. **KW** Transition Models. Likelihood Functions.

AB Labor market histories of individuals contain information

on durations spent in states such as employment, unemployment, out of the labor force, etc... and on the transitions between these states. In this paper we present statistical methods to analyze such histories. In particular we show how the likelihood function can be written for histories which are drawn from the stock of unemployed individuals. The results are applied on a new French panel data set.

von Hagen, Jurgen

TI Central Banking as a Political Principal-Agent Problem. **AU** Fratianni, Michele; von Hagen, Jurgen; Waller, Christopher.

Von Thadden, Ernst-Ludwig

PD December 1992. **TI** The Commitment of Finance, Duplicated Monitoring and the Investment Horizon. **AA** Stanford University. **SR** Centre for Economic Policy Research, European Science Foundation, Working Paper: 27; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, ENGLAND. **PG** 25. **PR** not available. **JE** G31, G32, L14, D82. **KW** Corporate Finance. Contracting. Asymmetric Information.

AB The paper presents a simple model of financial contracting for a long-term investment project in which early project termination may be an optimal response to information asymmetries. The paper characterizes when this constellation leads to inefficient short-term investment. It is shown that in this setting delegated monitoring is problematic because it creates a commitment problem for the investor. This yields a countervailing effect to the scale economies inherent in the delegation of monitoring. It is shown that contracting with more than one investor can provide an informational insurance to the firm which lengthens its planning horizon.

Vori, S.

TI National Insurance Against Unevenly Distributed Shocks in a European Monetary Union. **AU** Melitz, J.; Vori, S.

Walker, Ian

TI The Labour Supply of UK Lone Mothers: The Effects of Maintenance, and the Welfare System. **AU** Bingley, Paul; Symons, Elizabeth; Walker, Ian.

Walker, John R.

PD August 1992. **TI** The Effect of Public Policies on Recent Swedish Fertility Behavior. **AA** Hoover Institution and University of Wisconsin-Madison. **SR** Hoover Institute Working Papers in Economics: E-92-20; Domestic Studies Program Working Paper Series, Hoover Institution, Stanford University, Stanford, CA 94305. **PG** 43. **PR** not available. **JE** J13, H53. **KW** Fertility. Childrearing Costs. Sweden.

AB In the literature the recent upsurge in period birth rates is seen as evidence of a pronatalist effect of Sweden's extensive social insurance program. Yet, candidate explanations can not account for the downturn in birth rates which also characterize recent Swedish fertility behavior. I use a neoclassical economic framework to develop the price of fertility to summarize the effect of Sweden's economic and policy environment leading to observed patterns. Although strong simplifying assumptions are imposed, estimated price series of fertility exhibits a strong negative relationship with period fertility rates and the change in the estimated relative prices of fertility over the life cycle lend modest support for the delayed

childbearing.

Waller, Christopher

TI Central Banking as a Political Principal-Agent Problem. **AU** Fratianni, Michele; von Hagen, Jurgen; Waller, Christopher.

Walls, Margaret A.

PD March 1992. **TI** Differentiated Products and Regulation: The Welfare Costs of Natural Gas Vehicles. **AA** Resources for the Future. **SR** Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-01; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. **PG** 42. **PR** \$5.00 prepaid, U.S. funds. **JE** L51, L62 Q25, Q28. **KW** Hedonic Prices. Consumer Surplus. Cost-Effectiveness.

AB The Clean Air Act Amendments of 1990 call for the use of alternative fuel vehicles in certain areas with severe ozone problems. One such fuel is compressed natural gas (CNG). Natural gas is likely to be price competitive with gasoline at the pump, and emissions from CNG vehicles are substantially less than those from gasoline vehicles, but CNG vehicles have some undesirable characteristics. They require very large, heavy fuel storage cylinders that increase acceleration time and usually reduce cargo capacity. These problems can only be alleviated with a reduction in driving range. This paper develops a method for quantifying these costs. An economic model of producer and consumer behavior in a market for a differentiated product is constructed: estimation of a hedonic price function for automobiles is carried out; and consumer surplus losses from the substitution of CNG cars for gasoline cars are measured.

PD May 1992. **TI** Federalism and Offshore Oil Leasing. **AA** Resources for the Future. **SR** Resources for the Future, Energy and Natural Resources Division Discussion Paper: ENR92-10; Energy and Natural Resources Division, Resources for the Future, 1616 P Street, NW, Washington, DC 20036. **PG** 30. **PR** \$5.00 prepaid, U.S. funds. **JE** Q38, H73, Q32, O13. **KW** Outer Continental Shelf. Public Good. Jurisdiction Spillovers.

AB This paper explores the relationship between federalism and the oil and gas resources of the Outer Continental Shelf (OCS). The paper treats the OCS as a public good and analyzes the economic efficiency aspects of federal versus state jurisdiction. Under the current system, the federal government has jurisdiction and control over leasing and the coastal states share in almost none of the lease revenues. The consistency provisions of the Coastal Zone Mangement Act (CZMA) states that all activities that affect a state's coastal zone must be consistent with the state's coastal zone management plan. The paper argues that the current system leads to an inefficient amount of OCS development and that efficiency would be enhanced if coastal states had control over the OCS.

Wantz, Adam

TI A Tax-Based Test of the Dividend Signaling Hypothesis. **AU** Bernheim, B. Douglas; Wantz, Adam.

Ware, Roger

TI Markov Puppy Dogs and Other Related Animals. **AU** Lapham, Beverly J.; Ware, Roger.

Wasserfallen, Walter

TI Foreign Equity Investment Restrictions and Shareholder Wealth Maximization. AU Stulz, Rene M.; Wasserfallen, Walter.

Waverman, Leonard

TI The State of North American and Japanese Motor Vehicle Industries: A Partially Calibrated Model to Examine the Impacts of Trade Policy Changes. AU Fuss, Melvyn; Murphy, Stephen; Waverman, Leonard.

Weale, Martin

TI UK National Income 1920-1938: The Implications of Balanced Estimates. AU Solomou, Solomos; Weale, Martin.

PD October 1992. TI Fifty Years of National Income Accounting. AA University of Cambridge. SR University of Cambridge Discussion Papers in Accounting and Finance: AF3; Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, UNITED KINGDOM. PG 21. PR \$10.00 (L5.00); checks payable to University of Cambridge. JE C82. KW Growth Accounting. Accounting Matrices.

AB This paper surveys some of the developments in national income accounting since Meade and Stone first produced true national accounts in 1941. National income can be given a precise meaning in welfare terms. Growth accounting allows an identification of sources of economic growth, and theoretical models provide a useful guide as to the calculation of suitable price indices and the treatment of resource depletion. Accounting matrices provide a framework for many economic models and enable one to link economic and physical data. Statistical techniques have made it possible to reconcile different estimates of national income; this can have a marked effect on derived data such as the savings ratio.

Weber, Guglielmo

TI On the Aggregation of Euler Equations for Consumption in Simple OLG Models. AU Pattanasio, Orazio; Weber, Guglielmo.

TI The UK Consumption Boom of the Late 1980's: Aggregate Implications of Microeconomic Evidence. AU Attanasio, Orazio P.; Weber, Guglielmo.

Weber, Martin

TI Judged Knowledge and Ambiguity Aversion. AU Keppe, Hans-Jurgen; Weber, Martin.

TI Testing Choquet Expected Utility. AU Mangelsdorff, Lukas; Weber, Martin.

Weber, Shlomo

PD December 1990. TI On Hierarchical Spatial Competition. AA York University, Canada. SR Universitat Bonn Sonderforschungsbereich 303 - Discussion Paper: A-331; Sonderforschungsbereich 303 an der Universitat Bonn, Adenauerallee 24-42, D-5300 Bonn 1, DEUTSCHLAND. PG 26. PR no charge. JE D72, C72. KW Electoral Competition. Entry. Vote Maximization.

AB In this paper we consider a hierarchical model of spatial electoral competition with two dominant players (incumbents) and one entrant. The incumbents engage in a noncooperative game against each other and act as Stackelberg leaders with

respect to a vote-maximizing entrant. We prove that the equilibrium of this game, called a hierarchical equilibrium, exists and is unique for an arbitrary single-peaked distribution of voters' ideal points. Moreover, we fully characterize the set of equilibrium strategies and show its equivalence to the set of strategies generated by a perfect foresight equilibrium.

TI A Note on the Core and von Neumann-Morgenstern Solutions of Simple Games. AU Le Breton, Michel; Weber, Shlomo.

Weil, David N.

TI The Effect of News on Bond Prices: Evidence from the United Kingdom, 1900-1920. AU Elmendorf, Douglas W.; Hirschfeld, Mary L.; Weil, David N.

Wen, Jean-Francois

PD November 1992. TI Tax Holidays in a Business Climate. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 864; Department of Economics, Queen's University, Kingston, Ontario, CANADA K7L 3N6. PG 44. PR \$3.00 + GST Canada; \$3.50 U.S. and foreign. JE E62, H22, F21. KW International Investment. Tax Reform. Public Spending.

AB This paper provides a new explanation for "tax holidays", as well as their subsequent removal in a tax reform stage. In a two-period model, I assume that perfectly competitive foreign investors are uncertain about the host country government's propensity for public spending, and that infinitely divisible capital is subject to strictly convex adjustment costs. The host country government's current period tradeoff between public spending and the associated deadweight loss from distortionary taxation may signal the host's type and spare the investors from an unanticipated future tax hike. A separating equilibrium requires a deep tax concession early on, which corresponds to a tax holiday. When there are overlapping generations of foreign investors the tax profile flattens out over time as the information from tax holidays is exhausted; this is the tax reform phase.

Werner, Ingrid M.

TI Home Bias and the Globalization of Securities Markets. AU Tesar, Linda L.; Werner, Ingrid M.

Weymark, Diana N.

PD December 1992. TI Exchange Market Pressure: A Generalization of the Girton-Roper Measure. AA Western Washington University. SR Johns Hopkins Department of Economics Working Paper: 296; Department of Economics, Johns Hopkins University, Baltimore, Maryland 21218. PG 20. PR no charge. JE F31. KW Exchange Rates. External Balance. Open Economy.

AB This paper focuses on the problem of measuring the size of external imbalance when policy authorities manage the exchange rate. A general definition of exchange market pressure is proposed and used to derive a measure of external balance for small open economies. The method of deriving model-consistent measures of exchange market pressure is illustrated in the context of a small open economy with rational expectations. It is shown that the Girton-Roper (1977) measure is a special case of a more general measure of exchange market pressure and that the calculated values of all such measures must be model-specific.

PD December 1992. **TI** Measuring the Degree of Exchange Market Intervention in a Small Open Economy. **AA** Western Washington University. **SR** Johns Hopkins Department of Economics Working Paper: 297; Department of Economics, Johns Hopkins University, Baltimore, Maryland 21218. **PG** 27. **PR** no charge. **JE** F31. **KW** Exchange Rates. Exchange Market Pressure.

AB In this paper, the index of managed float proposed by Frenkel and Aizenman (1982) is generalized and used to develop measures that allow exchange rate policy to be characterized quantitatively. It is demonstrated that the denominator of Frenkel and Aizenman's index, which is generally unobservable, can be imputed using the generalized measure of exchange market pressure developed by Weymark (1992a). The generalized measure of exchange market pressure is also used to develop an index that measures intervention policy in terms of the proportion of exchange market pressure relieved by exchange market intervention.

PD December 1992. **TI** Estimating Exchange Market Pressure and the Degree of Exchange Market Intervention for Canada. **AA** Western Washington University. **SR** Johns Hopkins Department of Economics Working Paper: 298; Department of Economics, Johns Hopkins University, Baltimore, Maryland 21218. **PG** 31. **PR** no charge. **JE** F31. **KW** Exchange Rates. Exchange Market Intervention.

AB This paper illustrates the method by which measures of exchange market pressure and the degree of intervention can be obtained and applied as tools for policy analysis. Using a fairly simple model of a small open economy with rational expectations, quarterly measures of exchange market pressure and the degree of intervention are calculated for the Canadian economy over the period 1975 to 1990. A subset of these calculated values is then employed to examine a number of Howitt's (1986) observations on the Bank of Canada's conduct of exchange rate policy over the period 1981 to 1984.

White, Halbert

TI Comments on Testing Economic Theories and the Use of Model Selection Criteria. **AU** Granger, Clive W. J.; King, Maxwell L.; White, Halbert.

White, Michelle J.

TI A Comparison of Formal and Informal Dispute Resolution in Medical Malpractice. **AU** Farber, Henry S.; White, Michelle J.

Whitehouse, Edward

TI The Evolution of Wages in the UK: Evidence from Micro Data. **AU** Meghir, Costas; Whitehouse, Edward.

Whittington, G.

TI The Determinants of Audit Fees: Some Empirical Models. **AU** Pong, C. K. M.; Whittington, G.

TI The Working of the Auditing Practices Committee: Three Case Studies. **AU** Pong, C. K. M.; Whittington, G.

Williamson, Peter J.

TI Core Competence, Competitive Advantage and Industry Structure. **AU** Verdin, Paul J.; Williamson, Peter J.

Winters, L. Alan

PD January 1993. **TI** The European Community: A Case of Successful Integration? **AA** University of Birmingham. **SR** CEPR Discussion Paper: 755; Centre for Economic Policy Research, 25-28 Old Burlington Street, London W1X 1LB, UNITED KINGDOM. **PG** 39. **PR** Pounds 4.00 or \$8.00. **JE** F15. **KW** Common Market. Protection.

AB This paper examines economic performance of the European Community (EC) over the last two decades. It argues that, while it has not been bad, neither has it been strong enough to prove the virtues of international economic integration. It notes in particular the dangers of inward-looking policies within integration schemes. It then considers the process of EC enlargement, arguing that the process curtails some of the possible benefits of market opening. Finally, it argues that the EC's non-trade policies have provided necessary props to the creation of a common market.

Wise, David A.

TI Pension Plan Provisions and Retirement: Men & Women, Medicare, and Models. **AU** Lumsdaine, Robin L.; Wise, David A.; Stock, James H.

Witte, Ann Dryden

TI Criminal Deterrence: Revisiting the Issue with a Birth Cohort. **AU** Tauchen, Helen; Witte, Ann Dryden; Griesinger, Harriet.

Wolinsky, Asher

PD January 1993. **TI** Small Deviations from Maximizing Behavior in a Simple Dynamic Model. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1019; J.L. Kellogg Graduate School of Management, Northwestern University, 2001 Sheridan Road, 3-014 Leverone Hall, Evanston, IL 60208. **PG** 25. **PR** Per copy: \$3.00 U.S. and Canada; \$5.00 via international mail. Make check payable to Northwestern University. **JE** D10, D11, D20, D21. **KW** Non-Maximizing Behavior. Frictions.

AB The basic intuition that motivates this paper is that the presence of non-maximizing agents creates incentives for maximizing agents to take advantage of them, and when "frictions" are sufficiently small, these incentives might translate seemingly small deviations from maximizing behavior into non-negligible effects. This paper explores this intuition by looking at a simple dynamic model, which in reduced form can be described by the elementary demand-supply paradigm. The dynamic model allows to capture explicitly the special efforts that the maximizing agent devote to gain at the expense of the non-maximizing ones. In a model with inflexible entry process, it is shown that, when market frictions are relatively insignificant, small deviations from maximizing behavior have substantial impact on market outcomes. In a model with flexible entry process, the price effect of deviations from rationality is dampened by adjustments in entry.

Woodford, Michael

TI Aggregate Fluctuations from Independent Sectoral Shocks: Self-Organized Criticality in a Model of Production and Inventory Dynamics. **AU** Bak, Peter; Chen, Kan; Scheinkman, Jose; Woodford, Michael.

TI Real Effects of Monetary Shocks in an Economy with

Sequential Purchases. AU Lucas, Robert E.; Woodford, Michael.

Wright, Judith

TI Digesting the Food and Information Systems. AU Fine, Ben; Wright, Judith.

Wright, Martyn

TI Managing Without the Closed Shop. AU Dunn, Stephen; Wright, Martyn.

Xu, Chenggang

PD December 1992. TI Risk Aversion, Rural-Urban Wage Differentiation and Migration. AA London School of Economics. SR London School of Economics Centre for Economic Performance Discussion Paper: 108; Centre for Economic Performance, London School of Economics, Houghton Street, London WC2A 2AE, ENGLAND. PG 35. PR no charge. JE D81, R23, J61, J31, J43. KW China. Agricultural Labor.

AB I present evidence to show that there is a labor shortage problem caused by insufficient rural-urban migration in Chinese urban/suburban areas. Moreover, people in poor rural areas migrate less than people in rich rural areas to cities. A theory is provided to explain these puzzling phenomena. Migration is regarded as an instrument of the income portfolio of a household: facing high risks of food price fluctuation, a geographically extended cooperative household regards city jobs as high-risk high-income opportunities, and regards agricultural production on its own land as low-risk low-income opportunities. In order to insure themselves, risk averse rural households would keep more labor input in agriculture (i.e. reduce the number of rural-urban migrants) compared with risk neutral households. If poorer households are more risk averse than rich households, a poor rural household will have fewer rural-urban migrants than a richer rural household.

TI Innovation and Financial Constraints in Centralized and Decentralized Economies. AU Qian, Yingyi; Xu, Chenggang.

Young, Alwyn

PD January 1993. TI Substitution and Complementarity in Endogenous Innovation. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 4256; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. PG 37. PR \$5.00. JE O33. KW Technological Change.

AB The influence of Schumpeter's notion of "creative destruction" may have led to an overemphasis on substitution between technologies in recent models of endogenous innovation. Historical examples of technological change suggest that new technologies may just as frequently complement older technologies, creating, rather than destroying, rents. Acknowledgement of the potential for both substitution and complementarity among inventions allows for a much richer characterization of the growth process, creating the possibility of threshold effects and multiple equilibria, and bringing to the forefront the important role played by the expectations of inventive entrepreneurs.

Yuen, Chi-Wa

TI Convergence in Growth Rates: The Role of Capital Mobility and International Taxation. AU Razin, Assaf; Yuen, Chi-Wa.

TI Convergence in Growth Rates: The Role of Capital Mobility and International Taxation. AU Razin, Assaf; Yuen, Chi-Wa.

Zak, Paul J.

PD March 1993. TI A Primer on Functional Differential Equations with Applications to Economics. AA University of Pennsylvania. SR University of Pennsylvania Center for Analytic Research in Economics and Social Science (CARESS) Working Paper: 93-07; University of Pennsylvania, Center for Analytic Research in Economics and the Social Sciences, McNeil Building, 3718 Locust Walk, Philadelphia, PA 19104-6297. PG 28. PR no charge. JE C51, C63. KW Mathematics. Differential Equations.

AB Functional differential equations have been widely applied in many scientific fields, though economists are just beginning to use this tool. The relevant mathematics are introduced and several economic examples are discussed in detail. Economic models which incorporate information flows, lagged variables or age structures are naturally modeled using functional differential equations.

Zeckhauser, Richard J.

TI Demographic Characteristics and the Public Bundle. AU Cutler, David M.; Elmendorf, Douglas W.; Zeckhauser, Richard J.