ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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Abel, Andrew B.

PD August 1998. **TI** Risk Premia and Term Premia in General Equilibrium. **AA** University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6683; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D58, G12. **KW** General Equilibrium. Equity Premium. Leverage.

AB The equity premium consists of a term premium reflecting the longer maturity of equity relative to short-term bills, and a risk premium reflecting the stochastic nature of equity payoffs and the deterministic nature of payoffs on riskless bills. This paper analyzes term premia and the risk premia in a general equilibrium model with catching up with the Joneses preferences and a novel formulation of leverage. Closed-form solutions for moments of asset returns are derived. First-order approximations illustrate the effects of parameters and provide an algorithm to match the means and variances of the riskless rate and the rate of return on equity.

Acemoglu, Daron

PD July 1998. **TI** Changes in Unemployment and Wage Inequality: An Alternative Theory and Some Evidence. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6658; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** E24, J31, J41, J64, O33. **KW** Job Creation. Skill. Technological Change. Unemployment. Wage Inequality.

AB This paper offers a model where firms decide what types of jobs to create and then search for suitable workers. When there are few skilled workers and the productivity gap between the skilled and the unskilled is small, firms create a single type of job and recruit all workers. An increase in the proportion of skilled workers or skill-biased technical change can create a qualitative change in the composition of jobs, increasing the demand for skills, wage inequality, and the unemployment rates for both groups. The paper provides some evidence that there has been a change in the composition of jobs in the U.S. during the past two decades.

PD July 1998. **TI** Consequences of Employment Protection? The Case of the Americans with Disabilities Act. **AU** Acemoglu, Daron; Angrist, Joshua D. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6670; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 23. **PR** $5.00. **JE** J23, J38, J78. **KW** Disabilities. Employment. Labor Costs.

AB The Americans With Disabilities Act (ADA) requires employers to accommodate disabled workers and outlaws discrimination against the disabled in hiring, firing, and pay. Although the ADA was meant to increase employment of the disabled, it also increases costs for employers. The net theoretical impact turns on which provisions of the ADA are most important and how responsive firm entry and exit is to profits. Empirical results using the CPS suggest that the ADA had a negative effect on the employment of disabled men of all working ages and disabled women under age 40. The effects appear to be larger in medium size firms, possible because small firms were exempt from the ADA. The effects are also larger in states where they have been more ADA-related discrimination charges. Estimates of effects on hiring and firing suggest the ADA reduces hiring of the disabled but did not affect separations. This weighs against a pure firing-costs interpretation of the ADA. Finally, there is little evidence of an impact on the nondisabled, suggesting that the adverse employment consequences of the ADA have been limited to the protected group.

PD August 1998. **TI** Efficient Unemployment Insurance. **AU** Acemoglu, Daron; Shimer, Robert. **AA** Acemoglu: Massachusetts Institute of Technology and National Bureau of Economic Research. Shimer: Princeton University. **SR** National Bureau of Economic Research Working Paper: 6686; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** D83, J64, J65. **KW** Unemployment Insurance. Search. General Equilibrium. Risk Aversion.

AB This paper constructs a tractable general equilibrium model of search with risk-aversion. An increase in risk-aversion reduces wages, unemployment, and investment. Unemployment insurance (UI) has the reverse effect due to market-generated moral hazard: insured workers seek high wage jobs with high unemployment risk. An economy with risk- neutral workers achieves maximal output without any UI. In contrast, in an economy with risk-averse workers, a positive level of UI maximizes output. Therefore, moderate UI not only improves risk-sharing, but also increases output.

PD September 1998. **TI** Beyond Becker: Training in Imperfect Labor Markets. **AU** Acemoglu, Daron; Pischke, Jorn-Steffen. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6740; National Bureau of Economic Research, 1050 Massachusetts Avenue,

Cambridge, MA 02138. Website: www.nber.org. PG 25. PR $5.00. JE D43, J24, J31, J41. KW Training Investments. Firm-Sponsored Training. Imperfect Markets. Labor Market.

AB In this paper, we survey non-competitive theories of training. With competitive labor markets, firms never pay for investments in general training, whereas when labor markets are imperfect, firm-sponsored training arises as an equilibrium phenomenon. We discuss a variety of evidence which support the predictions of non-competitive theories, and we draw some tentative policy conclusions from these models.

Adam, Christopher S.

AB not available.

Agell, Jonas

AB We examine how tax avoidance in the form of trade in well- functioning asset markets affects the basic labor supply model. We argue that models that integrate tax arbitrage and labor supply decisions may shed light on a number of positive and normative questions concerning modern systems of income taxation. Such models also appear to have strong implications for empirical research. Studies that ignore the effects of tax arbitrage and asset trade on labor supply incentives may easily come up with biased estimates of the tax responsiveness of the hours supply of high-wage individuals. Finally, because of tax avoidance in the form of asset trade, international comparisons on income inequality will exaggerate the redistributive achievement of high-tax countries like Sweden.

Agenor, Pierre-Richard

AB This paper examines the effect of volatility on the costs and benefits of financial market integration. The basic framework combines the costly state verification model and the contract enforceability approach. The welfare effects of financial market integration are assessed by comparing welfare under financial autarky and financial openness -- under which foreign banks, characterized by lower costs of intermediation and a lower markup rate, have free access to domestic capital markets. The analysis shows that financial integration may be welfare reducing if world interest rates under openness are highly volatile. The basic framework is then extended to consider the case of an upward-sloping domestic supply curve of funds and congestion externalities. It is shown, in particular, that opening the economy to unrestricted inflows of capital may magnify the welfare cost of existing distortions, such as congestion externalities or deposit insurance.

AB This paper studies the effects of contagion on bank lending spreads and output fluctuations in Argentina. The first part presents the analytical framework, which analyzes the determination of bank lending spreads in the presence of verification and enforcement costs of loan contracts. The second part presents estimates of a vector autoregression model that relates the ex ante bank lending spread, the cyclical component of output, the real bank lending rate, and the external interest rate spread. The effects of a contagious shock (modeled as a positive historical shock in the external interest rate spread) are analyzed using generalized impulse response functions. The shock is shown to lead to an increase in domestic spreads and a reduction in the cyclical component of output. These results are consistent with the predictions of our analytical framework.

Aggarwal, Rajesh

AB The principal-agent model of executive compensation is of central importance to the modern theory of the firm and corporate governance, yet the existing empirical evidence supporting it is quite weak. The key predication of the model is that the executive's pay-performance sensitivity is decreasing in the variance of the firm's performance. The authors demonstrate strong empirical confirmation of this prediction using a comprehensive sample of executives at large corporations. The authors further show that estimates of the pay-performance sensitivity that do not explicitly account for the effect of the variance of firm performance are biased toward

zero. The authors also test for relative performance evaluation of executives against the performance of other firms. They find little support for the relative performance evaluation model. Their findings suggest that executive compensation contracts incorporate the benefits of risk-sharing but do not incorporate the potential informational advantages of relative performance evaluation.

Agulnik, Phil
TI   Partnership in Pensions? Responses to the Pensions Green Paper.   AU   Rake, Katherine;   Falkingham, Jane; Agulnik, Phil; Evans, Martin; Barr, Nicholas.

Aiyagari, S. Rao
PD   October 1998.   TI   "Overreaction" of Asset Prices in General Equilibrium.   AU   Aiyagari, S. Rao; Gertler, Mark. AA   Aiyagari: University of Rochester. Gertler: New York University.   SR   National Bureau of Economic Research Working Paper: 6747; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   37.   PR $5.00.   JE   D58, E43, G12, G13.   KW   Asset Prices. Shocks. Margin Constraint. General Equilibrium.
AB   We attempt to explain the overreaction of asset prices to movements in short-term interest rates, dividends, and asset supplies. The key element of our explanation is a margin constraint that traders face which limits their leverage to a fraction of the value of their assets. Traders may lever themselves further, either directly by borrowing short term or indirectly by engaging in futures and options trading, so that the scenario is relevant to contemporary financial markets. When some shock pushes asset prices to a low enough level at which the margin constraint binds, traders are forced to liquidate assets. This drives asset prices below what they would be with frictionless markets. Also, a shock which simply increases the likelihood that the margin constraint will bind can have a very similar effect on asset prices. We construct a general equilibrium model with margin constrained traders and derive some qualitative properties of asset prices. We present an analytical solution for a deterministic version of the model and a simple numerical computation of the stochastic version.

Aizenman, Joshua
PD   August 1998.   TI   Capital Mobility in a Second Best World -- Moral Hazard with Costly Financial Intermediation. AA   Dartmouth College and National Bureau of Economic Research.   SR   National Bureau of Economic Research Working Paper: 6703; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   not available.   PR $5.00.   JE   F02, F15, F34.   KW   Moral Hazard. Banking Reform. Financial Integration. Risk Supervision.
AB   This paper studies the welfare effects of financial integration in the presence of moral hazard. Entrepreneurs face a trade off between risk and return. Banks may mitigate the resultant excessive risk by costly monitoring. Hence, the excessive risk associated with moral hazard is endogenously determined. A drop in banks' cost of funds increases the risk tolerated by banks in equilibrium. Similarly, less efficient intermediation technology (i.e. more costly risk monitoring), higher macroeconomic volatility, and more generous deposit insurance all raise the riskiness of projects in equilibrium. Overborrowing would arise where the cost of financial

intermediation is relatively high, the banks' cost of funds is relatively low, and macroeconomic volatility is high. With relative scarcity of funds, financial integration is welfare reducing (enhancing) if the financial intermediation is relatively inefficient (efficient). For a large enough cost of financial intermediation, the dependence of welfare on the banks' cost of funds has an inverted U shape, which makes financial integration and reforming the banking sector complimentary policies. If one starts with a highly inefficient banking system, reforming it and improving its operation is a precondition for successful financial integration.

TI   Volatility and the Welfare Costs of Financial Market Integration.   AU   Agenor, Pierre-Richard; Aizenman, Joshua.

TI   Contagion, Bank Lending Spreads and Output Fluctuations.   AU   Agenor, Pierre-Richard; Aizenman, Joshua; Hoffmaister, A.

Albaek, Svend
PD   April 1998.   TI   Signaling and Rent Extraction via Contract Proposals in Franchising.   AU   Albaek, Svend; Overgaard, Per Baltzer.   AA   Albaek: University of Copenhagen. Overgaard: University of Aarhus.   SR   Centre for Industrial Economics Discussion Paper: 98/03; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG   35.   PR   no charge.   JE   C72, D84, L12. KW   Uncertain Retail Demand. Franchise Contracts. Signaling. Informed Principal.
AB   We study the role of two-part transfer schemes as signals of consumer demand from a privately informed franchisor to an uninformed franchisee. Distortions in the wholesale price and the up-front franchise fee offered by the high demand franchisor may possibly separate the different types of franschisors. However, franchise fees may be independent of the private information, even in a separating equilibrium. Further, pooling equilibria survive for certain specifications of demand and prior probability distributions. Finally, the extraction of downstream rents by the franchisor may be incomplete. We trace some empirical implications of these results.

Alberini, Anna
TI   Public Support for Pollution Fee Policies for Motor Vehicles: Survey Results.   AU   Krupnick, Alan J.; Harrington, Winston; Alberini, Anna.

Albuquerque, Rui
PD   August 1998.   TI   On the Dynamics of Trade Reform. AU   Albuquerque, Rui; Rebelo, Sergio.   AA   Albuquerque: University of Rochester. Rebelo: Northwestern University and National Bureau of Economic Research.   SR   National Bureau of Economic Research Working Paper: 6700; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   33. PR $5.00.   JE   F11, F13.   KW   Industrial Structure. Trade Models.
AB   The empirical evidence on trade reforms suggests that these have a surprisingly small impact on the country's industrial configuration. This industrial structure inertia is difficult to rationalize in standard trade models. This paper develops a two-sector industry dynamics model in which industrial composition inertia arises naturally. The model is

then used to study the consequences of different types of trade reforms (e.g. permanent, temporary, gradual, pre-announced) on investment, employment composition, and income distribution.

Aldrich, John
PD August 1998. TI The Discovery of Comparative Advantage. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9811; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 40.. PR annual subscription 40 pounds ($80); individual copies on application. JE B12, F11. KW Comparative Advantage. Ricardo. Furrens. James Mill. John Stuart Mill.
AB The discovery of the principle of comparative advantage was a complex process involving two generations of economists. This paper examines the contributions of Torrens, Ricardo, James Mill and John Stuart Mill. It argues that James Mill's Elements (1821), and not Ricardo's Principles (1817), is the primary text for the principle. Mill transformed and systematised the insights of the earlier contributors, including Ricardo, and his mistakes stimulated the later contributors.

PD August 1998. TI The Jevonian Revolution in International Trade Theory. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9812; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 38. PR annual subscription 40 pounds ($80); individual copies on application. JE B13, F11. KW Jevons. Edgeworth. Neoclassical Trade Theory. Specific Factors Model.
AB Jevonian trade theory was the original species of neoclassical trade theory. It treats countries as trading bodies with utility functions for consumption and disutility functions for labor. Edgeworth derived offer curves from tastes and technology; Jevon's model resembles the modern specific factors model. In this paper their contributions are reviewed and the question of why there was no successful Jevonian revolution in trade theory discussed.

Alesina, Alberto
PD June 1998. TI Who Gives Foreign Aid to Whom and Why? AU Alesina, Alberto; Dollar, David. AA Alesina: Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6612; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F21, F23, F35, O19. KW Foreign Aid. Foreign Direct Investment. Multinational Firms.
AB This paper studies the pattern of allocation of foreign aid from various donors to receiving countries. We find considerable evidence that the direction of foreign aid is dictated by political and strategic considerations, much more than by the economic needs and policy performance of the recipients. Colonial past and political alliances are the major determinants of foreign aid. At the margin, however, countries that democratize receive more aid, ceteris paribus. While foreign aid flows respond more to political variables, foreign direct investments are more sensitive to economic incentives,

particularly "good policies" and protection of property rights in the receiving countries. We also uncover significant differences in the behavior of different donors.

PD October 1998. TI Redistributive Public Employment. AU Alesina, Alberto; Baqir, Reza; Easterly, William. AA Alesina: Harvard University and National Bureau of Economic Research. Baqir: University of California, Berkeley. Easterly: The World Bank. SR National Bureau of Economic Research Working Paper: 6746; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 18. PR $5.00. JE D31, E62, H23, H50. KW Public Employment. Redistribution. Income Inequality. Segregation.
AB Politicians may use "disguised" redistributive policies in order to circumvent opposition to explicit tax-transfer schemes. First, we present a theoretical model that formalizes this hypothesis; then we provide evidence that in US cities, politicians use public employment as such a redistributive device. We find that city employment is significantly higher in cities where income inequality and ethnic fragmentation are higher.

Amiel, Yoram
PD January 1999. TI The Subjective Approach to the Measurement of Income Inequality. AA London School of Economics. SR STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 38; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 21. PR no charge. JE C13, D63, I32. KW Inequality. Social Welfare. Poverty.
AB Inequality measurement involves explicit or implicit value judgments. The subjective approach to inequality measurement is a relatively new and fast-developing area which focuses direct attention on these judgments. It is "subjective" in the sense that is takes account of peoples' views on distributional comparisons. This paper surveys some of the principal contributions of recent years.

Amir, Madjid
PD May 1999. TI Sequencing R&D Decisions in a Two-Period Duopoly with Spillovers. AU Amir, Madjid; Amir, Rabah; Jin, Jim. AA Amir, M.: University of Karlsruhe; Amir, R.: University of Odense; Jin: Queen's University. SR Centre for Industrial Economics Discussion Paper: 99/06; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 26. PR no charge. JE C72, L13, O31. KW R&D Spillovers. Cournot duopoly. Subgame-Perfect Equilibrium. Endogenous Timing.
AB We compare simultaneous versus sequential moves in R&D decisions within an asymmetric R&D/Cournot model with linear demand (for differentiated products), general R&D costs, and spillovers. Simultaneous play and sequential play (with and without a specified leader) can emerge as appropriate formulations, depending on the ratios of spillover rate over demand cross-slope, but not on R&D efficiency. When at least one ratio is above, a sequential solution mitigates competition and leads to higher profits for each firm, and to higher social welfare. When uniquely specified, the stronger firm emerges as the R&D first-mover.

Amir, Rabah

PD February 1998. **TI** Effects of One-Way Spillovers on Market Shares, Industry Price, Welfare, and R&D Cooperation. **AU** Amir, Rabah; Wooders, John. **AA** Amir: Odense University. Wooders: University of Arizona. **SR** Centre for Industrial Economics Discussion Paper: 98/09; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. **PG** 27. **PR** no charge. **JE** D43, L13, O31. **KW** Strategic R&D. Cournot Duopoly. One-Way Spillovers. Endogenous Heterogeneity. Research Joint Ventures.

AB With one-way spillovers, the standard symmetric two-period R&D model leads to an asymmetric equilibrium only, with endogenous innovator and imitator. We show how R&D decisions and measures of firm heterogeneity market shares, R&D shares, and profits -- depend on spillovers and on R&D costs. While a joint lab always improves consumer welfare, it yields higher profits, cost reductions and social welfare only under extra assumptions, beyond those required with multi-directional spillovers. Finally, the novel issue of optimal R&D cartels (with an endogenous spillover parameter) is addressed. In particular, the latter can be zero under some conditions.

PD June 1998. **TI** One-Way Spillovers, Endogenous Innovator/Imitator Roles and Research Joint Venture. **AU** Amir, Rabah; Wooders, John. **AA** Amir: Odense University. Wooders: University of Arizona. **SR** Centre for Industrial Economics Discussion Paper: 98/10; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. **PG** 31. **PR** no charge.. **JE** C72, L13, O31. **KW** Oligopolistic R&D. One-Way Spillovers. Research Joint Ventures. Submodularity.

AB We consider a two-period duopoly characterized by a one-way spillover structure in process R&D and a very broad specification of product market competition. We show that a priori identical firms always engage in different levels of R&D, at equilibrium, thus giving rise to an innovator/imitator configuration and ending up with different sizes. In view of this endogenous firm heterogeneity, the social benefits of, and the firms' incentives for, research joint ventures are somewhat different from the case of ex post firm symmetry. The key properties of the game are submodularity (R&D decisions are strategic substitutes) and lack of global concavity.

PD July 1998. **TI** Modelling Imperfectly Appropriable R&D via Spillovers. **AA** Odense University. **SR** Centre for Industrial Economics Discussion Paper: 98/07; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. **PG** 13. **PR** no charge. **JE** C72, D43, L13. **KW** Oligopoly. Research and Development. Spillovers. Co-operation. Model Validity.

AB We provide an extensive comparison of the R&D models of d'Aspremont- Jacquemin (1988) and Kamien-Muller-Zang (1992), exposing full or partial conflict in key conclusions and policy prescriptions. Using three separate formal and/or intuitive criteria, we argue that the first model is invalid for large spillover values. This conclusion is corroborated by an additional argument leading to equivalence between the two R&D processes, but not to agreement on some key conclusions. Hence, the models emerge as fundamentally different, although a unilateral shift in the cost function of the first leads to agreement in all equilibrium outcomes.

PD September 1998. **TI** On the Effects of Entry in Cournot Markets. **AU** Amir, Rabah; Lambson, Val E. **AA** Amir: Odense University. Lambson: Bringham Young University. **SR** Centre for Industrial Economics Discussion Paper: 98/06; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. **PG** 30. **PR** no charge. **JE** C72, D43, L13. **KW** Cournot Oligopoly. Quasi-Competitiveness. Supermodular Games. Comparative Statics.

AB In the framework of symmetric Cournot oligopoly, this paper provides two minimal sets of assumptions on the demand and cost functions that imply respectively that, as the number of firms increases, the minimal and maximal equilibria lead to (i) decreasing industry price and increasing or decreasing per-firm output; and (ii) increasing industry price (and decreasing per-firm output). In both cases, per-firm profits are decreasing. The analysis relies crucially on lattice-theoretic methods and yields general, unambiguous and easily interpretable conclusions of a global nature. As a by- product of independent interest, new insight into existence of Cournot equilibrium is developed.

TI Sequencing R&D Decisions in a Two-Period Duopoly with Spillovers. **AU** Amir, Madjid; Amir, Rabah; Jin, Jim.

PD May 1999. **TI** R&D Returns, Market Structure and Research Joint Ventures. **AA** University of Southern Denmark. **SR** Centre for Industrial Economics Discussion Paper: 99/07; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. **PG** 20. **PR** no charge. **JE** D43, L13, O30. **KW** Strategic R&D. Dominated Strategies. Asymmetric Equilibria. Research Joint Venture.

AB A two period R&D symmetric Cournot duopoly game with linear demand and costs is analyzed under linear (or more general) returns to scale in process R&D. Subgame -- perfect equilibrium may call for one firm to fully innovate while the other firm remains just as before. The outcome is a polar duopoly or monopoly (one firm endogenously exiting. Two RJV schemes are compared to the noncooperative solution. Due to built-in symmetry, a joint lab RJV does not always lead to the best performance. Nonetheless, whenever a joint lab innovates, it yields the highest welfare. Overall, our findings differ substantially from those based on strongly decreasing R&D returns and symmetric outcomes.

Anderlini, Luca

PD October 1998. **TI** Costly Bargaining and Renegotiation. **AU** Anderlini, Luca; Felli, Leonardo. **AA** Anderlini: St. John's College, Cambridge. Felli: London School of Economics. **SR** STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/361; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 44. **PR** no charge. **JE** C79, D23, D60, D80, L14. **KW** Bargaining Costs. Inefficient Outcomes. Renegotiation. Imperfect Recall. Transaction Costs.

AB We identify the inefficiencies that arise when negotiation between two parties takes place in the presence of transaction costs. First, for some values of these costs it is efficient to reach an agreement but the unique equilibrium outcome is one in which agreement is never reached. Secondly, even when there

are equilibria in which an agreement is reached, we find that the model always has an equilibrium in which agreement is never reached, as well as equilibria in which agreement is delayed for an arbitrary length of time. Finally, the only way in which the parties can reach an agreement in equilibrium is by using inefficient punishments for (some of) the opponent's deviations. We argue that this implies that, when the parties are given the opportunity to renegotiate out of these inefficiencies, the only equilibrium outcome which survives is the one in which agreement is never reached, regardless of the value of the transaction costs.

PD   October   1998.   TI   Costly   Coasian   Contracts. AU Anderlini, Luca; Felli, Leonardo. AA Anderlini: St John's College, Cambridge. Felli: London School of Economics. SR STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/362; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 58. PR no charge. JE C70, D23, D60, D80, L14. KW Contractual Costs. Hold-Up Problems. Coase Theorem. Contracts. Incomplete Contracts.
AB   We identify and investigate the basic 'hold-up problem' which arises whenever each party to a contract has to pay some ex-ante cost for the contract to become feasible. We then proceed to show that, under plausible circumstances, a 'contractual solution' to this hold-up problem is not available. This is because a contractual solution to the hold-up problem typically entails writing a 'contract over a contract' which generates a fresh set of ex-ante costs, and hence is associated with a new hold-up problem.

Andersen, Dan H.
PD   September 1997. TI   The Grapes of War: Neutrality and Mediterranean Shipping under the Danish Flag, 1750-1807. AU Andersen, Dan H.; Voth, Hans-Joachim. AA Andersen: European University Institute. Voth: Cambridge University. SR   University of Oxford, Discussion Paper in Economic and Social History: 18; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG   32. PR   no charge. JE   F13, F14, L92, N43, N73. KW Trade. War. Neutrality. Denmark. Economic History.
AB   The paper tests the hypothesis that the consistent neutrality of the Danish Monarchy during the great wars of the eighteenth century may have permanently increased the kingdom's shipping in the Mediterranean. It does so using data derived from Algerian Passport Registers for the years 1750-1807. Modern time-series techniques are applied to analyze the relative importance of neutrality and favorable factor endowments. We show that the data lends qualified support to both hypotheses, with two thirds of the rise in Danish shipping attributable to neutrality and the remainder, by implication, to favorable factor endowments.

Anderson, Deborah
TI   Continuing   Progress?   Trends   in   Occupational Segregation in the United States over the 1970's and 1980's. AU Blau, Francine D.; Simpson, Patricia; Anderson, Deborah.

Anderson, Patricia M.
PD   November 1998. TI   Using a Natural Experiment to Estimate the Effects of the Unemployment Insurance Payroll

Tax   on   Wages,   Employment,   Claims,   and   Denials. AU   Anderson,   Patricia   M.;   Meyer,   Bruce   D. AA   Anderson: Dartmouth College and National Bureau of Economic Research. Meyer: Northwestern University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6808; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   27. PR $5.00.   JE   H22,   H25,   J31,   J63,   J65. KW Unemployment Insurance. Payroll Taxes. Employment. Wages. Tax Incidence.
AB   The recent experience of Washington State provides a natural setting to examine the effects of the unemployment insurance payroll tax on wages, employment, claims and denials. During the 13 year period from 1972 through 1984, all employers in Washington paid the same unemployment insurance (UI) tax rate. As a by-product of Federal legislation, Washington was forced to adopt an experience-rated system in 1985. This paper takes advantage of this "natural experiment" to explore both tax incidence and the effects of experience rating. Results based on individual-level quarterly earnings are supportive of the idea that industry average tax rates are largely passed on to workers in the form of lower earnings. However, our estimates imply that a firm can shift much less of the difference between its tax rate and the industry average rate. We then analyze the effect of experience rating on employment, UI claims, and UI denials by comparing the experience of Washington State before and after the 1985 change with that of other states. Our results are generally supportive of the prediction that experience rating reduces turnover and UI claims, and increases claim denials.

Anderson, Torben G.
PD   July 1998. TI   Testing for Market Microstructure Effects in Intraday Volatility: A Reassessment of the Tokyo FX Experiment. AU   Anderson, Torben G.; Bollerslev, Tim; Das, Ashish. AA   Anderson and Das: Northwestern University. Bollerslev: Duke University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6666; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   C12, C22, F33, G14, G15. KW Volatility Estimation. High Frequency data. Foreign Exchange.
AB   This paper develops new robust inference procedures for analyzing the intraday return volatility patterns that constitute a focal point of much market microstructure theory. Our empirical analysis is motivated by the recent lifting of trade restrictions in the interbank foreign exchange (FX) market for Japanese banks during the Tokyo lunch period. Ito, Lyons, and Melvin (1998) (ILM) argue that this deregulation resulted in a highly significant shift in the volatility pattern across the entire Japanese trading day, indicating that private information is an important component of the price formation process in the FX market. In contrast, our robust analysis finds no evidence for any discernible change in the pattern outside of the Tokyo lunch period. Moreover, we document that the standard variance-ratio methodology, employed by ILM, provides very misleading inference in this high-frequency data context.

Andreoni, James
PD   September 1998. TI   The Simple Analytics of the Environmental Kuznets Curve. AU Andreoni, James;

Levinson, Arik. **AA** Andreoni: University of Wisconsin. Levinson: University of Wisconsin and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6739; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D62, H41, O13, Q25. **KW** Kuznets Curve. Pollution. National Income. Technology.

AB Evidence suggests that some pollutants follow an inverse-U-shaped pattern relative to countries' incomes. This relationship has been called the "environmental Kuznets curve." This paper lays out a simple and straight-forward static model of the microfoundations of the pollution-income relationship. We show that the environmental Kuznets curve can be derived directly from the technological link between consumption of a desired good and abatement of its undesirable byproduct. The inverse-U shape does not depend on the dynamics of growth, political institutions, or even externalities, and can be consistent with a decentralized economy as well as a Pareto efficient policy.

Angrist, Joshua D.

TI Consequences of Employment Protection? The Case of the Americans with Disabilities Act. **AU** Acemoglu, Daron; Angrist, Joshua D.

PD August 1998. **TI** Effects of Work-Related Absences on Families: Evidence from the Gulf War. **AU** Angrist, Joshua D.; Johnson, John H., IV.. **AA** Angrist: Massachusetts Institute of Technology and National Bureau of Economic Research. Johnson: Massachusetts Institute of Technology. **SR** National Bureau of Economic Research Working Paper: 6679; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J12, J13, J22. **KW** Labor supply. Divorce Rates. Work-Family interactions.

AB Labor economists and policy makers have long been interested in work-family interactions. Work generates income but also reduces the time families have to spend together. Gulf War mobilization makes for an interesting case study of work-related absences by both husbands and wives. We estimate the effect of Gulf War deployment on employment rates for soldier's spouses, divorce rates, and disability rates among soldier's children. Data from the 1992 Survey of Officers and Enlisted Personnel show that personnel deployed to the Gulf spent 3-6 more months away from home than non-deployed personnel. The estimates suggest that deployments of a male soldier reduced wives' employment rates, probably because of added child care responsibilities. Deployment of a female soldier left husbands' employment rates unchanged, but female deployment is associated with significantly higher post-deployment divorce rates. Finally, estimates for the pooled sample of men and women show no significant increase in the incidence of temporary disabilities among the children of deployed personnel. This may be because for most military families, deployment was not associated with a change in living standards.

PD November 1998. **TI** Does Teacher Training Affect Pupil Learning? Evidence from Matched Comparisons in Jerusalem Public Schools. **AU** Angrist, Joshua D.; Lavy, Victor. **AA** Angrist: Massachusetts Institute of Technology and National Bureau of Economic Research. Lavy: Hebrew University. **SR** National Bureau of Economic Research Working Paper: 6781; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 18. **PR** $5.00. **JE** I21, I28, J24. **KW** Education. Teacher Training. Student Achievement. Human Capital. Matched Comparisons.

AB The relationship between teachers' characteristics and their pupils' achievement has been the subject of many studies. Most of this research focuses on the impact of teacher salaries, experience and measures of teachers' pre-service training such as educational background. The effect of on-the-job or in-service training has received much less attention. In this paper, the authors estimate the effect of in-service teacher training on children's reading and mathematics achievement in Jerusalem elementary schools. The training was based on pedagogical methods developed in US schools. The authors' research uses a matched-comparison design which exploits the fact that only a few schools received extra funds for training. Differences-in-differences, regression, and nonparametric matching estimates are reported. The results suggest that the training received by teachers in the non-religious branch of the Jerusalem school system led to an improvement in their pupils' test scores. The estimates for religious schools are not clear cut. The estimates for non-religious schools suggests that, at least in this case, teacher training provided a less costly means of increasing test scores than reducing class size or adding school hours.

Antweiler, Werner

PD August 1998. **TI** Is Free Trade Good for the Environment? **AU** Antweiler, Werner; Copeland, Brian R.; Taylor, M. Scott. **AA** Antweiler and Copeland: University of British Columbia. Taylor: University of Wisconsin and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6707; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F01, Q25, F49. **KW** Pollution. Sulfur Dioxide. Openness to Trade.

AB This paper sets out a theory of how openness to international goods markets affects pollution concentrations. We develop a theoretical model to divide trade's impact on pollution into scale, technique, and composition effects and then examine this theory using data on sulfur dioxide concentrations when it alters the composition, and hence the pollution intensity, of national output. Our estimates of the associated technique and scale efforts created by trade imply a net reduction in pollution from these sources. Combining our estimates of scale, composition, and technique efforts yields a somewhat surprising conclusion: freer trade appears to be good for the environment.

Appleton, Simon

PD July 1998. **TI** Changes in Poverty in Uganda, 1992-1996. **AA** Centre for the Study of African Economies. **SR** Centre for the Study of African Economies Working Paper: 98/15; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. **PG** 44. **PR** 3 pounds or $5.00. **JE** I31, I32, O55. **KW** Poverty. Living Standards. Uganda. Growth. Redistribution.

AB Analysis of four nationally representative household surveys from Uganda show a fall in poverty from 1992-1996.

Using an absolute poverty line calculated following Ravallion and Bidani, we find 56% of Ugandans were poor in 1992 falling to 46% in 1996. The fall is due to growth, not redistribution, with cash crop farming, manufacturing and distribution sectors benefiting the most. The North has gained the least and poverty has increased amongst households whose heads were not working. The poorest fifth have experienced falling living standards in the last three surveys.

Arabsheibani, G. R.

PD June 1997. TI Stability of Estimates of the Compensation for Danger. AU Arabsheibani, G. R.; Marin, A. AA Arabsheibani: Royal Holloway College. Marin: London School of Economics. SR STICERD, (LSE) Welfare State Programme Discussion Paper: WSP/130; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 48. PR no charge. JE C24, D61, J17, J28, J31. KW Cost Benefit. Value of Life. Labor Markets. Selectivity Bias. Job Risk.
AB Estimates of the extra earnings for jobs with higher risks of death can be used in cost-benefit studies involving risk changes. Because of this use, the magnitude and stability of the estimated coefficient are important. The current study closely reproduces a widely quoted 1982 study by Marin and Psacharopolous to check on the stability. We also examine the robustness of the estimate to the inclusion/exclusion of non-fatal risks and other relevant characteristics. While the magnitude of the coefficient has increased threefold from the earlier study, the coefficient is robust to other changes in the specification. There could be selectivity bias in the estimates of the extra return because people can select their occupation on the basis of its riskiness. Our findings suggest that one common technique to deal with selectivity bias in a continuous variable can give unreliable results in practice.

Aron, Janine

PD April 1997. TI Efficiency Tests in Sub-Saharan African Foreign Exchange Markets. AU Aron, Janine; Ayogu, Melvin. AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/05; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 36. PR 3 pounds or $5.00. JE C82, F31. KW Foreign Exchange. Exchange Rates. Volatility. Efficiency. Cointegration.
AB Are frequent changes in freely floating exchange rates attributable to stabilizing speculation reflecting changes in the fundamental determinants of currencies; or to destabilizing behavior of various kinds, driving prices away from fundamentals, and creating 'excess' volatility? This paper, motivated by the need to assess appropriate tests for efficiency for the growing range of liberalized and liberalizing foreign exchange markets in Sub-Saharan African countries, has the following objectives: (i) briefly to survey the empirical methodology for testing market efficiency in the forex market, with an emphasis on integrating the new co-integration methodology; (ii) highlighting the significant data difficulties in empirical work, given controls and frequent structural breaks, for the use of these techniques in Africa; (iii) illustrating the way in which some of these techniques can be applied in South Africa and some other African countries; and (iv) suggesting

further research on efficiency that could be carried out using similar data.

PD August 1997. TI Political, Economic and Social Institutions: A Review of Growth Evidence. AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/04; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 45. PR 3 pounds or $5.00. JE D70, E60, F43, O17, O40. KW Institutions. Growth. Contracts. Predation. Social Capital.
AB This paper integrates North's institutional framework with the notion of institutions in the augmented Solow growth model, to clarify the direct and indirect channels by which institutions influence growth. Four ways to extend the Solow model in order to incorporate a role for institutions are outlined; and growth regressions are reinterpreted in this light. A detailed typology of empirical institutional measures is provided, and, emphasizing measures of institutional quality, evidence from the growth and institutions literature is reviewed. A substantial case is made for the need for a more structural multi-equation modeling approach to determine the effects of diverse institutional measures on growth. The analysis underlines the important role of the state in facilitating the development and enforcement of complex, multi-agent and multi-period contracts, refraining from predatory actions which discourage saving, investment and production and in extending civil and political rights that promote the development of social capital.

PD April 1998. TI Policy Rules and Bidding Behaviour in the Ethiopian Foreign Exchange Auction. AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/11; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 31. PR 3 pounds or $5.00. JE D44, D83, E58, F31, O16. KW Foreign Exchange. Auctions. Ethiopia. Central Banks. Learning.
AB Ethiopia adopted a repeated Dutch auction for foreign exchange in May, 1993. Various African countries with rudimentary financial systems and thin foreign exchange markets have successfully employed auctions in transition from centralized, controlled systems to decentralized interbank markets. This paper characterizes the rules, regime shifts and auction outcomes in Ethiopia. Models for the Central Bank's supply rules for pre-announced supply of dollars in fortnightly and later weekly auctions, confirm the objective was to stabilize the exchange rate (the marginal auction price) in a thin market around depreciating trends. Bidders were able to learn the supply rules, clustering their bids around predicted target rates. Using a method novel in auction empirical literature, bidders' learning in repeated auctions is examined via the adjustment to equilibrium in error correction equations for the bid spread. Robust models for a similar learning process were found across both frequency regimes; but learning was faster where the exchange rate target was more transparent and uncertainty lower. A fairly stable depreciation was thus achieved.

Arora, Seema

PD November 1996. TI Do Community Characteristics Determine Environmental Outcomes? Evidence from the

Toxics Release Inventory. **AU** Arora, Seema; Cason, Timothy N. **AA** Arora: Vanderbilt University. Cason: University of Southern California. **SR** Resources for the Future Discussion Paper: 97/12; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 32. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** Q20, R12. **KW** Neighborhoods. Toxic Emissions. Pollution. Firm Location.

AB This research uses neighborhood characteristics (at the zip code level) to explain changes in toxic releases between 1990 and 1993. It combines the Toxics Release Inventory data with demographic data from the 1990 US Census. We first analyze the location of manufacturing facilities in a particular neighborhood using a sample selection model, and then attribute changes in the level of emissions between 1990 and 1993 to the demographic and socio-economic characteristics of the neighborhood in 1990. The results indicate that variables likely to affect the propensity for communities to engage in political action significantly influence environmental performance. Economic characteristics of neighborhoods (such as income levels and unemployment) also affect changes in releases. Release changes in the Southeastern US exhibit a pattern consistent with racial injustice.

Arteche, Josu

PD September 1998. **TI** Semiparametric Inference in Seasonal and Cyclical Long Memory Processes. **AU** Arteche, Josu; Robinson, Peter M. **AA** Arteche: University of the Basque Country, Bilbao. Robinson: London School of Economics. **SR** STICERD, (LSE) Econometrics Discussion Paper: EM/98/359; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 34. **PR** no charge. **JE** C14, C15, C32, E31. **KW** Semiparametric Inference. Long Memory. Seasonality. Time Series. Inflation.

AB Several semiparametric estimates of the memory parameter in standard long memory time series are now available. They consider only local behavior of the spectrum near zero frequency, about which the spectrum is symmetric. However, long-range dependence can appear as a spectral pole at any Nyqvist frequency (reflecting seasonal or cyclical long memory), where the spectrum need display no such symmetry. We introduce Seasonal/Cyclical Asymmetric Long Memory (SCALM) processes that allow differing rates of increase on either side of such a pole. To estimate the two consequent memory parameters we extend two semiparametric methods that were proposed for the standard case of a spectrum diverging at the origin, namely the log-periodogram and Gaussian or Whittle methods. We also provide three tests of symmetry. Monte Carlo analysis of finite sample behavior and an empirical application to UK inflation data are included. Our models and methods allow also for the possibility of negative dependence, described by a possibly asymmetric spectral zero.

PD September 1998. **TI** Seasonal and Cyclical Long Memory. **AU** Arteche, Josu; Robinson, Peter M. **AA** Arteche: University of the Basque Country, Bilbao. Robinson: London School of Economics. **SR** STICERD, (LSE) Econometrics Discussion Paper: EM/98/360; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 34. **PR** no charge. **JE** C32, C51,

C52. **KW** Long Memory. Seasonality. Cyclicality. Time Series.

AB There has recently been great interest in time series with long memory, namely series whose dependence decays slowly in the sense that autocovariances are not summable and the spectral density is unbounded. This concept has been extended to SCLM (Seasonal/Cyclical Long Memory) where the dependence between seasonal or cyclic observations decays similarly slowly. We discuss issues related to SCLM processes such as modeling, estimation, statistical inference, applications and extensions.

Avesani, Renzo G.

PD October 1999. **TI** Interest Rate Volatility Regimes and Exchange Rate Behavior in a Target Zone. **AU** Avesani, Renzo G.; Gallo, Giampiero M. **AA** Avesani: Banca Intesa, Milan. Gallo: Universita di Firenze & European University Institute. **SR** University of California, San Diego, Department of Economics Working Paper: 99/21; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. **PG** 18. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C22, E43, E52, F31, F36. **KW** European Monetary System. Speculative Attacks. Interest Rate Volatility. Exchange Rates. Target Zones.

AB The fluctuation of the exchange rate in a target zone is still chosen as an instrument of monetary policy, raising the issue of its defendability in the face of asymmetric shocks. In this paper, we examine ten years of Italian Lira one month Eurodeposit daily data between 1983 and 1993 arguing that volatility increases in the interest rates could help identifying periods of possible impending crisis for the exchange rates. We chose a SWARCH model to choose a test for the quality of the reaction by monetary authorities, showing that interest rate volatility regimes are a good predictor of the timing of realignments; that the adoption of a new central parity does not always bring about an immediate increase in the credibility level and that there were episodes where an impending crisis signaled by a volatility increase was successfully countered and did not lead to a realignment.

Ayogu, Melvin

TI Efficiency Tests in Sub-Saharan African Foreign Exchange Markets. **AU** Aron, Janine; Ayogu, Melvin.

Bacchetta, Philippe

PD August 1998. **TI** Does Exchange Rate Stability Increase Trade and Capital Flows? **AU** Bacchetta, Philippe; Van Wincoop, Eric. **AA** Bacchetta: University of Lausanne. Van Wincoop: Federal Reserve Bank of New York. **SR** National Bureau of Economic Research Working Paper: 6704; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 34. **PR** $5.00. **JE** F31, F33, F41. **KW** Exchange Rate Regimes. Trade. Capital Flows.

AB On the eve of a major change in the world monetary system, the adoption of a single currency in Europe, our theoretical understanding of the implications of the exchange rate regime for trade and capital flows is still limited. We argue that two key model ingredients are essential to address this question: a general equilibrium setup and deviations from

purchasing power parity. By developing a simple benchmark monetary model that contains these two ingredients, we find the following main results. First, the level of trade is not necessarily higher under a fixed exchange rate regime. Second, the level of net capital flows tends to be higher under a fixed exchange rate regime where there is a preference for domestic bonds, which is the case when the rate of relative risk-aversion is larger than one. Third, the asset market structure, including the presence of a forward market, does not quantitatively affect the results.

Bachmann, Reinhard

PD June 1999. TI Trust, Power and Control in Trans-Organisational Relations. AA Technical University Hamburg-Harbord, Germany. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP129; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 38. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G34, L14. KW Trust. Power. Organizational Relations. Structuration Theory.

AB This paper analyzes trust and power as means of coordinating trans- organizational relationships. It is argued that, depending on the institutional environment, there are two distinct patterns of controlling relationships, where trust and power are interrelated in quite different ways. First, both mechanisms are generated at the inter-personal level and either trust or power dominates the relationship. Second, power occurs at the level of the structural framework of relationships, and is highly conducive to developing trust between individual organizations. Thus, specific forms of trust are identified and the institutional environment is viewed as playing a crucial role in shaping the quality of trans-organizational relations.

Backus, David K.

PD August 1998. TI Oil Prices and the Terms of Trade. AU Backus, David K.; Crucini, Mario J. AA Backus: New York University and National Bureau of Economic Research. Crucini: Ohio State University. SR National Bureau of Economic Research Working Paper: 6697; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E32, F32, F41. KW Terms of Trade. Oil Prices.

AB The combination of substantial terms of trade variability and unstable correlation patterns of trade prices with output and trade volumes has led some to suggest a break in the link between trade volumes and prices. We find that oil accounts for much of the variation in the terms of trade over the last twenty five years and its quantitative role varies significantly over time. And since our dynamic general equilibrium model predicts that the economy responds differently to oil supply shocks than to other shocks, changes in their relative importance help to account for the unstable correlations in the data.

PD September 1998. TI Discrete-Time Models of Bond Pricing. AU Backus, David K.; Foresi, Silverio; Telmer, Chris. AA Backus: New York University and National Bureau of Economic Research. Foresi: Salomon Smith Barney. Telmer: Carnegie Mellon University. SR National Bureau of Economic Research Working Paper: 6736; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge,

MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E43, G12. KW Bond Pricing. Discrete Time. State Variables. Stochastic Volatility.

AB We explore a variety of models and approaches to bond pricing, including those associated with Vasicek, Cox-Ingersoll-Ross, Ho and Lee, and Heath-Jarrow-Morton, as well as models with jumps, multiple factors, and stochastic volatility. We describe each model in a common theoretical framework and explain the reasoning underlying the choice of parameter values. Our framework has continuous state variables but discrete time, which we regard as a convenient middle ground between the stochastic calculus of high theory and the binomial models of classroom fame. In this setting, most of the models we examine are easily implemented on a spreadsheet.

Bakhshi, Hasan

PD July 1998. TI Some Costs and Benefits of Price Stability in the United Kingdom. AU Bakhshi, Hasan; Haldane, Andrew G.; Hatch, Neal. AA Bank of England. SR National Bureau of Economic Research Working Paper: 6660; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 60. PR $5.00. JE E31, E63. KW Price Stability. Inflation costs.

AB In a previous attempt to articulate the costs of inflation (Leigh- Pemberton (1992)), the Bank of England outlined the following costs of a fully-anticipated inflation: the costs of economizing on real money balance effects; the costs of operating an imperfectly indexed tax system; the costs of 'front-end loading' of nominal debt contracts; the cost of constantly revising price lists. In quantifying the first two of these costs when moving from 2 percent inflation to price stability in the U.S., Feldstein (1996) concluded that the discounted permanent welfare gains through these two channels alone exceeded the transient costs of doing so. This paper aims to replicate Feldstein's analysis for the U.K. Welfare effects are quantified using deadweight loss analysis familiar from public finance economics. Because inflation exacerbates tax distortions that exist even without inflation, the welfare costs are trapezoids rather than the usual triangles, or, alternatively, first-order rather than second-order losses. We find that the welfare gains from moving to price stability through the two channels identified above are lower in the United Kingdom compared with the United States. Differences in the two countries' tax systems are mainly responsible for this result.

Balkenborg, Dieter

PD April 1998. TI Invariance Properties of Persistent Equilibria and Related Solution Concepts. AU Balkenborg, Dieter; Jansen, Mathijs; Vermeulen, Dries. AA Balkenborg: University of Southampton. Jansen: University of Maastricht. Vermeulen: Tilburg University. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9806; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 23. PR annual subscription 40 pounds ($80); individual copies on application. JE C72. KW Persistent Equilibrium. Admissibility. Reduced Normal Form. Ordinal Invariance.

AB Kohlberg and Mertens argued that a solution concept to a game should be invariant under the addition of deletion of an equivalent strategy and not require the use of weakly

dominated strategies. In this paper we study which of these requirements are satisfied by Kalai and Samet's concepts of persistent equilibria and persistent retracts. While none of these concepts has all the invariance properties, we show that a slight rephrasing of the notion of a persistent retract leads to a notion satisfying them all.

Ball, Laurence

PD October 1998. TI Policy Rules for Open Economies. AA National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6760; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE E31, E32, E52, F31, F41. KW Monetary Policy. Inflation. Exchange Rates. Open Economy. Interest Rates.
AB This paper examines the choice a monetary-policy rule in a simple macroeconomic model. In a closed economy, the optimal policy is a "Taylor rule" in which the interest rate depends on output and inflation. In an open economy, the optimal rule changes in two ways. First, the policy instrument is a "Monetary Conditions Index" -- a weighted average of the interest rate and the exchange rate. Second, on the right side of the rule, inflation is replaced by "long-run inflation," a variable that filters out the transitory effects of exchange-rate movements. The model also implies that pure inflation targeting is dangerous in an open economy, because it creates large fluctuations in exchange rates and output. Targeting long-run inflation avoids this problem and produces a close approximation to the optimal instrument rule.

Bannister, Geoffrey, J.

TI Community Pressure and Clean Technologies in the Informal Sector: An Econometric Analysis of the Adoption of Propane by Traditional Brickmakers in Cd. Juarez, Mexico. AU Blackman, Allen; Bannister, Geoffrey, J.

Baqir, Reza

TI Redistributive Public Employment. AU Alesina, Alberto; Baqir, Reza; Easterly, William.

Barca, Fabrizio

PD March 1999. TI Post-War Institutional Shocks: The Divergence of Italian and Japanese Corporate Governance Models. AU Barca, Fabrizio; Iwai, Katsuhito; Pagano, Ugo; Trento, Sandro. AA Barca: Treasury, Rome. Iwai: University of Tokyo. Pagano: University of Siena. Trento: Bank of Italy. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP117; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 50. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D20, G32, L10, L20, L50. KW Corporate Governance. Family Capitalism. Zaibatsu. Japanese Economy. Italian Economy.
AB Family capitalism in Italy and Japan has faced major problems since 1945. This paper examines some of these problems, contrasts corporate governance patterns in these countries and stresses the different role of the American occupation in influencing them. In Italy it involved the reinforcement of both the State-owned corporations and family controlled pyramidal groups that had emerged during the

fascist period, whereas in Japan it caused the end of the power of the great zaibatsu families. We also consider how inter-firm share holding can promote (Japan) or inhibit (Italy) the expansion of large corporations and the mechanisms that have made each model self-sustaining after initial institutional shocks.

Barr, Abigail M.

PD April 1998. TI Enterprise Performance and the Functional Diversity of Social Capital. AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/01; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 14. PR 3 pounds or $5.00. JE D62, L14, L15, L20, L60. KW Enterprise Networks. Information. Uncertainty. Ghana. Manufacturing.
AB Enterprise networks are multifunctional: they can be used to access information about technologies and markets and to reduce the effects of uncertainty. The use to which a network is to be put affects its structure and both the magnitude and the nature of the impact that it has on the performance of its constituent enterprises. The analysis of data from the Ghanaian manufacturing sector provides evidence in support of this proposition. It suggests that small, traditional enterprises have networks best suited for insurance purposes. Their networks are small and cohesive. They generate positive externalities, while having a relatively small effect on enterprise performance. In contrast, larger, modern enterprises have networks best suited to gaining access to information about technologies and markets. Their networks are large and diverse. They have a much greater effect on enterprise performance, but tend not to generate positive externalities.

Barro, Robert J.

PD July 1998. TI Notes on Growth Accounting. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6654; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE O32, O33, O40. KW Growth Accounting. Solow Residual. Factor Inputs. Technological Change. Research and Development.
AB Growth accounting breaks down economic growth into components associated with changes in factor inputs and the Solow residual, which reflects technological progress and other elements. This exercise is generally viewed as a preliminary step for the analysis of fundamental determinants of growth and is especially useful if the determinants of factor growth rates are substantially independent from those that matter for technological change. This paper begins with a short presentation of the basics of growth accounting. The analysis then considers dual approaches to growth accounting, spillover effects and increasing returns, taxes, and multiple types of factor inputs. Later sections place the growth-accounting exercise within the context of two recent strands of endogenous growth theory -- varieties-of-products models and quality-ladders models. The models have implications for the relation of the Solow residual to R&D outlays and also provide a clear interpretation of the "R&D capital stock.".

Barry, Brian

PD August 1998. TI Social Exclusion, Social Isolation

and the Distribution of Income. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/12; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 23. PR no charge. JE D31, D63, I30, J71. KW Social Exclusion. Income Distribution. Justice. Solidarity. Welfare.

AB Social exclusion can be distinguished from social isolation, defining social isolation as the phenomenon of non-participation in a society's mainstream institutions, while reserving 'social exclusion' for the subset of cases in which social isolation occurs for reasons that are beyond the control of those subject to it. The familiar form of social exclusion affects those who are unable to participate in the institutions patronized by the majority. There is also, however, exclusion of the majority by a minority who is in a position to opt out of the mainstream institutions. Social exclusion is a violation of the demands of social justice in two ways: it conflicts with equality of opportunity and is associated with an inability to participate effectively in politics. The relation between social exclusion and the distribution of income is not the same in all societies. However, for a society such as that of Britain, it seems plausible that to avoid the social exclusion of a minority it is necessary for nobody to have less than half the median income, and that to avoid the social exclusion of the majority it is necessary for only a few to have more than three times the median income.

Beaudry, Paul

PD December 1998. TI What is Driving U.S. and Canadian Wages: Exogenous Technical Change or Endogenous Choice of Technique? AU Beaudry, Paul; Green, David. AA Beaudry: University of British Columbia and National Bureau of Economic Research. Green: University of British Columbia. SR National Bureau of Economic Research Working Paper: 6853; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 30. PR $5.00. JE D24, J24, J31, L23, O33. KW Education. Human Capital. Total Factor Productivity. Wages. Technological Change.

AB This paper proposes a new and unified explanation for the following trends observed over the last 25 years: (1) the increased returns to education, (2) the slow measured growth in TFP in an economy undergoing massive changes in its methods of production, and (3) the poor wage performance, relative to TFP growth, of both young high school and college educated workers. The explanation we propose downplays the role of exogenous skill-biased technological change and instead emphasizes how the endogenous choice of modes of organization, influenced by changes in factor supplies, can generate the above observations. For example, we argue that increased education attainment, through its effect on the choice of production techniques, may have been the major cause for the increased differential between more and less educated workers over the last quarter of a century. The evidence we examine to test our hypothesis is based on US and Canadian data over the period 1971-95. We pay particular attention to explaining the difference between our results and those associated with the skill-biased technical change hypothesis.

Becker, Gary S.

PD November 1998. TI Deadweight Costs and the Size

of Government. AU Becker, Gary S.; Mulligan, Casey B. AA Becker: University of Chicago. Mulligan: University of Chicago and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6789; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H11, H21, H23, H50. KW Taxation. Government Expenditures. Welfare. Tax Systems.

AB We provide a model for analyzing effects of the tax system and spending programs on the determination of government spending and taxpayer welfare and show that a tax system or spending program which is suboptimal from a Ramsey point of view can improve taxpayer welfare because the system creates additional pressure for suppressing the growth of government. Relevant examples include the use of inflation taxes, capital taxes, excise taxes, deficit financing, and income taxes with many "loopholes." We also demonstrate the similarity of the political responses to revenue shocks, spending shocks, and changes in program efficiency. In a broad sample of countries for the years 1973- 90, we show that "more efficient" tax systems -- systems which rely on broad-based taxes with fairly flat rate structures -- are associated with larger governments. An analysis of defense spending -- especially wartime spending -- oil shocks, intergovernmental grants, and other flypaper effects suggests that the cause and effect is not from spending to tax structures.

Bekaert, Geert

PD July 1998. TI Capital Flows and the Behavior of Emerging Market Equity Returns. AU Bekaert, Geert; Harvey, Campbell R. AA Bekaert: Stanford University and National Bureau of Economic Research. Harvey: Duke University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6669; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F03, F04, G01. KW Capital Flows. Emerging Markets. Equity Returns.

AB Foreign portfolio flows may reflect deep changes in the functioning of an emerging market economy and its capital markets. Using a database of monthly net U.S. equity flows, we investigate the relation of these flows to the behavior of equity returns, the structural characteristics of the capital markets, exchange rates, and the strength of the economy. We find that increases in equity flows are associated with a lower cost of capital, higher correlation with world market returns, lower asset concentration, lower inflation, larger market size relative to GDP, more trade, and slightly higher per capita economic growth.

PD September 1998. TI Dating the Integration of World Markets. AU Bekaert, Geert; Harvey, Campbell R.; Lumsdaine, Robin L. AA Bekaert: Stanford University and National Bureau of Economic Research. Harvey: Duke University and National Bureau of Economic Research. Lumsdaine: Brown University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6724; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 34. PR $5.00. JE C13, F13, F36, G15. KW Market Integration. Capital Markets. Timing. Structural Breaks.

AB Measuring the integration of world capital markets is notoriously difficult. For example, regulatory changes which appear comprehensive may have little impact on the functioning of the capital market if they fail to lead to foreign portfolio inflows. In contrast to the usual practice of documenting the timing of regulatory changes, we specify a reduced-form model for a number of financial time-series (for example, equity returns and dividend yields) and search for a common break in the process generating the data. In addition, we estimate a confidence interval for the break. Information on a variety of financial and macroeconomic indicators is employed to interpret the results and to identify the likely date the equity market becomes financially integrated with world capital markets. We find endogenous break dates that are very accurately estimated but do not always correspond closely to dates of official capital market reforms. After the break, stock markets are on average larger and more liquid than before, returns are more volatile and more highly correlated with the world market return, dividend yields are lower and credit ratings improve.

Benabou, Roland

AB Even relatively poor people oppose high rates of redistribution because of the anticipation that they or their children may move up in the income ladder. This "prospect of upward mobility" (POUM) hypothesis is commonly advanced as an explanation of why most democracies do not engage in large-scale expropriation and highly progressive redistribution. But is it compatible with everyone holding rational expectations, given that not everyone can simultaneously expect to end up richer than average? This paper establishes the formal basis for the POUM hypothesis. There is a range of incomes below the mean where agents oppose lasting redistributions if tomorrow's expected income is increasing and concave in today's income. The laissez-fair coalition is larger, the more concave the transition function and the longer the policy horizon. The authors illustrate the general analysis with an example where, in every period, 3/4 of families are poorer than average, yet a 2/3 majority has expected future income above the mean, and therefore desires low tax rates for all future generations. They also analyze empirical mobility matrices from the PSID and find that the POUM effect is indeed a significant feature of the data.

Bennedsen, Morten

AB The importance of ownership structure is analyzed in a simple voting framework. The model contains a market failure arising from the market not internalizing the total surplus from trade and a political failure arising from the government catering to the interests of the median voter. In a publicly owned firm the government uses both taxes and the firm's internal resources government does not control the firm's internal resources so any non-profit generating activities must be purely tax financed. Ownership matters since the government does not trigger the same resource allocation in a private firm through regulation as in a similar publicly owned firm.

AB Political involvement in the operation of an enterprise, whether it is private or state owned, creates opportunities for interest groups to influence the allocation of resources. I analyze how the influence externality, arising form the interest groups' lobby activities, disables the Coase Theorem. Then I proceed to investigate how the allocation of property rights between a government and a group of private owners determines the equilibrium allocation of resources in a firm. In other words, I provide a theory of why ownership matters.

AB We analyze a model of a firm with more than one significant owner (a situation common in close corporations). In particular, we are interested in the optimal ownership structure chosen by the founder of the firm. We show that, by distributing control among several shareholders, the founder forces them to form coalitions to obtain control. This is optimal because a coalition, by grouping the cash flows of its members, internalizes to a larger extent the consequences of its actions, and hence takes more efficient actions than any of its members individually. The model has other implications. We show that having a one-share-one-vote ownership structure can increase efficiency and thereby the value of the firm. In addition, we analyze the optimal number and size of shareholder, or many equal-sized shareholders. We also show that, in firms with several large shareholders, an increase in the number of shareholders reduces efficiency. Finally, we analyze the desirability of restricting trade, and find that it is optimal to do so.

Bennett, Robert

Paper: WP123; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 18. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE L14, L84. KW SMEs. Business Advice Services. Firm Size.

AB This paper analyzes the extent of use of external business advice by SMEs in Britain using new survey evidence from the Cambridge ESRC Centre for Business Research SME Survey of 1997. The most important fields of advice sought are taxation and financial management, computer services, advertising, staff training and development, new technology, staff recruitment and marketing. The main differences between firms in choice of advice source relate to their size and growth history. Impacts of advice received are generally only "moderate", but highest in computer services, product and service design, taxation and financial management and staff training and development. Impacts are most strongly related to SME growth and size.

Berger, Allen N.

PD July 1999. TI Conglomeration Versus Strategic Focus: Evidence from the Insurance Industry. AU Berger, Allen N.; Cummins, J. David; Weiss, Mary A.; Zi, Hongmin. AA Berger: Board of Governors of the Federal Reserve System and University of Pennsylvania. Cummins: University of Pennsylvania. Weiss: Temple University. Zi: Sejong University. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/40; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 43. PR no charge. JE G22, G28, G34, L23, L89. KW Insurance. Conglomeration. Focus. Mergers. Scope Economies.

AB We provide evidence on the validity of the conglomeration hypothesis versus the strategic focus hypothesis for financial institutions using data on U.S. insurance companies. We distinguish between the hypotheses using profit scope economies, which measures the relative efficiency of joint versus specialized production, taking both costs and revenues into account. The results suggest that the conglomeration hypothesis dominates for some types of financial service providers and the strategic focus hypothesis dominates for other types. This may explain the empirical puzzle of why joint producers and specialists both appear to be competitively viable in the long run.

PD July 1999. TI The Dynamics of Market Entry: The Effects of Mergers and Acquisitions on De Novo Entry and Small Business Lending in the Banking Industry. AU Berger, Allen N.; Bonime, Seth D.; Goldberg, Lawrence G.; White, Lawrence J. AA Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. Bonime: Yale School of Management. Goldberg: University of Miami. White: New York University. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/41; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 64. PR no charge. JE G21, G28, G34, E58, L89. KW Entry. Barriers to Entry. Bank Mergers. Small Business.

AB We study the dynamics of market entry following mergers and acquisitions (M&As), and the behavior of recent entrants in supplying output that might be withdrawn by the consolidating firms. The data, drawn from the banking industry, suggest that M&As are associated with subsequent increases in the probability of entry. The estimates suggest that M&As explain more than 20% of entry in metropolitan markets, and more than 10% of entry in rural markets. Additional results suggest that bank age has a strong negative effect on the small business lending of small banks, but that M&As have little influence on this lending.

Bergin, Emmet

TI Neighbourhood Management. AU Power, Anne; Bergin, Emmet.

Bergin, James

PD September 1997. TI Extensive Form Implementation in Incomplete Information Environments. AU Bergin, James; Sen, Arunava. AA Bergin: Queen's University. Sen: Indian Statistical Institute. SR Queen's Institute for Economic Research Discussion Paper: 952; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 30. PR $3.21 Canada; $3.50 U.S. and Foreign. JE D71, D78. KW Extensive Form Games. Signaling.

AB We study the implementation of social choice rules in incomplete information environments. A sufficiency condition called posterior reversal is given for extensive form implementation. The condition has a natural interpretation in signaling terms: consistent posterior distributions under truth-telling are different from consistent posteriors under deception. This variation in the distribution over player types leads to variation in the distribution over actions and outcomes (comparing truth-telling and deception). We exploit this feature to implement social choice rules.

PD November 1997. TI On the Continuity of Correspondences on Sets of Measures with Restricted Marginals. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 959; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 12. PR $3.21 Canada; $3.50 U.S. and Foreign. JE C06, C07. KW Optimization. Measure Spaces.

AB Consider the set of probability measures on a product space with the property that all have the same marginal distributions on the coordinate spaces. This may be viewed as a correspondence when the marginal distributions are varied. Here, it is shown that this correspondence is continuous. Numerous problems in economics involve optimization over a space of measures where one or more marginal distributions is given. Thus, for this class of problem, Berge's theorem of the maximum is applicable: the set of optimizers is upper-hemicontinuous and the value of the optimal solution varies with the parameters (marginals) continuously.

PD November 1997. TI An Implementation-Theoretic Approach to Non-Cooperative Foundations. AU Bergin, James; Duggan, John. AA Bergin: Queen's University. Duggan: University of Rochester. SR Queen's Institute for Economic Research Discussion Paper: 964; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 20. PR $3.21

Canada; $3.50 U.S. and Foreign. **JE** C71, D71, D78. **KW** Non-Cooperative Foundations. Implementation.
AB This paper reconsiders the literature on non-cooperative foundations of cooperative solutions. The goal of non-cooperative foundations is to provide credible non-cooperative models of negotiation and coalition formation whose equilibrium outcomes agree with a given cooperative solution. Here we argue that this goal is best achieved by explicitly modeling the physical environment and individual preferences, and constructing game forms {independent of preferences} to implement the cooperative solution. In addition, the game form should reflect salient aspects of negotiation. We propose a general model (called a {strategic environment}) of the physical environment; we characterize the coalitional functions arising from strategic environments; we demonstrate our approach for the case of the core; and we provide conditions under which core payoffs correspond to payoffs from core outcomes.

PD September 1998. **TI** Common Knowledge with Monotone Statistics. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 974; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 6. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** D82, D83. **KW** Common Knowledge. Aggregate Statistics. Random Information. Affiliated Information.
AB When individual statistics are aggregated through a strictly monotone function to an aggregate statistic, common knowledge of the value of the aggregate statistic does not imply, in general, constancy of the individual statistics. This paper discusses two circumstances where it does occur. The first case arises when partitions are independently drawn: in this case common knowledge of the value of the aggregator function implies (with probability one) constancy of the individual statistics. The second case is where private statistics are related: affiliation of individual statistics and a lattice condition imply constancy of the individual statistics when the value of the aggregate statistic is common knowledge.

Berk, Jonathan

PD June 1998. **TI** Optimal Investment, Growth Options and Security Returns. **AU** Berk, Jonathan; Green, Richard C.; Naik, Vasant. **AA** Berk: University of Washington and National Bureau of Economic Research. Green: Carnegie Mellon University. Naik: University of British Columbia. **SR** National Bureau of Economic Research Working Paper: 6627; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D92, G11, G12, G13, G31. **KW** Investment. Corporate Finance. Asset Pricing. Stock Returns. Systemic Risk.
AB As a consequence of optimal investment choices, firms' assets and growth options change in predictable ways. Using a dynamic model, we show that this imparts predictability to changes in a firm's systematic risk, and its expected return. Simulations show that the model simultaneously reproduces: (i) the time series relation between the book-to-market ratio and asset returns, (ii) the cross-sectional relation between book to market, market value and return, (iii) contrarian effects at short horizons, (iv) momentum effects at longer horizons, and (v) the inverse relation between interest rates and the market risk premium.

Berk, Jonathan B.

PD August 1998. **TI** A Simple Approach for Deciding When to Invest. **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6678; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D92, G31. **KW** Investment Rules. Uncertainty.
AB A straightforward generalization of the simple net present value rule that correctly predicts when to invest in two classes of projects that can be delayed is derived. The first class consists of projects for which the option to delay derives its value exclusively from uncertainty about interest rates. It is shown that the optimal rule for investing in such projects is to simply multiply the discount rate of the project by the ratio of the mortgage rate to the riskless rate and then use this new rate as the discount rate in a standard net present value analysis. The other class of investment opportunities that is considered is the firm's option to expand. It is shown that it is only optimal for the firm to expand when a particular call option on the firm's stock has no time value. The fact that mortgage bonds (in the form of GNMA's) and stock options are actively traded implies that these rules have potentially important practical and empirical value. Besides their simplicity, the rules have the added advantage that they do not depend on a maintained assumption on the dynamics of interest rates in the economy.

PD October 1998. **TI** Valuation and Return Dynamics of New Ventures. **AU** Berk, Jonathan B.; Green, Richard C.; Naik, Vasant. **AA** Berk: University of California, Berkeley and National Bureau of Economic Research. Green: Carnegie Mellon University. Naik: University of British Columbia. **SR** National Bureau of Economic Research Working Paper: 6745; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D92, G24, G31, O32. **KW** Investment Risk. Research and Development. Start-Up Companies. Development Ventures.
AB We develop and analyze a model of a multi-stage investment project that captures many features of research and development ventures and start-up companies. An important feature these problems share is that the firm learns about the potential profitability of the project throughout its life, but that "technical uncertainty" about the research and development effort itself is only resolved through additional investment by the firm. In addition, the risks associated with the ultimate cash flows the firm realizes on completion of the project have a systematic component, while the purely technical risks are idiosyncratic. Our model captures these different sources of risk, and allows us to study their interaction in determining the risk premia earned by the venture during development. Our results show that the systematic risk, and the required risk premium, of the venture are highest early in its life, and decrease as it approaches completion, despite the idiosyncratic nature of the technical risk.

Berman, Eli

PD August 1998. **TI** Sect, Subsidy, and Sacrifice: An Economist's View of Ultra-Orthodox Jews. **AU** Berman, Eli; Klinov, Ruth. **AA** Berman: Boston University and National Bureau of Economic Research. Klinov: Hebrew University. **SR** National Bureau of Economic Research Working Paper: 6715; National Bureau of Economic Research, 1050

Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE D71, H23, J22, N35. KW Community Commitment. Club Membership. Yeshiva Attendance. Government Subsidies.

AB The Israeli Ultra-Orthodox population doubles each seventeen years. With 60 percent of prime aged males attending Yeshiva rather than working, that community is rapidly outgrowing its resources. Why do fathers with families in poverty choose Yeshiva over work? Draft deferments subsidize Yeshiva attendance, yet attendance typically continues long after they are draft exempt. We explain this puzzle with a club good model in which Yeshiva attendance signals commitment to the community. Subsidizing membership in a club with sacrifice as an entry requirement induces increased sacrifice, compounding the distortion and dissipating the subsidy. Policies treating members and potential entrants equally are Pareto improving. The analysis may generalize to other "fundamentalist" groups who respond to incursion of markets by increasing the stringency of prohibitions and sacrifice.

PD November 1998. TI Environmental Regulation and Productivity: Evidence from Oil Refineries. AU Berman, Eli; Bui, Linda T. M. AA Berman: Boston University and National Bureau of Economic Research. Bui: Boston University. SR National Bureau of Economic Research Working Paper: 6776; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 18. PR $5.00. JE D24, K23, L50, L71, Q25. KW Air Quality. Environmental Regulations. Productivity. Oil Refineries.

AB We examine the effect of air quality regulation on the productivity of some of the most heavily regulated manufacturing plants in the United States, the oil refineries of the Los Angeles (South Coast) Air Basin. We use direct measures of local air pollution regulation in this region to estimate their effects on abatement investment. Refineries not subject to these local environmental regulations are used as a comparison group. We study the period of increased regulation between 1979 and 1992. On average, each regulation cost $3M per plant on compliance dates and a further $5M per plant on dates of increased stringency. We also construct measures of total factor productivity using plant level data which allow us to observe physical quantities of inputs and outputs of the entire population of refineries. Despite the high costs associated with the local regulations, productivity in the Los Angeles Air Basin refineries rose sharply during the 1987-1992 period, a period of decreased refinery productivity in other regions. We conclude that measures of the cost of environmental regulation may be significantly overstated. The gross costs may be far greater than the net cost, as abatement may be productive.

Berndt, Ernst R.

PD November 1998. TI Price Indexes for Acute Phase Treatment of Depression. AU Berndt, Ernst R.; Busch, Susan H.; Frank, Richard G. AA Berndt: Massachusetts Institute of Technology and National Bureau of Economic Research. Busch: Harvard Medical School. Frank: Harvard Medical School and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6799; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 46. PR $5.00. JE C80, E31, I11, I12. KW Depression. Price Indices. Medical Spending.

Health Care.

AB Although broad trends in medical spending in the U.S. over the last decade have received widespread attention from policymakers, little attention has focused on the components of those changes. This paper constructs a new price index for the treatment of one illness, major depression. Making use of results from the published clinical literature and from official treatment guideline standards, the authors identify therapeutically similar treatment bundles. These bundles can then be linked and weighted to construct price indexes for specific forms of major depression. The authors construct CPI and PPI-like medical price indexes that deal with prices of treatment episodes rather than prices of discrete inputs, that are based on transaction rather than list prices, that take quality changes and expected outcomes into account, and that employ current, time-varying expenditure weights in the aggregation computations. The authors find that, regardless of which index number procedure is employed, over the 1991-95 time period the treatment price index for the acute phase of major depression has hardly changed. This index grows considerably less rapidly than the various official PPIs. A hedonic approach to price index measurement yields broadly similar results.

PD November 1998. TI Price Indexes for Medical Care Goods and Services: An Overview of Measurement Issues. AU Berndt, Ernst R.; Cutler, David M.; Frank, Richard G.; Griliches, Zvi; Newhouse, Joseph P.; Triplett, Jack E. AA Berndt: Massachusetts Institute of Technology and National Bureau of Economic Research. Cutler and Griliches: Harvard University and National Bureau of Economic Research. Frank and Newhouse: Harvard Medical School and National Bureau of Economic Research. Triplett: The Brookings Institution. SR National Bureau of Economic Research Working Paper: 6817; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 55. PR $5.00. JE C80, E31, I11. KW Price Indices. Health Care. Data. Output Pricing.

AB The authors review the conceptual and measurement issues that underlie construction of medical care price indexes in the U.S., particularly the medical care consumer price indexes (MCPIs) and medical-related producer price indexes (MPPIs). They outline salient features of the medical care marketplace, including the impacts of insurance, moral hazard, principal-agent relationships, technological progress and organizational changes. Since observed data are unlikely to correspond with efficient outcomes, the authors discuss implications of the failure of transactions data in this market to reveal reliable marginal valuations, and the consequent need to augment traditional transactions data with information based on cost-effectiveness and outcomes studies. They describe procedures currently used by the BLS in constructing MCPIs and MPPIs, including recent revisions, and then consider alternative notions of medical care output pricing that involve the price or cost of an episode of treatment, rather than prices of fixed bundles of inputs. The authors outline features of a proposed new experimental price index that is more suitable for evaluation and analyses of medical care cost changes, than are the current MCPIs and MPPIs.

Bernstein, Jeffrey I.

PD June 1998. TI Setting the X Factor in Price Cap Regulation Plans. AU Bernstein, Jeffrey I.; Sappington, David E. M. AA Bernstein: Carleton University and National

Bureau of Economic Research. Sappington: University of Florida. SR National Bureau of Economic Research Working Paper: 6622; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D24, D40, L51. KW Price Caps. Regulation. Pricing. Inflation. Market Structure.

AB Despite the popularity of price cap regulation in practice, the economic literature provides relatively little guidance on how to determine the X factor, which is the rate at which inflation-adjusted output prices must fall under price cap plans. We review the standard principles that inform the choice of the X factor, and then consider important extensions. We analyze appropriate modifications of the X factor: (1) when only a subset of the firm's products are subject to price cap regulation, and when product-specific costs and productivity cannot be measured; (2) when the pricing decisions of the regulated firm affect the economy-wide inflation rate; and (3) in the presence of structural changes in the industry, such as a strengthening of competitive forces.

Bernstein, Jeffrey R.

PD November 1998. TI Do Endowments Predict the Location of Production? Evidence from National and International Data. AU Bernstein, Jeffrey R.; Weinstein, David E. AA Bernstein: Harvard University. Weinstein: University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6815; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F11, F13, R13, R30. KW International Trade. Factor Endowments. Location. Trade Barriers.

AB Examining the relationship between factor endowments and production patterns using international and Japanese regional data, we provide the first empirical confirmation of Ethier's correlation approach to the Rybczynski theorem. Moreover, we find evidence of substantial production indeterminacy. Prediction errors are six to thirty times larger for goods traded relatively freely. A compelling explanation of this phenomenon is the existence of more goods than factors in the presence of trade costs. This result implies that regressions of trade or output on endowments have weak theoretical foundations. Furthermore, since errors are largest in data sets where trade costs are small, we explain why the common methodology of imputing trade barriers from regression residuals often leads to backwards results.

Bertrand, Marianne

PD November 1998. TI Is There Discretion in Wage Setting? A Test Using Takeover Legislation. AU Bertrand, Marianne; Mullainathan, Sendhil. AA Bertrand: Princeton University and National Bureau of Economic Research. Mullainathan: Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6807; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE G31, G34, G38, J31, M12. KW Wage Determination. Managerial Discretion. Takeovers. Wages.

AB Anecdotal evidence suggests that uncontrolled managers let wages rise above competitive levels. Testing this popular perception has proven difficult, however, because independent variation in the extent of managerial discretion is needed. In this paper, we use states' passage of anti-takeover legislation as a source of such independent variation. Passed in the 1980's, these laws seriously limited takeovers of firms incorporated in legislating states. Since many view hostile takeovers as an important disciplining device, these laws potentially raised managerial discretion in affected firms. If uncontrolled managers pay higher wages, we expect wages to rise following these laws. Using firm- level data, we find that relative to a control group, annual wages for firms incorporated in states passing laws did indeed rise by 1 to 2% or about $500 per year. The findings are robust to a battery of specification checks and do not appear to be contaminated by the political economy of the laws or other sources of bias. Our results suggest that discretion significantly affects wages. They challenge standard theories of wage determination which ignore the role of managerial preferences.

PD December 1998. TI Executive Compensation and Incentives: The Impact of Takeover Legislation. AU Bertrand, Marianne; Mullainathan, Sendhil. AA Bertrand: Princeton University and National Bureau of Economic Research. Mullainathan: Massachussetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6830; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 29. PR $5.00. JE D21, D80, G30, J41, J44. KW Executive Compensation. Takeovers. Optimal Contracting. Skimming. Risk Aversion.

AB We investigate the impact of changes in states' anti-takeover legislation on executive compensation. We find both pay for performance sensitivities and mean pay increase for the firms affected by the legislation (relative to a control group). These findings are partially consistent with an optimal contracting model of CEO pay as well as with a skimming model in which reduced takeover fears allow CEO's to skim more. We compute lower bounds on the relative risk aversion coefficients implied by our findings. These lower bounds are relatively high, indicating that the increase in mean pay may have been more than needed to maintain CEO's individual rationality constraints. Using both models however, our evidence shows that the increased pay for performance offsets some of the incentive reduction caused by lower takeover threats.

PD December 1998. TI Network Effects and Welfare Cultures. AU Bertrand, Marianne; Luttmer, Erzo F. P.; Mullainathan, Sendhil. AA Bertrand: Princeton University. Luttmer: University of Chicago. Mullainathan: Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6832; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D83, H53, I32, I38, R20. KW Social Networks. Poverty. Welfare. Omitted Variable Bias.

AB This paper empirically examines the role of social networks in welfare participation. Empirical work has found it difficult to distinguish the effect of networks from unobservable characteristics of individuals and areas. The authors use data on language spoken to better infer an individual's network within an area. Individuals who are surrounded by others speaking their language have a larger pool of available contacts.

Moreover, the network influence of this pool will depend on their welfare knowledge. The authors, therefore, focus on whether being surrounded by others who speak the same language increases welfare use more for individuals from high welfare using language groups. The results strongly confirm the importance of networks in welfare participation. The authors deal with omitted variable bias in several ways. First, their methodology allows them to include local area and language group fixed effects and to control for the direct effect of contact availability; these controls eliminate many of the problems in previous studies. Second, they instrument for contact availability in the neighborhood with the number of one's language group in the entire metropolitan area. Finally, they investigate the effect of removing education controls.

Besley, Timothy J.

PD September 1997. TI Lobbying and Welfare in a Representative Democracy. AU Besley, Timothy J.; Coate, Stephen. AA Besley: London School of Economics. Coate: University of Pennsylvania. SR STICERD, (LSE) Theoretical Economics Discussion Paper: TE/97/334; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 92. PR no charge. JE D72, D78, H11. KW Lobbying. Elections. Policy. Democracy.
AB This paper studies the impact of lobbying on political competition and policy outcomes in a framework which integrates the citizen- candidate model of representative democracy with the menu-auction model of lobbying. Positive and normative issues are analyzed. On the positive side, lobbying need have little or no effect on policy outcomes, because voters can restrict the influence of lobbyists by supporting candidates with offsetting policy preferences. On the normative side, coordination failure among lobbyists can result in Pareto inefficient policy choices. In addition, by creating rents to holding office, lobbying can lead to "excessive" entry into electoral competition.

PD September 1997. TI Analyzing the Case for Government Intervention in a Representative Democracy. AU Besley, Timothy J.; Coate, Stephen. AA ·Besley: London School of Economics. Coate: University of Pennsylvania. SR STICERD, (LSE) Theoretical Economics Discussion Paper: TE/97/335; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 72. PR no charge. JE D72, H11, H41, H50, P16. KW Government Intervention. Public Choice. Political Economy. Policy.
AB The welfare economic method for analyzing the case for government interventions is often criticized for ignoring the political determination of policies. The standard method of accounting for this critique studies the case for intervention under the constraint that the level of the instrument in question will be politically determined. We criticize this method for its implicit assumption that new interventions will not affect the level of existing policy instruments. We argue that this assumption is particularly misleading in suggesting that political economy concerns must dampen the case for intervention.

PD July 1998. TI Sales Tax and Prices: An Empirical Analysis. AU Besley, Timothy J.; Rosen, Harvey S.

AA Besley: London School of Economics and National Bureau of Economic Research. Rosen: Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6667; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 27. PR $5.00. JE H22. KW Taxation Incidence. Sales Tax.
AB One of the most fundamental questions in public finance is who bears the burden of taxes -- the "incidence of taxation." Our understanding of incidence from an empirical standpoint is quite meager. Indeed, there seems to be little evidence even in the case that is theoretically the easiest -- partial equilibrium commodity taxes. Are taxes levied on commodities completely shifted into their prices, or does the incidence also fall on firms? How long does the shifting process take? In this paper we employ a unique data source to examine the incidence of sales taxes. The main idea is to take information on the prices of specific commodities in different U.S. cities and to examine the extent to which differences in tax rates and bases are reflected in prices, controlling for other factors (such as costs). We find a surprising variety of shifting patterns. For some commodities, the after-tax price increases by exactly the amount of the tax, a result consistent with the standard competitive model. However, taxes on other commodities are over-shifted -- an increase in tax revenue of one dollar per unit increases the price by more than one dollar.

PD July 1998. TI Read My Lips: The Political Economy of Information Transmission. AU Besley, Timothy J.; Pande, Rohini. AA London School of Economics. SR STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/355; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 36. PR no charge. JE D82, E22, H10, H23, O12. KW Political Economy. Cheap Talk. Redistribution. Development. Investment.
AB The paper studies credible information transmission by governments. A group of heterogeneous individuals have to make private investment and labor supply decisions while relying on the government for information about investment returns. The government consists of an elected citizen who chooses a redistributive strategy in addition to providing information. We give conditions under which the outcome leads to over- or under-investment in high-return activities and the outcome is Pareto efficient.

Betts, Julian R.

PD October 1998. TI The Educational Attainment of Immigrants: Trends and Implications. AU Betts, Julian R.; Lofstrom, Magnus. AA University of California, San Diego. SR National Bureau of Economic Research Working Paper: 6757; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE I21, J24, J31, J61. KW Educational Attainment. Immigrants. Wage Gap. Returns to Education.
AB This paper uses the 1970, 1980, and 1990 U.S. Censuses to study trends in educational attainment of immigrants relative to natives. Immigrants have become relatively less highly educated, but have become more highly educated in an absolute sense. The effects of changes in relative educational attainment between immigrants and natives on earnings are studied. Educational differences are found to explain more than half the

observed wage gap between the two groups. The paper also allows for non-linearities in returns to education. Sheepskin effects influence earnings in different ways for natives and immigrants. Differences in returns to pre- and post-migration education also appear. The paper also finds evidence that immigrants crowd natives out of education, although the effects are stronger in secondary than in postsecondary education.

Bhattarai, Keshab

PD   August 1998. **TI**   The Division and Size of Gains from Liberalization of Service Networks. **AU**   Bhattarai, Keshab; Whalley, John.   **AA**   Bhattarai: University of Warwick. Whalley: University of Western Ontario and National Bureau of Economic Research.   **SR**   National Bureau of Economic Research Working Paper: 6712; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   **PG**   not available.   **PR** $5.00. **JE**   D58, D62, F13, L96.   **KW**   Service Networks. Trade Liberalization. Distribution of Gains. Telecommunications.

AB   This paper emphasizes the different nature of cross border liberalization in network-related services, such as telecoms, compared to liberalization in goods. In the presence of network externalities, if two disjoint country service networks involving a small and large country are connected as part of international liberalization, the per capita gain for the small country from access to a large network will be large, and the per capita gain for the large country will be small. Benefits of liberalization in network related service, unlike goods, are more likely to be approximately equally divided between large and small countries than is true of trade in goods, where benefits accrue disproportionately to the small country. Non-cooperation in network related services trade may involve more extreme retaliation than suggested for trade in goods from the optimal tariff literature, so that relative to a non-cooperative outcome, gains from liberalization in network related services become larger than from liberalization in goods. An empirical implementation of global telecoms liberalization for the US, Europe, Canada, and the Rest of the World using the framework developed in the paper shows larger gains to larger regions, consistent with the theme of the paper that goods and services liberalization differ.

Bigsten, Arne

PD   May 1998.   **TI**   Rates of Return on Physical and Human Capital in Africa's Manufacturing Sector. **AU**   Bigsten, Arne; Collier, Paul; Dercon, Stefan; Fafchamps, Marcel; Gauthier, Bernard; Gunning; Jan Willem; Isaksson, Anders; Oduro, Abena; Zeufact, Albert; Teal, Francis; Soderbom, Mans; Pattillo, Cathy; Oostendorp, Remco. **AA**   Bigsten, Isaksson and Soderbom: Goteborg University. Collier and Teal: University of Oxford. Dercon: University of Oxford and Katholieke Universiteit Leuven. Fafchamps: Stanford University. Gauthier: Ecole des Hautes Etudes Commerciales, Montreal. Gunning and Oostendorp: Free University, Amsterdam. Oduro: University of Ghana, Legon. Pattillo: International Monetary Fund.   **SR**   Centre for the Study of African Economies Working Paper: 98/12; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/.   **PG**   24.   **PR**   3 pounds or $5.00.   **JE**   E22, I21, J24, J31, O55.   **KW**   Investment. Human Capital. African Manufacturing. Capital. Productivity.

AB   In this paper two sets of issues are addressed using panel data from the manufacturing sector of five African countries. First, how high are the returns to human relative to physical capital. Second, what is the relative importance of technology and endowments of human and physical capital in determining differences in earnings and productivity across the countries. Evidence from earnings functions shows that the private returns to both experience and education rise with the level of education. Private returns rise from 3 percent at the primary level, to 10 percent at the secondary level and 35 percent for tertiary. Evidence from the production function gives lower returns on education than from the earnings function. Rates of return on physical capital exceed 20 percent and greatly exceed the average return on human capital. Data is available on the stocks of human and physical capital across the countries. Productivity and earnings differentials are shown to be large between Cameroon and Ghana. These differences are due almost entirely to differences in physical, not human, capital endowments.

Blackman, Allen

PD   December 1996.   **TI**   Community Pressure and Clean Technologies in the Informal Sector: An Econometric Analysis of the Adoption of Propane by Traditional Brickmakers in Cd. Juarez, Mexico. **AU**   Blackman, Allen; Bannister, Geoffrey, J. **AA**   Blackman: Resources for the Future. Bannister: University of New Mexico.   **SR**   Resources for the Future Discussion Paper: 97/16; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG**   32.   **PR**   Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8.   **JE**   C25, L61, O17, O33, Q25.   **KW**   Environment. Community Pressure. Clean Technology. Informal Sector. Brickmaking.

AB   In many developing countries the informal sector, comprised of low- technology unlicensed micro-enterprises, is a major source of pollution. Environmental management in this sector is exceptionally challenging. Though clean technologies offer a means of mitigating the problem, to the authors' knowledge there has been no rigorous empirical research on why informal (or even small-scale) firms do and do not adopt them. As a first step towards filling this gap, this paper presents the results of an econometric analysis of the diffusion of propane among informal 'traditional' brickmakers in Cd. Juarez, Mexico -- a leading source of air pollution owing to their reliance on cheap, highly polluting fuels such as used tires and scrap wood. The three key policy implications of the analysis are that: (1) community pressure applied by private-sector trade and neighborhood organizations can generate strong incentives for informal firms to adopt clean technologies, (2) it is possible to successfully promote the adoption of a clean technology by intensely competitive informal firms even when the new technology significantly raises variable costs, and (3) training and education can be an effective means of promoting adoption.

Blanchard, Olivier

PD   July 1998.   **TI**   What Hides Behind an Unemployment Rate: Comparing Portuguese and U.S. Unemployment. **AU**   Blanchard, Olivier; Portugal, Pedro.   **AA**   Blanchard: Massachusetts Institute of Technology. Portugal: Banco de Portugal.   **SR**   National Bureau of Economic Research Working Paper: 6636; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   **PG**   not available.   **PR** $5.00.   **JE**   E24,

J21, J63, J64. KW Unemployment. Labor Markets. Job Turnover. Employment Protection.

AB Over the last 15 years, Portugal and the United States have had the same average unemployment rate, about 6.5%. But behind these similar rates hide two very different labor markets. Unemployment duration in Portugal is more than three times that of the United States. Symmetrically, the flow of workers into unemployment in Portugal is, in proportion to the labor force, less than a third of what it is in the United States. Relying on evidence from Portuguese and U.S. micro data sets, the authors show that these lower flows come in roughly equal proportions from lower job flows and from lower worker flows relative to job flows. The authors then argue that these differences plausibly come from high employment protection in Portugal. They finally show how, looking across countries, higher employment protection is associated with lower flows and higher unemployment duration. In short, high employment protection makes economics more sclerotic.

Blanchflower, David G.

PD December 1998. TI Discrimination in the Small Business Credit Market. AU Blanchflower, David G.; Levine, Phillip B.; Zimmerman, David J. AA Blanchflower: Dartmouth College. Levine: Wellesley College and National Bureau of Economic Research. Zimmerman: Williams College. SR National Bureau of Economic Research Working Paper: 6840; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 28. PR $5.00. JE G21, G24, G32, J71. KW Small Businesses. Discrimination. Credit Markets. Corporate Finance. Banking.

AB This paper uses data from the 1993 National Survey or Small Business Finances to determine the extent to which minority-owned small businesses face constraints in the credit market beyond those faced by white-owned small businesses. First, the authors present qualitative evidence indicating that black- and white-owned firms report similar concerns about the factors that may affect their businesses except that blacks are far more likely to report problems with credit availability. Second, the authors conduct an econometric analysis of loan denial probabilities by race and find that black-owned small businesses are almost three times more likely to have a loan application denied. Even after controlling for the differences in credit-worthiness and other factors that exist between black- and white-owned firms, blacks are still about twice as likely to be denied credit. A series of specification checks indicates that this gap is unlikely to be largely attributed to omitted variable bias. Third, the authors conduct a similar analysis regarding interest rates charged to approved loans and find black-owned firms pay higher interest rates as well.

Blau, Francine D.

PD July 1998. TI Continuing Progress? Trends in Occupational Segregation in the United States over the 1970's and 1980's. AU Blau, Francine D.; Simpson, Patricia; Anderson, Deborah. AA Blau: Cornell University and National Bureau of Economic Research. Simpson: Loyola University, Chicago. Anderson: University of New Mexico. SR National Bureau of Economic Research Working Paper: 6716; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J16, J24. KW Occupational Segregation. Gender. Resegregation.

Decade Comparison.
AB This study uses comparable data on 470 detailed occupations from the 1970, 1980 and 1990 Censuses to analyze trends in occupational segregation in the United States in the 1980's and compare them in detail to the 1970's experience of declining segregation. We find that the trend towards reduced segregation did indeed continue into the 1980's at only a slightly slower pace. In both decades, changes in sex composition within occupations accounted for the major share of the decline in segregation (compared to changes in the mix of occupations in the economy). We also find that the pattern of changes in the sex composition of occupations and in the employment distribution of workers that produced the observed reductions in segregation were remarkably similar in each of these two periods. This similarity potentially poses some problems for the future. As women continue to enter the same areas, resegregation, which we found to have relatively moderate effects in the 1970's and 1980's, becomes a possibility. Continued progress towards reducing occupational segregation requires that women succeed in entering a broader range of traditionally male occupations and/or a greater flow of men into traditionally female occupations.

Blomquist, Soren

PD October 1998. TI Tax Reform Evaluation Using Nonparametric Methods: Sweden 1980 - 1991. AU Blomquist, Soren; Eklof, Matias; Newey, Whitney. AA Blomquist and Eklof: Uppsala University. Newey: Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6759; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 35. PR $5.00. JE C14, D31, H24, H31, J22. KW Tax Reform. Labor Supply. Marginal Taxes. Indirect Taxation.

AB This paper evaluates the tax reforms carried out in Sweden between 1980 and 1991. We use a recently developed nonparametric estimation technique to account for labor supply responses. We decompose the tax returns to study how the separate components influence hours of work, tax revenues, and income distribution. The results indicate that the reform was underfinanced and that the increased indirect taxation and redesigned transfer system almost eliminated the positive effects on hours of work due to the decreased marginal taxes on labor income. Further, we compare the results to the predictions of a parametric estimated labor supply model. The response of the parametric model is almost twice the size of the nonparametric.

Blomstrom, Magnus

PD November 1998. TI Technology Transfer and Spillovers: Does Local Participation with Multinationals Matter? AU Blomstrom, Magnus; Sjoholm, Fredrik. AA Blomstrom: Stockholm School of Economics and National Bureau of Economic Research. Sjoholm: Stockholm School of Economics. SR National Bureau of Economic Research Working Paper: 6816; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 12. PR $5.00. JE F23, J24, O12, O19. KW Multinational Firms. Technology Transfer. Labor Productivity. Spillovers.

AB This paper examines the effects of technology transfer and spillovers deriving from ownership sharing of foreign

multinational affiliates. More specifically, we try to answer two questions, using unpublished Indonesian micro data. Firstly, do establishments with minority and majority ownership differ in terms of productivity levels? Secondly, does the degree of spillover differ with the degree of ownership in the FDI? Our results show that foreign establishments have comparable high levels of labor productivity and that domestic establishments benefit from spillovers. However, the degree of foreign ownership does neither affect the level of labor productivity in foreign establishments, nor the degree of spillovers.

Boadway, Robin

PD September 1997. TI Information Acquisition and Government Intervention in Credit Markets. AU Boadway, Robin; Sato, Motohiro. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 962; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 32. PR $3.21 Canada; $3.50 U.S. and Foreign. JE G14, G28, H11. KW Information Acquisition. Credit Markets. Tagging. Bertrand Competition. Loan Guarantee.
AB This paper investigates government intervention in credit markets, a phenomenon commonly observed in many countries, especially in East Asia. We construct a model in which entrepreneurs who obtain all their financing from banks undertake investments. Project risk is made up of an idiosyncratic and an aggregate (industry-wide) component. Banks can investigate industry-wide risk, and they can evaluate the idiosyncratic risk of each entrepreneur. Banks engage in Bertrand competition for entrepreneurs interest rates. Through such competition, any information obtained by a bank on aggregate risk is fully revealed, and that on entrepreneur-specific risk is partly revealed. Banks will choose not to investigate aggregate risk, while they will evaluate entrepreneurs too intensively. We identify various sources of inefficiency that result from the inability to appropriate all the benefits of information acquisition. Efficiency can be improved by public acquisition of information on industry risk and by loan guarantees partially covering the inability of entrepreneurs to repay bank loans.

PD September 1997. TI Consequences of Overlapping Tax Bases for Redistribution and Public Spending in a Federation. AU Boadway, Robin; Marchand, Maurice; Vigneault, Marianne. AA Boadway: Queen's University. Marchand: Universite Catholique · de Louvain. Vigneault: Bishop's University. SR Queen's Institute for Economic Research Discussion Paper: 963; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 26. PR $3.21 Canada; $3.50 U.S. and Foreign. JE H02, H07. KW Fiscal Federalism. Overlapping Taxes. Redistribution.
AB Tax and expenditure policies are studied in a federation with imperfectly mobile households. States implement a linear progressive tax and supply a public good. A vertical fiscal externality, reflecting the effect of state policies on federal revenues, provides an incentive for state taxes to be too progressive. A horizontal fiscal externality causes non-optimal states taxes and expenditures because of the migration effect. The federal government implements its own linear progressive tax and makes transfers to the states. The federal government can nullify both externalities by appropriate fiscal policies, and

redistributive taxation can be decentralized to the states.

Bodnar, Gordon M.

PD August 1998. TI Derivatives Usage in Risk Management By U.S. and German Non- Financial Firms: A Comparative Survey. AU Bodnar, Gordon M.; Gebhardt, Gunther. AA Bodnar: University of Pennsylvania and National Bureau of Economic Research. Gebhardt: JW. Goethe-Universitat Frankfurt am Main, Germany. SR National Bureau of Economic Research Working Paper: 6705; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 25. PR $5.00. JE G30. KW Derivatives. Corporate Finance. Risk Management.
AB This paper is a comparative study of the responses to the 1995 Wharton School survey of derivative usage among U.S. non-financial firms and a 1997 companion survey on German non-financial firms. It is a comparative study, drawing a comparable subsample of firms from the U.S. study to match the sample of German firms on both size and industry composition. We find that German firms are more likely to use derivatives than U.S. firms, with 78 percent of German firms using derivatives compared to 57 percent of U.S. firms. Aside from the higher overall usage, the general pattern of usage across industry and size groupings is comparable across the two countries. In both countries, foreign currency derivative usage is most common, followed closely by interest rate derivatives, with commodity derivatives a distant third. In contrast to similarities, firms in the two countries differ notably on issues such as the primary goal of hedging, their choice of instruments, and the influence of their market view when taking derivative positions. These differences appear to be driven by the relative importance of financial statements and stricter control over derivative activities within the German firm.

Bohn, Henning

PD February 1997. TI Ownership Risk, Investment, and the Use of Natural Resources. AU Bohn, Henning; Deacon, Robert T. AA Bohn: University of California, Santa Barbara. Deacon: University of California, Santa Barbara and Resources for the Future. SR Resources for the Future Discussion Paper: 97/20; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 43. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE D23, O13, O34, Q23, Q32. KW Ownership Security. Investment. Resource Conservation. Property Rights. Forestry.
AB The effect of insecure ownership on ordinary investment and on the exploitation of natural resources is examined. Insecure ownership is characterized as a positive probability that a typical asset or its future return will be confiscated. For empirical analysis, the probability of confiscation is modeled as a function of observable political attributes of countries, principally the type of government regime in power (democratic versus non-democratic) and the prevalence of political violence or instability. A general index of ownership security is estimated from the political determinants of economy wide investment rates, and then introduced into models of petroleum and forest use. Ownership risk is found to have a significant, and quantitatively important effect. Empirically, increases in ownership risk are associated with reductions in forest cover and with slower rates of petroleum exploration. Contrary to conventional wisdom, greater

ownership risk tends to slow rates of petroleum extraction, apparently because the extraction process is capital intensive.

Bollerslev, Tim
TI   Testing for Market Microstructure Effects in Intraday Volatility: A Reassessment of the Tokyo FX Experiment. AU   Anderson, Torben G.; Bollerslev, Tim; Das, Ashish.

Bomfim, Antulio N.
PD   September 1999. TI   Do Noisy Data Exacerbate Cyclical Volatility? AA   Board of Governors of the Federal Reserve System. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/50; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG   12. PR   no charge. JE   C61, D84, E32. KW   Volatility. Measurement Error. Signal Extraction. Expectations. Bounded Rationality.
AB   How does the additional uncertainty associated with noisy economic data affect business cycle fluctuations? I use a simple variant of the neoclassical growth model to show that the answer depends crucially on the assumed expectation-formation capabilities of agents. Under efficient signal extracting, noisy economic indicators dampen cyclical volatility. The opposite occurs when agents follow a simple bounded rational strategy.

PD   October 1999. TI   Measurement Error in General Equilibrium: The Aggregate Effects of Noisy Economic Indicators. AA   Board of Governors of the Federal Reserve System. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/54; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG   28. PR   no charge. JE   C61, D84, E32. KW   Cyclical Volatility. Signal Extraction. Bounded Rationality. Production Externalities.
AB   I analyze the business cycle implications of noisy economic indicators in the context of a dynamic general equilibrium model. Two main results emerge. First, measurement error in preliminary data releases can have a quantitatively important effect on economic fluctuations. For instance, under efficient signal-extraction, the introduction of accurate economic indicators would make aggregate output 10 to 30 percent more volatile than suggested by the post-war experience of the U.S. economy. Second, the sign -- but not the magnitude -- of the measurement error effect depends crucially on the signal processing capabilities of agents. In particular, if agents take the noisy data at face value, significant improvements in the quality of key economic indicators would lead to considerably less cyclical volatility.

Bonime, Seth D.
TI   The Dynamics of Market Entry: The Effects of Mergers and Acquisitions on De Novo Entry and Small Business Lending in the Banking Industry. AU   Berger, Allen N.; Bonime, Seth D.; Goldberg, Lawrence G.; White, Lawrence J.

Bordo, Michael D.
PD   September 1998. TI   Was There Really an Earlier Period of International Financial Integration Comparable to Today? AU   Bordo, Michael D.; Eichengreen, Barry; Kim, Jongwoo. AA   Bordo: Rutgers University and National

Bureau of Economic Research. Eichengreen: University of California, Berkeley and National Bureau of Economic Research. Kim: Rutgers University. SR   National Bureau of Economic Research Working Paper: 6738; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   27. PR $5.00. JE   F21, F32, F36, N20. KW   Market Integration. Financial Integration. Information Technology. Asymmetric Information.
AB   In this paper we reconsider the "U" shaped pattern in international market integration, starting at high levels in the late nineteenth century, collapsing between the wars, and recovering gradually after 1945 to reach levels comparable to pre-1914 in the 1990's. The empirical evidence we survey suggests that in some respects the financial integration of the pre-1914 era remains unsurpassed, but in others today's financial markets are even more closely integrated than those in the past. The difference today is that new information-generating and processing technologies have reduced the market-segmenting effects of asymmetric information. In consequence, the range of financial claims that are traded internationally has broadened. While international financial transactions were once determined by claims on governments, railroads, and mining companies, entities with tangible and therefore relatively transparent assets, international investors now transact freely in a much broader range of securities.

PD   December 1998. TI   Under What Circumstances, Past and Present, Have International Rescues of Countries in Financial Distress Been Successful? AU   Bordo, Michael D.; Schwartz, Anna J. AA   Bordo: Rutgers University and National Bureau of Economic Research. Schwartz: National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6824; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   46. PR $5.00. JE   F31, F33, F34, N10, O40. KW   Financial Crises. International Finance. Foreign Exchange. Monetary Institutions. Foreign Aid.
AB   Recent events in Asia and other parts of the globe have prompted calls from many quarters for international rescue of the monetary or fiscal authorities of distressed countries. We contrast the experience before 1973 of rescues of monetary authorities of advanced countries temporarily short of liquidity with recent experience of bailouts. International rescues in the past involved relatively small amounts of money, sufficient to stave off devaluation or abandonment of a fixed exchange rate, while remedial policies were put in place. Recent bailouts involve handing over relatively large amounts to both foreign lenders and domestic investors after devaluation of a pegged exchange rate to avoid their incurring wealth losses. We document past rescues, whether successful or unsuccessful, by monetary regimes, and what's different today from past experience.

Borjas, George J.
PD   November 1998. TI   Immigration and Welfare Magnets. AA   Harvard University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6813; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   H53, I38, J61, R23. KW   Immigrants. Welfare. Location.
AB   This paper investigates if the location choices made by

immigrants when they arrive in the United States are influenced by the interstate dispersion in welfare benefits. Income-maximizing behavior implies that foreign-born welfare recipients, unlike their native-born counterparts, may be clustered in the states that offer the highest benefits. The empirical analysis indicates that immigrant welfare recipients are indeed more heavily clustered in high-benefit states than the immigrants who do not receive welfare, or than natives. As a result, the welfare participation rate of immigrants is much more sensitive to changes in welfare benefits than that of natives.

Borsch-Supan, Axel

PD November 1998. TI Incentive Effects of Social Security on Labor Force Participation: Evidence in Germany and Across Europe. AA University of Mannheim and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6780; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 24. PR $5.00. JE H55, J14, J26. KW Social Security. Public Pensions. Labor Force Participation. Retirement.

AB All across Europe, old age labor force participation has declined dramatically during the last decades. This secular trend coincides with population aging. The European social security systems therefore face a double threat: retirees receive pensions for a longer time while there are less workers per retiree to shoulder the financial burden of the pension systems. This paper shows that a significant part of this problem is homemade: most European pension systems provide strong incentives to retire early. The correlation between the force of these incentives with old age labor force participation is strongly negative. The paper provide qualitative and econometric evidence for the strength of the incentive effects on old age labor supply across Europe and for the German public pension program.

Bound, John

PD September 1998. TI Double Trouble: On the Value of Twins-Based Estimation of the Return to Schooling. AU Bound, John; Solon, Gary. AA Bound: University of Michigan and National Bureau of Economic Research. Solon: University of Michigan. SR National Bureau of Economic Research Working Paper: 6721; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 27. PR $5.00. JE C51, J24, J31. KW Twins Studies. Endogeneity. Returns to Education. Birth Weight.

AB Several recent studies use the schooling and wage variation between monozygotic twins to estimate the return to schooling. In this paper, we summarize the results from this literature, and we examine the implications of endogenous determination of which twin goes to school longer and of measuring schooling with (possible mean-reverting) error. Endogeneity of between-twins schooling variation is strongly suggested by the extensive (mostly non-economic) literature documenting that the between-twins difference in birth weight is correlated with the between-twins differences in both schooling and IQ. We conclude that twins-based estimation is vulnerable to the same sort of inconsistency that afflicts conventional cross-sectional estimation. We argue, however, that, if one starts with the presumption that endogenous schooling induces upward inconsistency in the estimated return

to schooling, the new twins-based estimates may complement other approaches to tightening the upper bound on the return to schooling.

TI Coding Geographic Areas Across Census Years: Creating Consistent Definitions of Metropolitan Areas. AU Jaeger, David A.; Loeb, Susanna; Turner, Sarah E.; Bound, John.

PD November 1998. TI The Dynamic Effects of Health on the Labor Force Transitions of Older Workers. AU Bound, John; Schoenbaum, Michael; Stinebrickner, Todd R.; Waidmann, Timothy. AA Bound: University of Michigan and National Bureau of Economic Research. Schoenbaum: RAND. Stinebrickner: University of Western Ontario. Waidmann: The Urban Institute. SR National Bureau of Economic Research Working Paper: 6777; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 28. PR $5.00. JE I10, J14, J22, J26, J28. KW Health. Labor Supply. Retirement. Elderly. Disability Insurance.

AB This paper addresses the interplay between health and labor market behavior in the later part of the working life. We use the longitudinal Health and Retirement Survey to analyze the dynamic relationship between health and alternative labor force transitions, including labor force exit, job change and application for disability insurance. Specifically, we examine how the timing of health shocks affects labor force behavior. Controlling for lagged values of health, poor contemporaneous health is strongly associated with labor force exit in general and with application for disability insurance in particular. At the same time, our evidence suggests that controlling for contemporaneous health, poor lagged health is associated with continued participation. Thus, it appears that not just poor health, but declines in health help explain retirement behavior. We conclude that modeling health in a dynamic, longitudinal framework offers important new insights into the effects of poor health on the labor force behavior of older workers.

Bovenberg, A. Lans

PD August 1998. TI Tax Reform and the Dutch Labor Market: An Applied General Equilibrium Approach. AU Bovenberg, A. Lans; Graafland, Johan J.; De Mooij, Ruud A. AA Bovenberg: Tilburg University. Graafland and de Mooij: CPB Netherlands Bureau for Economic Policy Analysis. SR National Bureau of Economic Research Working Paper: 6693; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 32. PR $5.00. JE D58, H53, J32. KW General Equilibrium. Dutch Labor Market. Matching.

AB This paper employs MIMIC, an applied general equilibrium model of the Dutch economy, to explore various tax cuts aimed at combating unemployment and raising labor supply. MIMIC combines modern labor-market theories, a solid empirical foundation, and a detailed description of Dutch labor-market institutions. We develop a small aggregate model, which contains the core of MIMIC, namely wage setting, job matching, labor supply, and labor demand. In addition to illustrating the main economic mechanisms in MIMIC, the small model shows the advantages of employing a larger, more disaggregated model that accounts for heterogeneity, institutional details, and more economic mechanisms. Targeting in-work benefits at the low skilled is the most effective way to cut economy-wide unemployment, but damages the quality and quantity of labor supply. Cuts in social security contributions

paid by employers and subsidies for hiring long-term unemployed reduce unskilled unemployment most substantially. Tax cuts in the higher tax brackets boost the quantity and quality of formal labor supply but are less effective in reducing unemployment and in raising unskilled employment and female labor supply.

Boyd, James

PD October 1996. **TI** The "Regulatory Compact" and Implicit Contracts: Should Stranded Costs Be Recoverable? **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 97/01; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 19. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** L43, L51, L94, K12, Q48. **KW** Stranded Costs. Deregulation. Contracts. Electric Utilities.
AB Progress toward electricity market deregulation has brought controversy over whether or not utilities are entitled to compensation for "stranded costs," i.e., costs utilities will not be able to recover due to the advent of competition in their markets. This paper uses a legal and economic analysis of contracts to address the desirability of utility cost recovery. First, underlying principles of law are reviewed to determine whether or not there is a legal presumption of recovery. Then, the analysis considers whether or not an implicit "regulatory compact" between utilities and regulators follows from principles in the economic analysis of law, particularly theories of efficient breach and implicit contracts. The paper concludes that recovery should occur in only a proscribed set of circumstances and that, when called for, compensation should be partial, rather than full.

TI Stranded Costs, Takings, and the Law and Economics of Implicit Contracts. **AU** Brennan, Timothy; Boyd, James.

Braham, Matthew

PD June 1999. **TI** Volunteers for Development: A Test of the Post-Materialist Hypothesis in Britain, c. 1965-1987. **AA** Universitat Hamburg. **SR** University of Oxford, Discussion Paper in Economic and Social History: 30; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 26. **PR** no charge. **JE** A13, D64, J24, N30, Z10. **KW** Post-Materialism. Volunteers. Social Movements. Altruism. Occupational Choice.
AB Volunteering by young adults for working in Third World countries on development projects emerged in Britain in the late 1950s. Three decades later, the country's largest volunteer sending agency, Voluntary Service Overseas, had sent more than 21,000 people abroad. The most common explanation for the emergence and growth of what is a small social movement is the affluence-value change theory, or Post-Materialism, which predicts that variations in the growth of the movement should vary positively with changes in wealth. This paper tests this prediction with a simple econometric model, and finds that this does not appear to be the case.

Bravo, Francesco

PD June 1998. **TI** A Correction Factor for Unit Root Test Statistics. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9809; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17

1BJ, England. Website: www.soton.ac.uk. **PG** 22. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** C12, C22. **KW** Bartlett-Type Correction. Unit Root Tests.
AB Despite the fact that it is not correct to speak of Bartlett corrections in the case of non-stationary time series, this paper shows that a Bartlett-type correction to the likelihood ratio test for a unit root can be an effective tool in order to control size distortions. Using well-known formulae, we obtain second order (numerical) approximations to the moments and cumulants of the likelihood ratio, which makes it possible to calculate a Bartlett type factor. It turns out that the cumulants of the corrected statistic are closer to their asymptotic value than the original one. A simulation study is then carried out to assess the quality of these approximations for the first four moments; the size and the power of the original and the corrected statistic are also simulated. Our results suggest out that the proposed correction reduced the size of the distortion without affecting the power too much.

Brayton, Flint

PD September 1999. **TI** What's Happened to the Phillips Curve? **AU** Brayton, Flint; Roberts, John M.; Williams, John C. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/49; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 39. **PR** no charge. **JE** E31, E32. **KW** Inflation. NAIRU. Phillips Curve.
AB The simultaneous occurrence in the second half of the 1990's of low and falling price inflation and low unemployment appears to be at odds with the properties of a standard Phillips curve. We find this result in a model in which inflation depends on the unemployment rate, past inflation, and conventional measures of price supply shocks. In such a model, long lags of past inflation are preferred to short lags, and that with long lags, the NAIRU is estimated precisely but is unstable in the 1990's. Two alternative modifications to the standard Phillips curve restore stability. One replaces the unemployment rate with capacity utilization. Although this change leads to more accurate inflation predictions in the recent period, the predictive ability of the utilization rate is not superior to that of the unemployment rate for the 1955 to 1998 sample as a whole. The second, and preferred, modification augments the standard Phillips curve to include an "error- correction" mechanism involving the markup of prices over trend unit labor costs. With the markup relatively high through much of the 1990's, this channel is estimated to have held down inflation over this period, and thus provides an explanation of the recent low inflation.

Bregman, Arie

PD November 1998. **TI** The Effects of Capital Subsidization on Israeli Industry. **AU** Bregman, Arie; Fuss, Melvyn; Regev, Haim. **AA** Bregman: Bank of Israel. Fuss: University of Toronto and National Bureau of Economic Research. Regev: Israel Central Bureau of Statistics. **SR** National Bureau of Economic Research Working Paper: 6788; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** E22, L52, O21, O53. **KW** Industrial Policy. Investment. Physical Capital.

Subsidies. Israel.
AB An industrial policy of subsidizing physical capital investment has been utilized in many countries in order to encourage export growth and spread economic development to outlying areas. For Israel, we possess a unique time series-cross section micro data set that details investment and its associated subsidies by vintage at the level of the individual enterprise for 620 firms. These data provide the means by which an empirical analysis of the effects of the policy of subsidizing capital can be undertaken. We estimate that, for the years 1990-94, this policy has resulted in production inefficiencies ranging from 5% for firms that receive the average level of subsidies to 15% for heavily subsidized firms. We also document the fact that much of the subsidization appears not to have been necessary, in the sense that subsidized firms generally have earned higher rates of return on their total physical capital (including that portion which are subsidized) than firms that were not subsidized.

Brennan, Timothy
PD October 1996. **TI** Stranded Costs, Takings, and the Law and Economics of Implicit Contracts. **AU** Brennan, Timothy; Boyd, James. **AA** Brennan: University of Maryland and Resources for the Future. Boyd: Resources for the Future. **SR** Resources for the Future Discussion Paper: 97/02; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 25. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** L43, L51, L94, K12, Q48. **KW** Stranded Costs. Deregulation. Takings. Electric Utilities. Contracts.
AB This paper explores ways in which economic analysis can help resolve the stranded cost controversy that has arisen in debates over electricity market deregulation. "Stranded costs" are costs electric utilities will not recover as power markets move from protected monopolies to an open, competitive environment. The paper begins with a description of the stranded cost problem, its magnitude, and the prominent arguments for and against recovery. We then turn to an analysis of contracts in order to understand whether there is, or should be, a legal duty to compensate utility shareholders for unrecovered costs. The paper also argues that efficient approaches to electricity deregulation will rely on more than an analysis of contracts. In particular, the politics of deregulation should be viewed as an independent constraint that affects the desirability of alternative approaches to stranded costs.

Brown, Laura
PD November 1997. **TI** Unemployment Insurance and the Business Cycle. **AU** Brown, Laura; Ferrall, Christopher. **AA** Brown: University of Manitoba. Ferrall: Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 965; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 25. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** C04, D02, J03, L02. **KW** Job Matching. Turnover. Youth Labor Market.
AB We develop a numerically solved equilibrium model of the labor market to study the effect of unemployment insurance (UI) over the business cycle. This model combines sequential job search, optimal job offer, layoff, and recall decisions, an aggregate productivity cycle, and details of an actual (namely, the Canadian) UI system. Optimal worker (firm) behavior is

characterized by a dynamic programming problem conditional upon beliefs about the behavior of firms (workers). In equilibrium beliefs are consistent with the optimal decisions of other agents. Some of the model's parameters are used to match simulated moments to data on labor market outcomes for young Canadian men. Simulations of recent changes to the UI system suggest that they will raise average unemployment rate among young Canadians. Eliminating UI altogether would significantly lower the unemployment rate among young men as well as lower average observed wages.

Brunt, Liam
PD October 1997. **TI** Nature or Nurture? Explaining English Wheat Yields in the Agricultural Revolution. **AA** Oxford University. **SR** University of Oxford, Discussion Paper in Economic and Social History: 19; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 28. **PR** no charge. **JE** N53, O33, Q10, Q20. **KW** Technology. Climate. Agriculture. Comparative Advantage. Economic History.
AB We estimate a model of wheat yields for eighteenth century England using village-level data. This is an entirely new approach to quantifying progress during the Agricultural Revolution and enables us to consider both environmental and technological inputs. We find that climate was a crucial factor but soil quality was much less important, thus throwing doubt on traditional explanations for England's high productivity. Traditional technologies such as drainage were effective in raising yields, but the technological innovations of the eighteenth century were much more effective. We find that turnips and seed drills were by far the most important innovations, contrary to the received wisdom.

PD June 1999. **TI** Estimating English Wheat Production in the Industrial Revolution. **AA** Oxford University. **SR** University of Oxford, Discussion Paper in Economic and Social History: 29; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 17. **PR** no charge. **JE** N53, O33, Q11, Q16, Q20. **KW** Technological Change. Climate. Agriculture. Wheat. Economic History.
AB Wheat was the single most important product of the British economy during the Industrial Revolution, being both the largest component of national income and the primary determinant of caloric intake. This paper offers new estimates of annual wheat production during industrialization. Whereas other researchers infer wheat production indirectly from demand equations, we estimate production directly from output equations. Our estimates are based on a new time series model of wheat yields, encompassing both environmental and technological variables. We trace the impact of war and population growth on wheat yields, mediated through changes in the economic incentives for wheat cultivation. We test the accuracy of our new wheat output series by modeling the market prices of wheat in England between 1700 and 1825.

PD September 1999. **TI** An Arbitrage Model of Crop Rotation in 18th Century England. **AA** Oxford University. **SR** University of Oxford, Discussion Paper in Economic and Social History: 32; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 21. **PR** no charge. **JE** O31, O33, N53, Q10, Q24. **KW** Agriculture. Crop Rotation. Technological Change. Innovation. Economic History.

AB The Industrial Revolution in England was characterized by early and rapid labor release from agriculture to industry. This was facilitated by rising levels of labor productivity in agriculture which permitted labor to be released without excessive upward pressure on food prices. New technology played a central role in raising agricultural productivity, but the importance of particular innovations remains controversial. In this paper we develop an arbitrage model of crop rotation which enables us to estimate the impact of crop rotation on wheat yields, requiring only the yields and prices of crops to be known. We apply this technique to eighteenth century English agriculture to assess the importance of two new crops in raising the yield of wheat (the primary agricultural output). Contrary to the received wisdom, we show that turnips substantially pushed up wheat yields but clover pushed down wheat yields. We confirm this result by comparing our estimates to both experimental data and production function estimates. Further detailed analysis facilitated by the new model enables us to explain this surprising result in terms of management practices pursued by farmers.

Bryson, John

PD March 1999. TI Evaluating the Impact of Business Service Expertise and Business Links on the Performance of SMEs in England. AU Bryson, John; Ingram, David; Daniels, Peter. AA University of Birmingham. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP124; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 20. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE L14, L21, L84. KW SMEs. Firm Performance. Business Advice Services. Business Links.
AB This paper explores the impact on the performance, profitability and competitiveness of SMEs of business service expertise provided via government-sponsored local Business Link organizations. It uses data from a unique survey of SMEs in England as well as case studies of individual firms. It is possible to identify a positive impact of business service expertise on client performance, but isolating such impacts from other variables is very difficult, while use of both employment and profitability indicators is problematic. There is a danger that the Department of Trade and Industry evaluation of Business Link companies may determine the way in which Business Links identify and deal with clients.

Bui, Linda T. M.

TI Environmental Regulation and Productivity: Evidence from Oil Refineries. AU Berman, Eli; Bui, Linda T. M.

Burchardt, Tania

PD February 1997. TI What Price Security? Assessing Private Insurance for Long-Term Care, Income Replacement During Incapacity, and Unemployment for Mortgagors. AA London School of Economics. SR STICERD, (LSE) Welfare State Programme Discussion Paper: WSP/129; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 80. PR no charge. JE G22, I38. KW Private Insurance. Social Security. Unemployment. Incapacity. Long- Term Care.
AB Three case studies are used to examine the potential effects of shifts from collectively-financed to individually-financed welfare. The case studies were chosen as areas where private insurance is already supplementing state provision, namely insurance against care costs in old age, income replacement during long-term sickness or disability, and cover for mortgage payments if earnings are interrupted. Currently available private products are assessed by comparing estimated actuarial premiums with commercial rates. Analysis of the British Household Panel Survey and other data gives an indication of the distributional effects of moving from funding based on ability-to-pay to funding based on risk status. The paper concludes that private products in all three areas (in so far as they can be assessed at all) are expensive for the cover offered, and that the (necessary) differentiation of premiums by risk group sharpens the regressive effect of moving from tax- to premium- financing. Redistribution occurs not only in the income dimension but also along gender and health/disability lines.

PD May 1999. TI The Evolution of Disability Benefits in the UK: Re-Weighting the Basket. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/26; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 26. PR no charge. JE I38, J28, J65. KW Disability Benefits. Welfare Reform. Employment.
AB This paper attempts to clarify the significance of reforms to disability benefits proposed by the New Labor government in 1998, by setting them in the context of the development of disability benefits since the early 1970s. The first two sections chart the creation, extension and subsequent reforms of disability benefits. Hypothetical case studies are then used to illustrate the changing balance between different kinds of benefit for disabled people. The paper concludes that, in accordance with the guiding principle of welfare reform, "work for those who can and security for those who cannot", the government's reforms are designed to reward paid employment, while offering relatively generous provision for those who are obviously unable to work. The question raised is the extent to which altered incentives will be sufficiently powerful to eliminate the category in-between -- those who are deemed capable of work but who do not have a job -- or whether large numbers of disabled people will fall between the stools of "work" and "security".

Burgess, Simon M.

PD July 1998. TI An Economic Model of Household Income Dynamics, with an Application to Poverty Dynamics Among American Women. AU Burgess, Simon M.; Propper, Carol. AA University of Bristol and London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/09; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 87. PR no charge. JE D31, I32, J16. KW Poverty Analysis. Household Income Dynamics. Households. Labor Market Participation. Women.
AB The rise in inequality and poverty is one of the most important economic and social issues in recent times. But in contrast to the literature on individual earnings inequality, there has been little work modeling (as opposed to documenting) household income dynamics. This is largely because of the difficulties created by the fact that on top of the human capital

issues that arise in personal earnings, individuals are continually forming, dissolving and reforming household units. This paper proposes a framework for modeling household income dynamics. It emphasizes the role of household formation and dissolution, and labor market participation. It allows standard economic theory to address the issues of household, as distinct from individual, income and poverty dynamics. We illustrate this framework with an application to poverty rates among young women in the US. We use this model to analyze differences in poverty experiences, particularly between black and white women.

Burnside, Craig

PD October 1998. **TI** Prospective Deficits and the Asian Currency Crisis. **AU** Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio. **AA** Burnside: The World Bank. Eichenbaum and Rebelo: Northwestern University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6758; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 41. **PR** $5.00. **JE** F31, G21, H62. **KW** Currency Crises. Southeast Asia. Prospective Deficits. Bailout Guarantees.

AB This paper argues that the recent Southeast Asian currency crisis was caused by large prospective deficits associated with implicit bailout guarantees to failing banking systems. We articulate this view using a simple dynamic general equilibrium model whose key feature is that a speculative attack is inevitable once the present value of future government deficits rises. This is true regardless of the government's foreign reserve position or the initial level of its debt. While the government cannot prevent a speculative attack, it can affect its timing. The longer the delay, the higher inflation will be under flexible exchange rates. We present empirical evidence in support of the three key assumptions in our model: (i) foreign reserves did not play a special role in the timing of the attack, (ii) large losses in the banking sector were associated with large increases in governments' prospective deficits, and (iii) the public knew that banks were in trouble before the currency crisis.

Busch, Susan H.

TI Price Indexes for Acute Phase Treatment of Depression. **AU** Berndt, Ernst R.; Busch, Susan H.; Frank, Richard G.

Busetti, Fabio

PD December 1998. **TI** Testing for the Presence of a Random Walk in Series with Structural Breaks. **AU** Busetti, Fabio; Harvey, Andrew. **AA** Busetti: London School of Economics. Harvey: University of Cambridge. **SR** STICERD, (LSE) Econometrics Discussion Paper: EM/98/365; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 36. **PR** no charge. **JE** C12, C22. **KW** Brownian Bridge. Intervention Analysis. Locally Best Invariant. Structural Time Series. Unobserved Components.

AB The paper considers tests for the presence of a random walk component in a stationary or trend stationary time series and extends them to series which contain structural breaks. The locally best invariant (LBI) test is derived and the asymptotic distribution obtained. Then a modified test statistic is proposed. The advantage of this statistic is that its asymptotic distribution is not dependent on the location of the breakpoint and its form is that of the generalized Cramer-von Mises distribution, with degrees of freedom depending on the number of breakpoints. The performance of this modified test is shown, via some simulation experiments, to be comparable with that of the LBI test. An unconditional test, based on the assumption that there is a single break at an unknown point, is also examined. The use of the tests is illustrated with data on the flow of the Nile and US Gross National Product.

Butchart, Ed

PD May 1997. **TI** Unemployment and Non-Employment in Interwar Britain. **AA** Oxford University. **SR** University of Oxford, Discussion Paper in Economic and Social History: 16; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 28. **PR** no charge. **JE** J21, J64, N14, N34, N54. **KW** Unemployment. Britain. Economic History. Labor Force. Wages.

AB Britain already had a serious unemployment problem in the 1920s, but the situation worsened markedly after 1929. The authors investigate the cause of the higher rates of unemployment experienced throughout the 1930s. The most obvious explanation, that aggregate demand was weaker in the aftermath of the Great Depression, does not stand up to scrutiny. An alternative explanation is that the emergence of long-term unemployment generated 'hysteresis' effects which enervated the market-clearing mechanism. Although the authors find that the duration composition of unemployment statistically significantly influenced wage determination, they note that real wage growth between 1932-39 was modest. It was not the case that the fruits of economic recovery fed through to wages at the expense of jobs. Instead, the authors highlight important movements in the labor participation rate over the course of the interwar period. In particular, the 1930s do not emerge as having had a more serious problem of joblessness than the 1920s. Hence, the authors tentatively conclude that unemployment was higher during the 1930s largely because the unemployment rate was becoming a more accurate measure of joblessness.

Butcher, Kristin F.

PD June 1998. **TI** The Immigrant and Native-born Wage Distributions: Evidence from United States Censuses. **AU** Butcher, Kristin F.; DiNardo, John. **AA** Butcher: Boston College. DiNardo: University of California, Irvine and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6630; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 26. **PR** $5.00. **JE** J31, J61, J71. **KW** Wages. Wage Structure. Immigrants. Discrimination.

AB Using data from four U.S. Censuses (1960-1990) the authors examine changes in the wage structure and their role in explaining comparisons between immigrants and the native-born in mean wages. Inter alia, the authors document that patterns of comparison between the immigrants and the native-born are not the same for men and for women, and that these differences are a consequence of different evolutions in the wage structure. Although virtually ignored in the immigration literature, the authors return to a well-understood aspect of Blinder/Oaxaca differentials: the extent of measured discrimination depends on the "base" prices used for comparison. Contrary to previous work which finds little

impact of the wage structure on immigrant/native-born wage differentials, the authors observe that if the "wage structure" had remained as it was in 1970, for example, the decline in immigrant wages relative to the native-born would generally be much smaller than has been observed.

Buzzacchi, Luigi

PD September 1999. TI Firm Size Distribution: Testing the "Independent Submarkets Model" in the Italian Motor Insurance Industry. AU Buzzacchi, Luigi; Valletti, Tommaso. AA Buzzacchi: Politico di Torino. Valletti: London School of Economics and Centre for Economic Policy Research. SR STICERD, (LSE) Economics of Industry Group Discussion Paper: EI/24; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 23. PR no charge. JE G22, L11, L84, R32. KW Firm Size Distribution. Independent Submarkets. Insurance Companies.

AB This paper tests the presence of multiple independent submarkets in the Italian motor insurance industry. Independence is motivated by administrative boundaries among provinces and by further locational reasons. We find that the independence effects are sufficient to induce a minimum degree of inequality in the size distribution of firms once submarkets are aggregated. These results are fully consistent with the predictions of Sutton (1998). We also show that the degree of skewness in the firm size distribution is related to characteristics such as the population living in an area, its density and the riskiness of a submarket.

Caballero, Ricardo J.

PD September 1998. TI Improper Churn: Social Costs and Macroeconomic Consequences. AU Caballero, Ricardo J.; Hammour, Mohamad. AA Caballero: Massachusetts Institute of Technology and National Bureau of Economic Research. Hammour: Delta. SR National Bureau of Economic Research Working Paper: 6717; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E24, E44, J41, J64. KW Job Churn. Contract Duration. Factor Flows. Recession Effects.

AB This paper assembles elements that are essential in forming an integral picture of the way a "churning" economy functions and of the disruptions caused by transactional difficulties in labor and financial markets. We couch our analysis in a stochastic equilibrium model anchored with U.S. evidence on gross factor flows and on rents in worker and firm income. We develop a social accounting framework to measure the costs of transactional impediments. We calculate the average social loss associated with structural unemployment and low productivity -- due to technological "sclerosis" and a "scrambling" of productivity rankings in entry and exit decisions. We also estimate the loss from a recession. An additional forty percent to the traditional unemployment cost is due to reduced productivity and is determined by the recession's cumulative effect on the economy's churn rate. Although a recessionary shock increases the economy's "turbulence" at impact, semi-structural VAR evidence from U.S. manufacturing indicates that, cumulatively, it results in a "chill" -- which is costly in an economy that suffers from sclerosis.

Cabellero, Ricardo J.

PD December 1998. TI Emerging Market Crises: An Asset Markets Perspective. AU Cabellero, Ricardo J.; Krishnamurthy, Arvind. AA Caballero: Massachusetts Institute of Technology and National Bureau of Economic Research. Krishnamurthy: Northwestern University. SR National Bureau of Economic Research Working Paper: 6843; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E44, F31, F32, F41, G10. KW Emerging Markets. Financial Crises. Foreign Exchange. Capital Flows. International Collateral.

AB Although internal policy mismanagements can be cited in most recent emerging market crises, they seldom account fully for the severity of these crises. The reluctance of international investors to provide the resources that would limit the extent of the reversal almost invariably plays a key role in bringing a previously (over?)-heated economy to a costly halt. Ultimately, the reason for this breakdown of a country's access to international capital markets must lie in the inadequacy (real or perceived) of its international collateral. The authors build a framework where this insufficiency and its consequences stem from microeconomic contractual problems. Fire sales of domestic assets naturally arise as a result of desperate competition for scarce international collateral. This begs the question of why the private sector does not take steps to ensure sufficient international collateral when crises are likely. The answer lies in the presence of a pecuniary externality. The authors show that contractual problems also lead to a problem of insufficient domestic collateral, which restricts the transfer of surplus arising from the use of international collateral between the users and providers of this international collateral.

Calomiris, Charles W.

PD July 1998. TI Bank Capital and Portfolio Management: The 1930's "Capital Crunch" and Scramble to Shed Risk. AU Calomiris, Charles W.; Wilson, Berry. AA Calomiris: Columbia Business School and National Bureau of Economic Research. Wilson: Federal Communication Commission. SR National Bureau of Economic Research Working Paper: 6649; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 33. PR $5.00. JE D82, E32, G21, N12, N22. KW Banking. Great Depression. Asset Risk. Defaults. Asymmetric Information.

AB Recent models of banking under asymmetric information argue that depositors penalize banks that offer high-risk deposits. Focusing on New York City banks in the 1920's and 1930's, this study examines how banks manage risk during normal times and in response to severe shocks. The authors develop and apply a simple framework that identifies the tradeoffs among alternative means of satisfying depositors' preferences for low-risk deposits. During the 1920's profitable lending opportunities and low costs of raising capital prompted banks to increase their asset risk, while increasing capital to maintain low default risks on deposits. Cross-sectional differences in the cost of raising equity explain differences in banks' choices of asset risk and capital ratios. In the wake of the loan losses produced by the Depression, high default risk was penalized with deposit withdrawals. To reduce deposit risk, banks increased their riskless assets and cut dividends, but avoided costly equity issues.

Calvet, Laurent E.

PD March 1999. TI Incomplete Markets and Volatility. AA Harvard University. SR Harvard Institute for Economic Research Discussion Paper: 1865; Harvard Institute of Economic Research, Department of Economics, 200 Littauer Center, Cambridge, MA 02138. Website: www.economics.harvard.edu/hier/index.html. PG 44. PR $3.00 per paper domestic (USA & Canada) and $4.00 per paper international. JE D51, E21, E44, G12, G14. KW Precautionary Motive. Incomplete Markets. Asset Span. General Equilibrium. Volatility.

AB This paper shows that the precautionary motive, combined with asset incompleteness, is a major source of volatility and indeterminacy in financial markets. Price fluctuations originate from agents' efforts to insure themselves through time by borrowing and lending instead of shifting income across states of nature by trading in risky assets. A high interest rate at a future date reduces the potential for future consumption smoothing across time via borrowing, leading to a strong precautionary motive and a low interest rate in the current period. The negative feedback between future and current interest rates generates fluctuations. This logic is developed in SPEC, a CARA-normal model with many periods, risky time-dependent endowments, and endogenous interest rates. Unlike existing frameworks, SPEC allows the authors to analyze the effect of financial structure on temporal fluctuations along a given path. In equilibrium, individual consumption is random, but the macro variables are deterministic and vary through time. When there is an intermediate level of market incompleteness and sufficient investor impatience, fluctuations in the real interest rate can be large, even though the aggregate endowment is constant.

Campa, Jose Manuel

PD October 1998. TI Employment Versus Wage Adjustment and the U.S. Dollar. AU Campa, Jose Manuel; Goldberg, Linda S. AA Campa: New York University and National Bureau of Economic Research. Goldberg: Federal Reserve Bank of New York and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6749; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 28. PR $5.00. JE E24, F31, F41, J22, J30. KW Exchange Rates. Employment. Overtime Hours. Industry Wages.

AB Using two decades of annual data, we explore the links between real exchange rates and employment, wages and overtime activity in specific U.S. manufacturing industries. Across two-digit industry levels of aggregation, exchange rate movements do not have large effects on numbers of jobs or on hours worked. More substantial effects are picked up in industry wages, especially for industries characterized by low price-over-cost markup ratios, and in overtime wages and overtime employment. The industry-by-industry pattern of wage responsiveness is not strongly related to industry export orientation or changes in overall external orientation. Industries with low price-over-cost markups and those with a less skilled workforce exhibit relatively larger employment elasticities but lower wage elasticities.

Campbell, Jeffrey R.

PD November 1998. TI Organizational Flexibility and Employment Dynamics at Young and Old Plants. AU Campbell, Jeffrey R.; Fisher, Jonas D. M. AA Campbell: University of Rochester and National Bureau of Economic Research. Fisher: Federal Reserve Bank of Chicago. SR National Bureau of Economic Research Working Paper: 6809; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D23, E24, E32, L16, L23. KW Employment. Business Cycles. Manufacturing. Firm Age. Organizational Flexibility.

AB There are significant differences in the dynamics of employment over the business cycle between young and old manufacturing plants. Young plants are more sensitive to aggregate disturbances, and they respond to them along different margins. We interpret these differences as reflecting greater organizational flexibility at young plants due to the changing nature of a plant's environment as it ages. In the presence of aggregate uncertainty, differences between young and old plant's organizational flexibility allows the model to reproduce their distinct cyclical characteristics. Previous empirical studies show that small firms generally respond by more to aggregate shocks than do large firms. To the extent that small firms tend to operate young plants, our analysis suggests an alternative to conventional explanations of this evidence which appeal to imperfections in credit markets.

Campbell, John Y.

PD October 1998. TI Elasticities of Substitution in Real Business Cycle Models with Home Production. AU Campbell, John Y.; Ludvigson, Sydney. AA Campbell: Massachusetts Institute of Technology and National Bureau of Economic Research. Ludvigson: Federal Reserve Bank of New York. SR National Bureau of Economic Research Working Paper: 6763; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D13, E21, E23, E32. KW Home Production. Elasticity of Substitution. Consumption. Business Cycles.

AB This paper constructs a simple model of home production that demonstrates the connection between the intertemporal elasticity of substitution in market consumption (IES) and the static elasticity of substitution between home and market consumption (SES), when the utility function is additively separable over home and market consumption. Understanding this connection is important because there is a large body of empirical evidence suggesting that the IES is small, but little evidence on the size of the SES. We use our framework to shed light on the properties of a home production model with a low IES. We find that such a model must have two fundamental properties in order to match key aspects of the U.S. aggregate data. First, the steady-state growth rate of technology must be the same across sectors. Second, shocks to technology must be sufficiently positively correlated across sectors.

PD November 1998. TI Who Should Buy Long-Term Bonds? AU Campbell, John Y.; Viceira, Luis M. AA Campbell: Massachusetts Institute of Technology and National Bureau of Economic Research. Viceira: Harvard Business School. SR National Bureau of Economic Research Working Paper: 6801; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 34. PR $5.00. JE G12. KW Bonds. Portfolio Choice. Risk Aversion. Hedging.

AB According to conventional wisdom, long-term bonds are appropriate for long-term investors who value stability of

income. The authors develop a model of optimal consumption and portfolio choice for infinitely-lived investors facing stochastic interest rates, solve it using an approximate analytical method, and evaluate the conventional wisdom. They show that the demand for long-term bonds has both a myopic component and an intertemporal hedging component. As risk aversion increases, the myopic component shrinks to zero but the hedging component does not. An infinitely risk-averse investor who is infinitely unwilling to substitute consumption intertemporally should hold a portfolio of long-term indexed bonds that is equivalent to an indexed perpetuity. The authors compare consumption and portfolio rules with and without bond indexation, portfolio constraints, and the possibility of investment in equities. They find that when index bonds are not available, inflation risk leads investors to shorten their bond portfolios and increase their precautionary savings. This has serious welfare costs for conservative investors. The results illustrate that static portfolio choice models should not be used to study the dynamic problems facing long-term investors.

Campbell, Nigel

PD January 1999. TI The Decline of Employment Among Older People in Britain. AA HM Treasury. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/19; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 75. PR no charge. JE J14, J22, J26, J64. KW Labor Force Participation. Employment. Older Workers. Elderly. Retirement.
AB Older men have experienced the largest falls in employment over the last twenty years. Two-fifths of men aged between 55 and 65 are without work, compared to one-fifth in 1979, equivalent to 600,000 fewer jobs. Older women have not shared in the general rise in female employment. This paper analyzes the Labor Force Survey and the first six waves of the British Household Panel Survey to examine why older people's employment has fallen, which groups have been most affected, and whether these trends are likely to continue. The people most likely to leave the labor market are either (a) in the bottom quartile of the wage distribution or (b) with wages in the top half but who are also members of an occupational pension scheme. Once displaced, few older people return to work. There are instead significant transitions between unemployment, long-term sickness and retirement, almost always weakening attachment to the labor market. Furthermore, falling male employment seems to be part of an ongoing trend, rather than simply affecting one unfortunate generation.

Cao, Melanie

PD May 1997. TI Equilibrium Valuation of Currency Options in a Small Open Economy. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 960; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 30. PR $3.21 Canada; $3.50 U.S. and Foreign. JE G13, G15, F31. KW Exchange Rates. Systematic Jumps. Currency Options. Open Economy. Equilibrium.
AB The log-normal Garman and Kohlhagen (1983) currency option model usually creates pricing biases when matched with the market prices. The observed price bias is generally

consistent with the mixed jump- diffusion distribution for exchange rates. Various studies have provided evidence of jump risks in exchange rate movements. This paper argues that the jump risk in the exchange rates may be correlated with the market. Thus an equilibrium framework is needed to price the systematic jump components in currency option prices. I propose an equilibrium model to investigate the dynamics of the exchange rate in a small open monetary economy with stochastic jump-diffusion processes for both the money supply and aggregate dividend. It is shown that government monetary policies, aggregate dividends and the level of investment in foreign assets affect the exchange rate. Exchange rates exhibit more discontinuities than stock prices as empirically documented. Foreign agents' risk-neutral valuation of the European currency option is derived along with restrictions to ensure the parity conditions in currency option market. These generally depend on the agent's risk preference.

PD August 1997. TI Equilibrium Valuation of Options on the Market Portfolio with Stochastic Volatility and Return Predictability. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 961; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 22. PR $3.21 Canada; $3.50 U.S. and Foreign. JE G10, G13. KW Stochastic Volatility. Return Predictability. Stochastic Interest Rate. Options. Equilibrium.
AB This paper uses an extension of the equilibrium model of Lucas (1978) to study the valuation of options on the market portfolio with return predictability, endogenous stochastic volatility and interest rates. Equilibrium conditions imply that the mean reverting rate of dividend growth induces the predictable feature of the market portfolio. Although the actual drift of the price for the market portfolio does not explicitly enter into the option price formula when the equivalent martingale pricing principle is used, parameters underlying the predictable feature affect option prices through their influence on endogenized volatility and interest rates. Equilibrium conditions also reveal strong interdependence between the equilibrium price process and the volatility process for the market portfolio. With realistic parameter values, numerical examples show that stochastic volatility and stochastic interest rates are both necessary for correcting the pricing biases generated by the Black-Scholes model. In addition, Closed-form solutions for European bond option prices are obtained, which encompass the Vasicek (1977) model and the Cox-Ingersoll-Ross (1985) model. In this sense, the current model provides a consistent way to price options written on the market portfolio and the bonds.

Capeau, Bart

PD March 1998. TI Prices, Local Measurement Units and Subsistence Consumption in Rural Surveys: An Econometric Approach With an Application to Ethiopia. AU Capeau, Bart; Dercon, Stefan. AA Capeau: Katholieke Universiteit Leuven. Dercon: Centre for the Study of African Economies and Katholieke Universiteit Leuven. SR Centre for the Study of African Economies Working Paper: 98/10; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 23. PR 3 pounds or $5.00. JE D40, E21, I32, O12, R20. KW Household Surveys. Unit Values. Subsistence Consumption. Local

Measurement Units. Ethiopia.
AB For many research problems in developing countries, some information on prices faced by households is required for the analysis, but these prices are not readily available from household surveys, nor is it straightforward to observe them, especially if subsistence consumption is a substantial part of consumption. Furthermore, quantities consumed and produced are often in local units presenting further problems for the analysis. Building on Deaton's (1987) seminal work, we provide an econometric approach to estimate prices and quantity conversion factors from household expenditure data. We use panel data from rural Ethiopia to illustrate the approach and to investigate the potential quality bias in the estimation of the prices. In an application we show that the conclusions about poverty changes over time are significantly affected by using less appropriate strategies to convert local units and to value subsistence consumption.

Card, David
PD August 1998. TI Extended Benefits and the Duration of UI Spells: Evidence from the New Jersey Extended Benefit Program. AU Card, David; Levine, Phillip B. AA Card: University of California, Berkeley and National Bureau of Economic Research. Levine: Wellesley College and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6714; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H53, J64, J65. KW Unemployment Insurance. Extended Benefits. Unemployment Duration. Policy Change.
AB In 1996 a political trade-off in the New Jersey legislature led to a six-month program that provided up to 13 additional weeks of "extended benefits" for unemployment insurance recipients who had exhausted their regular benefit entitlement. Unlike most benefit extensions, the New Jersey Extended Benefit (NJEB) program arose during a period of stable economic conditions, thus eliminating the problem of endogenous policy adoption. Aggregate state-level data and administrative records for individual UI claimants from before, during, and after the NJEB program are used to estimate the impact on unemployment spell lengths. The authors find that the NJEB program raised the fraction of UI claimants who exhausted their regular benefits by 1-3 percentage points. More importantly, however, the short-term nature of the benefit extension substantially moderated its effect. For individuals who were receiving UI when the extension was passed, the rate of leaving UI fell by about 15 percent. Simulations suggest that if the program had run long enough to affect UI claimants from the first day of their spell, the fraction of recipients exhausting regular benefits would have risen by 7 percentage points, and the average recipient would have collected about one extra week of regular benefits.

TI Education, Earnings, and the "Canadian G.I. Bill."
AU Lemieux, Thomas; Card, David.

PD October 1998. TI School Finance Reform, the Distribution of School Spending, and the Distribution of SAT Scores. AU Card, David; Payne, A. Abigail. AA Card: University of California, Berkeley. Payne: Institute of Government and Public Affairs. SR National Bureau of Economic Research Working Paper: 6766; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge,

MA 02138. Website: www.nber.org. PG 38. PR $5.00. JE H52, H72, I21, I22. KW Educational Finance. Education. Student Achievement. Family Background.
AB In this paper we study the effects of school finance reforms on the distribution of school spending across richer and poorer districts, and the effects of spending equalization on the distribution of student outcomes across children from different family backgrounds. We use school district data from the 1977 and 1992 Censuses of Governments to measure the correlation between state funding per pupil and median family income in each district. We find that states where the school finance system was declared unconstitutional in the 1980s increased the relative funding of low-income districts. Increases in state funds available to poorer districts led to increases in the relative spending of these districts, and to some equalization in spending across richer and poorer districts. We then use micro samples of SAT scores from this same period to measure the effects of spending inequality on the inequality in test scores between children from different family backgrounds. We find some evidence that the equalization of spending across districts leads to a narrowing of test score outcomes across family background groups.

Carlton, Dennis W.
PD December 1998. TI The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries. AU Carlton, Dennis W.; Waldman, Michael. AA Carlton: University of Chicago and National Bureau of Economic Research. Waldman: Cornell University. SR National Bureau of Economic Research Working Paper: 6831; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 41. PR $5.00. JE D42, L12, L22, L41. KW Monopoly. Complementary Products. Entry Costs. Network Externalities. Antitrust Policy.
AB This paper investigates how the tying of complementary products can be used to preserve and extend monopoly positions. We first show how a firm that is a monopolist of a product in the current period can use tying to preserve its monopoly position in future periods. We then show using related arguments how a monopolist in one market can employ tying to extend its monopoly position into a newly emerging market. The analysis focuses on the importance of entry costs and network externalities. The paper includes a discussion of antitrust implications.

Carr, David L.
PD October 1998. TI Estimating the Knowledge-Capital Model of the Multinational Enterprise. AU Carr, David L.; Markusen, James R.; Maskus, Keith E. AA University of Colorado. SR National Bureau of Economic Research Working Paper: 6773; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 29. PR $5.00. JE F12, F23, L11, L22, O32. KW Multinational Firms. Research and Development. Market Structure. Vertical Integration.
AB What we term the "knowledge-capital model" of the multinational firm includes three principle assumptions. First, services of knowledge-based and knowledge-generating activities, such as R&D, can be geographically separated from production and supplied to production facilities at low cost. Second, these knowledge-intensive activities are skilled-labor intensive relative to production. These characteristics give rise

to vertical multinationals, which fragment production and locate activities according to factor prices and market size. Third, knowledge-based services have a (partial) joint-input characteristic, in that they can be supplied to additional production facilities at low cost. This characteristic gives rise to horizontal multinationals, which produce the same goods or services in multiple locations. In this paper, we note how this model predicts relationships between affiliate sales and country characteristics. We then subject these predictions to empirical tests.

Carrington, William J.

PD August 1999. TI Minimum Wage Careers? AU Carrington, William J.; Fallick, Bruce C. AA Bureau of Labor Statistics and Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/46; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 33. PR no charge. JE J31, J33. KW Minimum Wage. NLSY.
AB This paper investigates the extent to which people spend careers on minimum wage jobs. We find that a small but non-trivial number of NLSY respondents spend 25%, 50%, or even 75% of the first ten years of their career on minimum or near-minimum wage jobs. Workers with these minimum wage careers tend to be drawn from groups such as women, blacks, and the less-educated that are generally over-represented in the low-wage population. The results indicate that lifetime incomes of some workers may be supported by a minimum wage. At the same time, these same groups would be disproportionately affected by any minimum wage-induced disemployment. The results suggest that minimum wage legislation has non-negligible effects on the lifetime opportunities of a significant minority of workers.

Casella, Alessandra

TI Overcoming Informational Barriers to International Resource Allocation: Prices and Group Ties. AU Rauch, James E.; Casella, Alessandra.

Cason, Timothy N.

TI Do Community Characteristics Determine Environmental Outcomes? Evidence from the Toxics Release Inventory. AU Arora, Seema; Cason, Timothy N.

Chadha, Jagjit S.

PD August 1998. TI The Optimum Currency Area Case for EMU: A Structural VAR Approach. AU Chadha, Jagjit S.; Hudson, Suzanne L. AA Chadha: University of Southampton. Hudson: American Express Asset Management. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9815; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 40. PR annual subscription 40 pounds ($80); individual copies on application. JE C34, E32, E52. KW EMU. Optimum Currency Areas. Structural VARs.
AB In order to examine the optimum currency area case for EMU, we estimate structural VARs in output, the real exchange rate and prices for 14 EU countries and a small control sample. Using quarterly data since the end of Bretton Woods, we find

that (1) the data are strongly correlated for the majority of EU countries and the G6; (2) output and real exchange rate fluctuations are largely driven by real shocks; (3) primitive real and nominal shocks are no more correlated in absolute terms across the EU-core than the EU-periphery; (4) and G6 countries appear to be no less correlated than such a core; and (5) the response of output, real exchange rates and prices to identified IS and LM shocks are similar across all these economies. We are unable to answer the question of whether a group of countries constitute an OCA because we cannot gauge the required threshold of commonality. By examining rankings of correlations we are able to suggest, however, that a set of EU countries look relatively close to Germany but that this set look no closer to Germany than other large OECD economies.

PD December 1998. TI Utility Functions for Central Bankers -- The Not So Drastic Quadratic. AU Chadha, Jagjit S.; Schellekens, Philip. AA Chadha: University of Southampton. Schellekens: London School of Economics and University of Antwerp. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9818; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 35. PR annual subscription 40 pounds ($80); individual copies on application. JE E42, E52, E61. KW Loss Functions. Risk Aversion. Uncertainty. Optimal Rules.
AB Following Blinder's (1997) suggestion, we examine the implications for the optimal interest rate rule following the relaxation of the assumption that the policymaker's loss function is quadratic. We investigate deviations from quadratics for both symmetric and asymmetric preferences for a single target and find that: (i) characterizations of risk aversion, other than that implied by the quadratic, only affect dead-weight losses, unless there is also multiplicative uncertainty; (ii) asymmetries affect the optimal rule under both additive and multiplicative uncertainty but result in interest rate paths observationally similar, and in some cases equivalent to those implied by a shifted quadratic; (iii) the use of an asymmetric loss functions leads to important insights on the issues of goal independence and monetary policy delegation; (iv) non-quadratic preferences, per se are neither sufficient nor necessary to generate the 'Brainard conservatism principle' and thus do not offer much added value when analyzing the policy issues of caution and gradualism. Our results suggest that in the context of monetary policymaking the convenient assumption of quadratic losses may not be that drastic after all.

Chalkley, Martin

PD December 1998. TI Government Purchasing of Health Services. AU Chalkley, Martin; Malcomson, James M. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9821; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 44. PR annual subscription 40 pounds ($80); individual copies on application. JE I11, I18. KW Prospective Payment. Quality of Service. Cost Sharing. Commitment. Reputation.
AB This chapter reviews the literature on payment schemes for government purchases of health services. It focuses on four themes: (1) the tension between obtaining appropriate quality of services and keeping the cost of those services at an acceptable level; (2) the role of cost sharing by the payer when

there is asymmetric information between purchaser and supplier about costs or case-mix; (3) the importance of commitment in purchasing; and (4) the role of reputation in maintaining quality in long term relationships between purchasers and suppliers.

Chang, Roberto

PD   November 1998. TI   The Asian Liquidity Crisis. AU   Chang, Roberto; Velasco, Andres. AA   Chang: Federal Reserve Bank of Atlanta. Velasco: New York University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6796; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   46. PR $5.00. JE   E58, F31, F32, F34, G20. KW   Financial Crises. Exchange Rates. Illiquidity. Lender of Last Resort. International Finance.
AB   A country's financial system is internationally illiquid if its potential short-term obligations in foreign currency exceed the amount of foreign currency it can have access to on short notice. This condition may be crucial for the existence of financial crises and/or exchange rate collapses (Chang and Velasco 1998a, b). In this paper we argue that the 1997-98 crises in Asia were in fact a consequence of international illiquidity. This follows from an analysis of empirical indicators of illiquidity as well as other macroeconomic statistics. We trace the emergence of illiquidity to financial liberalization, the shortening of the foreign debt structure, and the currency denomination of assets versus liabilities. We explain how financial crises became exchange rate collapses due to a government policy of both fixing exchange rates and acting as lender of last resort. Finally, we outline the policy implications of our view for both preventing crises and dealing with them.

Chaundy, David

PD   March 1999. TI   Can Domestic Liabilities Explain the Home Bias in UK Investment Portfolios? AA   University of Cambridge. SR   University of Cambridge, ESRC Centre for Business Research Working Paper: WP116; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG   15. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   G11, G22, G23. KW   Mean-Variance. Liabilities. Portfolio Choice. Pension Funds. Insurance Companies.
AB   It has been suggested that domestic liabilities may be an important factor in explaining the existence of a home bias in international investment portfolios. This paper provides a theoretical justification for this claim in a mean-variance framework. However, an empirical analysis for the UK does not find this effect to be large. Mean- variance efficient portfolios already exhibit significant home bias relative to the world market portfolio. Further, the predicted portfolios differ considerably from the actual portfolios of UK life assurance companies and pension funds. Possible reasons for this include weaknesses in the mean-variance approach and the role of peer pressure.

PD   March 1999. TI   What is the Accommodating Item in the Balance of Payments? AA   University of Cambridge. SR   University of Cambridge, ESRC Centre for Business Research Working Paper: WP122; Centre for Business Research, Department of Applied Economics, University of

Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG   14. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   F32, F40, G21. KW   Balance of Payments. Autonomous. Accommodating. Bank Deposits. Volatility.
AB   Balance of payments accounts are constructed using a double-entry accounting principle such that total credits equal total debits. Modeling each entry independently will not guarantee this equality. It is therefore important to identify the counterpart entries or "accommodating" items that ensure that total credits equal total debits. This paper identifies the accommodating item for the UK by presenting institutional evidence on the means of payment for international transactions. Its conclusions are likely to apply to any developed country with a well-developed banking system.

Chay, Kenneth Y.

PD   December 1998. TI   Does Air Quality Matter? Evidence from the Housing Market. AU   Chay, Kenneth Y.; Greenstone, Michael. AA   Chay: University of California, Berkeley and National Bureau of Economic Research. Greenstone: University of California, Berkeley. SR   National Bureau of Economic Research Working Paper: 6826; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   37. PR $5.00. JE   Q21, Q25, Q28, R31. KW   Air Pollution. Property Values. Housing Markets. Environmental Regulation.
AB   This study exploits the quasi-random assignment of air pollution changes across counties induced by federally mandated air pollution regulations to identify the impact of particulate matter on property values. Two striking empirical regularities emerge from the analysis. First, particulate matter declined substantially more in regulated than in unregulated counties during the 1970s and 1980s. At the same time, housing prices rose more in regulated counties. This approach identifies two causal effects: 1) the impact of regulation on air quality improvements, and 2) the impact of regulation on economic gains for homeowners. In addition, the results highlight the importance of choosing regulatory instruments that are orthogonal to unobserved housing price shocks that vary by county over long time horizons. It appears that using regulation-induced changes in particulate matter leads to more reliable estimates of the capitalization of air quality into property values. Whereas the conventional cross-sectional and "fixed effects" estimates are unstable and indeterminate across specifications, the instrumental variables estimates are much larger, insensitive to specification of the model, and appear to purge the biases in the conventional estimates.

Chen, Yongmin

PD   September 1997. TI   Learning Buyers' Valuation Distribution in Posted-Price Selling. AU   Chen, Yongmin; Wang, Ruqu. AA   Chen: University of Colorado at Boulder. Wang: Queen's University. SR   Queen's Institute for Economic Research Discussion Paper: 953; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG   13. PR $3.21 Canada; $3.50 U.S. and Foreign. JE   C61, D42, D82, D83. KW   Price Determination. Posted-Price Selling. Learning.
AB   A dynamic pricing model is studied where a seller of an asset faces a sequence of potential buyers whose valuation distribution is unknown to the seller. The seller learns more

about the distribution in the selling process and becomes less optimistic as time passes by. We characterize the optimal posted prices, which incorporate the newly updated belief every period and derive conditions under which these prices are declining over time. A counter-example is provided to demonstrate that there can be situations where the optimal prices actually increase over time.

Chinn, Menzie D.

PD   August 1998. TI   On the Won and Other East Asian Currencies. AA   University of California, Santa Cruz and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6671; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   F31, F41, F47. KW   East-Asia. Exchange Rates. Balassa-Samuelson effect.
AB   Five East Asian currencies -- the Indonesian rupiah, Korean won, Singapore dollar, Taiwanese dollar, and the Thai baht -- are modeled in the framework of a monetary specification augmented by the relative price of nontradables. This relative price variable proxies for the Balassa-Samuelson effect in East Asian real exchange rates identified in Chinn (1997b). All of the currencies fit the long run implications of various types of monetary models, according to Johansen (1988) multivariate cointegration tests. Exchange rates do the bulk of adjustment toward equilibrium, except in the cases of the Thai baht and the New Taiwan dollar. For these currencies, interest rates and money supplies move to restore equilibrium. In ex post simulations, the out- of-sample fit of the estimated models is relatively good for the won, Singapore and New Taiwan dollars, and for the baht, although in no case is the exact magnitude and timing of the currency crashes predicted. The estimated model completely fails to track the rupiah out-of-sample.

TI   Long-Horizon Uncovered Interest Rate Parity. AU   Meredith, Guy; Chinn, Menzie D.

Chipty, Tasneem

TI   Unintended Consequences? Welfare Reform and the Working Poor. AU   Witte, Ann Dryden; Queralt, Magaly; Chipty, Tasneem; Griesinger, Harriet.

TI   Unintended Consequences? Welfare Reform and the Working Poor. AU   Witte, Ann Dryden; Queralt, Magaly; Chipty, Tasneem; Griesinger, Harriet.

Cho, Young-Hye

PD   February 1999. TI   Modeling the Impacts of Market Activity on Bid-Ask Spreads in the Option Market. AU   Cho, Young-Hye; Engle, Robert F. AA   University of California, San Diego. SR   University of California, San Diego, Department of Economics Working Paper: 99/05; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG   26. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE   G13, G14. KW   Derivative Hedge. Market Microstructure. Bid-Ask Spreads. Options. Asymmetric Information.
AB   This paper examines the impact of market activity on the percentage bid-ask spreads of S&P 100 index options using transaction data. The authors propose a new market

microstructure theory called a derivative hedge theory, in which option market percentage spreads will be inversely related to the option market maker's ability to hedge his positions in the underlying market, as measured by the liquidity of this underlying market. In a perfect hedge world, spreads arise from the illiquidity of the underlying market, rather than from inventory risk or informed trading in the option market itself. The authors estimate three models to investigate various market microstructure theories. The authors find option market volume is not a significant determinant of option market spreads, which challenges the validity of volume as a proxy for liquidity and supports the authors' theory. Option market spreads are positively related to spreads in the underlying market, again supporting the authors' theory. However, option market duration does affect option market spreads. The authors interpret these mixed results to mean that the option market maker is able to only imperfectly hedge his positions in the underlying securities market.

Choe, Hyuk

PD   July 1998. TI   Do Foreign Investors Destabilize Stock Markets? The Korean Experience in 1997. AU   Choe, Hyuk; Kho, Bong-Chan; Stulz, Rene M. AA   Choe and Kho: Seoul National University. Stulz: Ohio State University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6661; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   F21, G11, G15. KW   Foreign Investment. Stock Market.
AB   This paper examines the impact of foreign investors on stock returns in Korea from November 30, 1996, to the end of 1997 using trade data. We find strong evidence of positive feedback trading and herding by foreign investors before the period of Korea's economic crisis during the last three months of 1997. The evidence of herding becomes weaker during the crisis period and positive feedback trading by foreign investors disappears. We find no evidence that trades by foreign investors had a destabilizing effect on Korea's stock market over our sample period. In particular, the market adjusted quickly and efficiently to large sales by foreign investors and these sales were not followed by negative abnormal returns amplifying their impact.

Christoffersen, Peter F.

PD   December 1998. TI   How Relevant is Volatility Forecasting for Financial Risk Management? AU   Christoffersen, Peter F.; Diebold, Francis X. AA   Christoffersen: McGill University. Diebold: University of Pennsylvania and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6844; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   17. PR $5.00. JE   C53, G11, G12, G13. KW   Risk Management. Volatility Forecasting. Forecastability. Portfolio Choice.
AB   It depends. If volatility fluctuates in a forecastable way, then volatility forecasts are useful for risk management; hence the interest in volatility forecastability in the risk management literature. Volatility forecastability, however, varies with horizon, and different horizons are relevant in different applications. Moreover, existing assessments of forecastability are plagued by the fact that they are joint assessments of

volatility forecastability and an assumed model, and the results vary not only with the horizon, but also with the assumed model. To address this problem, we develop a model-free procedure for assessing volatility forecastability across horizons. Perhaps surprisingly, we find that volatility forecastability decays quickly with horizon. Volatility forecastability, although clearly of relevance for risk management at the short horizons relevant for, say, trading desk management, may not be important for risk management more generally.

Clausing, Kimberly A.

PD August 1998. **TI** The Impact of Transfer Pricing on Intrafirm Trade. **AA** Reed College. **SR** National Bureau of Economic Research Working Paper: 6688; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 19. **PR** $5.00. **JE** F23, H25. **KW** Multinationals. Transfer Pricing. Tax Minimization. Intrafirm Trade.

AB Using data on the operations of U.S. parent firms and their foreign affiliates between 1982 and 1994, this paper examines the extent to which tax minimizing behavior influences intrafirm trade. The results indicate that taxes have a substantial influence on intrafirm trade flows between U.S. parent firms and their affiliates abroad; the United States has less favorable intrafirm trade balances with low tax countries. This result is anticipated if U.S. sales to affiliates in low tax countries are underpriced and U.S. purchases from affiliates in high tax countries are overpriced. Taxes are also shown to have an influence on intrafirm trade flows between different foreign affiliates of U.S. firms.

Clotfelter, Charles T.

PD November 1998. **TI** Public School Segregation in Metropolitan Areas. **AA** Duke University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6779; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 22. **PR** $5.00. **JE** I21, I28, J15, R20. **KW** Public Schools. Education. Segregation. Metropolitan Areas. Race.

AB This paper presents measures of segregation in public schools for metropolitan areas. It shows that, not only are metropolitan areas very segregated, most of that segregation is due to racial disparities between districts rather than segregative patterns within districts. Metropolitan areas in the South and West tend to have larger districts, and thus feature less fragmentation by school district. Segregation at the metropolitan level appears to vary systematically with size, racial mix, and region. Because larger metropolitan areas tend to have more jurisdictions and exhibit greater differences in racial composition among jurisdictions, measured segregation rises with size, as measured by school enrollment.

Coate, Stephen

TI Lobbying and Welfare in a Representative Democracy. **AU** Besley, Timothy J.; Coate, Stephen.

TI Analyzing the Case for Government Intervention in a Representative Democracy. **AU** Besley, Timothy J.; Coate, Stephen.

Cochrane, John H.

PD July 1998. **TI** A Frictionless View of U.S. Inflation. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6646; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E31, E42, E52, E63, H63. **KW** Financial Innovation. Inflation. Price Level. Fiscal Theory. Debt.

AB Financial innovation challenges the foundations of monetary theory, and standard monetary theory has not been very successful at describing the history of U.S. inflation. Motivated by these observations, the author asks: Can we understand the history of U.S. inflation using a framework that ignores monetary frictions? The fiscal theory of the price level allows us to think about price level determination with no monetary frictions. The price level adjusts to equilibrate the real value of nominal government debt with the present value of surpluses. The author describes the theory and argues that it is a return to pre-quantity theoretic ideas in which money is valued via a commodity standard or because the government accepts it to pay taxes. Both sources of value are immune to financial innovation and the presence or absence of monetary frictions. The author then interprets the history of U.S. inflation with a fiscal-theory, frictionless view.

PD October 1998. **TI** Long-Term Debt and Optimal Policy in the Fiscal Theory of the Price Level. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6771; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E31, E40, E50, H63. **KW** Fiscal Theory. Debt. Surplus. Inflation. Price Level.

AB The fiscal theory says that the price level is determined by the ratio of nominal debt to the present value of real primary surpluses. I analyze long-term debt and optimal policy in the fiscal theory. I find that the maturity structure of the debt matters. For example, it determines whether news of future deficits implies current inflation or future inflation. When long-term debt is present, the government can trade current inflation for future inflation by debt operations; this tradeoff is not present if the government rolls over short-term debt. I solve for optimal debt policies to minimize the variance of inflation. I find cases in which long-term debt helps to stabilize inflation, and I find that the optimal inflation-stabilizing policy produces time series that are surprisingly similar to U.S. surplus and debt time series.

Collier, Paul

PD April 1998. **TI** The Political Economy of Ethnicity. **AA** Centre for the Study of African Economies. **SR** Centre for the Study of African Economies Working Paper: 98/08; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. **PG** 14. **PR** 3 pounds or $5.00. **JE** D74, J10, O19, O40, P51. **KW** Ethnic Diversity. Growth. Political Rights. Conflict. Civil War.

AB The paper investigates the effects of ethnic diversity on economic performance and the risk of violent conflict. Diversity has various detrimental microeconomic effects, tending to reduce public sector performance, increase patronage, and lower the level of trust among individuals.

However, whether diversity adversely affects overall economic growth depends upon the political environment. Diversity is highly damaging to growth in the context of limited political rights, but is not damaging in democracies. There is a relationship between ethnic diversity and the risk of violent conflict, but it is non- monotonic. Those societies most at risk are the ones in the middle of the range of ethnic diversity. Highly diverse societies, such as are typical of Africa, are actually even safer than homogenous societies. Both income levels and political rights are also important influences on the risk of violent conflict, and of its escalation into full civil war. Once a society has reached full scale civil war the balance of influences appears to change. The persistence of conflict, and the sustainability of a settlement, are more dependent upon ethnic composition and less dependent upon income and political rights, than are the initiation and escalation of violence.

TI   Rates of Return on Physical and Human Capital in Africa's Manufacturing Sector. AU   Bigsten, Arne; Collier, Paul; Dercon, Stefan; Fafchamps, Marcel; Gauthier, Bernard; Gunning, Jan Willem; Isaksson, Anders; Oduro, Abena; Zeufact, Albert; Teal, Francis; Soderbom, Mans; Pattillo, Cathy; Oostendorp, Remco.

Colombo, Emilio
PD   February 1999. TI   The Capital Structure of Hungarian Firms. AA   University of Southampton and State University of Milan, Bicocca. SR   University of Southampton, Discussion Paper in Economics and Econometrics: 9903; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 32. PR   annual subscription 40 pounds ($80); individual copies on application. JE   C21, C23, P52. KW   Transitional Economies. Hungary. Capital Structure. Panel Data.
AB   In this paper we investigate the capital structure of Hungarian firms using a cross-section and a panel data approach. The data set consists of balance sheet data and information on market structure for 1100 firms from 1992 to 1996. We find evidence of forms of financial market imperfections, but also that banks are positively and actively involved in resolving the informational problems that are afflicting the credit market.

Constantinides, George M.
PD   June 1998. TI   Junior Can't Borrow: A New Perspective on the Equity Premium Puzzle. AU   Constantinides, George M.; Donaldson, John B.; Mehra, Rajnish. AA   Constantinides: University of Chicago and National Bureau of Economic Research. Donaldson: Columbia University. Mehra: University of California, Santa Barbara. SR   National Bureau of Economic Research Working Paper: 6617; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   D91, E21, G11, G12. KW   Asset Pricing. Bonds. Portfolio Choice. Saving. Overlapping Generations.
AB   Ongoing questions on the historical mean and standard deviation of the return on equities and bonds and on the equilibrium demand for these securities are addressed in the context of a stationary, overlapping- generations economy in which consumers are subject to a borrowing constraint. The key feature captured by the OLG economy is that the bulk of the future income of the young agents is derived from their wages forthcoming in their middle age, while the bulk of the future income of the middle-aged agents is derived from their savings in equity and bonds. The young would like to borrow and invest in equity, but the borrowing constraint prevents them from doing so. The middle-aged choose to hold a diversified portfolio that includes positive holdings of bonds. Without the borrowing constraint, the young borrow and invest in equity, thereby decreasing the mean equity premium and increasing the rate of interest.

Cooper, Russell
PD   November 1998. TI   Establishing a Monetary Union. AU   Cooper, Russell; Kempf, Hubert. AA   Cooper: Boston University. Kempf: Universite Paris. SR   National Bureau of Economic Research Working Paper: 6791; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   27. PR $5.00. JE   F31, F33, F42. KW   Monetary Union. Central Banks. Price Stability. Policy Coordination. Inflation.
AB   This paper explores the gains to monetary union. We consider a two- country overlapping generations model. Agents work when young and have random tastes over the composition (domestic vs. foreign goods) of old age consumption. In equilibrium, governments require that local currency be used for transactions as a means of creating a base for seigniorage. Thus agents hold multiple currencies to deal with uncertainty in their optimal consumption bundles. We argue that this equilibrium is Pareto dominated by a monetary union, in which there is a single currency and a strong bank that optimally chooses zero inflation. As suggested by the European Commission's 1990 report, monetary union reduces the inefficiencies created by multiple currencies and leads to price stability. Finally, we argue that this Pareto superior outcome cannot be achieved without cooperation of the two governments.

Copeland, Brian R.
TI   Is Free Trade Good for the Environment? AU   Antweiler, Werner; Copeland, Brian R.; Taylor, M. Scott.

Corsetti, Giancarlo
PD   November 1998. TI   Paper Tigers? A Model of the Asian Crisis. AU   Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel. AA   Corsetti: Yale University. Pesenti: Federal Reserve Bank of New York and National Bureau of Economic Research. Roubini: Council of Economic Advisors and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6783; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   30. PR $5.00. JE   F31, F32, F34, G15, G18. KW   Currency Crises. Financial Crises. International Lending. Foreign Exchange. Moral Hazard.
AB   This paper develops an interpretation of the Asian meltdown focused on moral hazard as the common source of overinvestment, excessive external borrowing, and current account deficits. To the extent that foreign creditors are willing to lend to domestic agents against future bail-out revenue from the government, unprofitable projects and cash shortfalls are re-financed through external borrowing. While public deficits need not be high before a crisis, the eventual refusal of foreign creditors to refinance the country's cumulative losses forces the

government to step in and guarantee the outstanding stock of external liabilities. To satisfy solvency, the government must then undertake appropriate domestic fiscal reforms, possibly involving recourse to seigniorage revenues. Expectations of inflationary financing thus cause a collapse of the currency and anticipate the event of a financial crisis. The empirical section of the paper presents evidence in support of the thesis that weak cyclical performances, low foreign exchange reserves, and financial deficiencies resulting into high shares of non-performing loans were at the core of the Asian collapse.

PD December 1998. **TI** What Caused the Asian Currency and Financial Crisis? Part I: A Macroeconomic Overview. **AU** Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel. **AA** Corsetti: Yale University. Pesenti: Federal Reserve Bank of New York and National Bureau of Economic Research. Roubini: New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6833; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F31, F34, F36, G15, G18. **KW** Financial Crises. Currency Crises. Current Account. Banking. Capital Flows.
AB The paper explores the view that the Asian currency and financial crises in 1997 and 1998 reflected structural and policy distortions in the countries of the region, even if market overreaction and herding caused the plunge of exchange rates, asset prices, and economic activity to be more severe than warranted by the initial weak economic conditions. The first part of the paper provides an overview of economic fundamentals in Asia on the eve of the crisis, with emphasis on current account imbalances, quantity and quality of financial "overlending," banking problems, and composition, maturity and size of capital inflows.

PD December 1998. **TI** What Caused the Asian Currency and Financial Crisis? Part II: The Policy Debate. **AU** Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel. **AA** Corsetti: Yale University. Pesenti: Federal Reserve Bank of New York and National Bureau of Economic Research. Roubini: New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6834; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F31, F33, F34, F36, G18. **KW** Financial Crises. Currency Crises. Capital Controls. International Intervention. Current Account.
AB The paper explores the view that the Asian currency and financial crisis in 1997 and 1998 reflected structural and policy distortions in the countries of the region, even if market overreaction and herding caused the plunge of exchange rates, asset prices, and economic activity to be more severe than warranted by the initial weak economic conditions. The second part of the paper presents a reconstruction of the Asian meltdown -- from the antecedents in 1995-96 to the recent developments in the summer of 1998 -- in parallel with a survey of the debate on the strategies to recover from the crisis, the role of international intervention, and the costs and benefits of capital controls.

Costa, Dora L.
PD December 1998. **TI** Hours of Work and the Fair Labor Standards Act: A Study of Retail and Wholesale Trade,

1938-1950. **AA** Massachusetts Institute of Technology and National Bureau of Economic · Research. **SR** National Bureau of Economic Research Working Paper: 6855; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J23, J31, J33, J38, N32. **KW** Labor Demand. Labor Supply. Wages. Overtime. Employment.
AB I examine the impact of the overtime provisions of the Fair Labor Standards on weekly hours worked between 1938 and 1950 by comparing workers in wholesale trade, a sector which was covered by the Act, with those in retail trade, a sector which was not. I find that the Act reduced hours worked, with a 5 percent reduction in the length of the standard work week reducing by at least 18 percent the proportion of men and women working more than 40 hours per week. I find that employers responded to the overtime provisions of the Act by adjusting straight-time wages, but that this adjustment did not completely offset the overtime provisions. Employers in the south were less able to adjust straight-time wages because the minimum wage provisions of the Act raised wages much more in the south than in the north. The fall in southern hours was therefore greater. Reductions in hours did not translate into increased employment. Although the overtime provisions of the Act may have increased employment in wholesale trade, the minimum wage provisions of the Act probably reduced it.

PD December 1998. **TI** Understanding the Twentieth Century Decline in Chronic Conditions Among Older Men. **AA** Massachusetts Institute of Technology. **SR** National Bureau of Economic Research Working Paper: 6859; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** I12, J14, J28. **KW** Chronic Conditions. Health Production. Occupation. Disability.
AB The author uses a sample of Union Army veterans to trace the impact of a high infant mortality rate in area of enlistment, such infectious disease as acute respiratory infections, measles, typhoid fever, tuberculosis, rheumatic fever, diarrhea, and malaria while in the army, occupation at enlistment, and occupation at older ages on chronic respiratory problems, various heart conditions, and joint and back problems at older ages. The author finds that between 1900 and the present the prevalence of respiratory conditions at older ages fell by 70 percent, that of arrhythmias, murmurs, and valvular heart disease by 90 percent, arteriosclerosis by 60 percent, and joint and back problems by 30 percent. Occupational shifts accounted for 15 percent of the decline in joint problems, over 75 percent of the decline in back problems, and 25 percent of the decline in respiratory difficulties. Reduced exposure to infectious disease accounted for at least 10 to 25 percent of the decline in chronic conditions. The author also finds that the duration of chronic conditions has remained unchanged since the early 1900s but that if disability is measured by difficulty in walking, men with chronic conditions are now less disabled.

Cowell, Frank A.
PD October 1998. **TI** Inheritance and the Distribution of Wealth. **AA** London School of Economics. **SR** STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 34; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 30. **PR** no

charge. JE   D31, D63, J10. KW Inheritance. Wealth. Pareto Distribution. Functional Equations.

AB   The theory of functional equations is used to clarify the relationship between equilibrium distributions of wealth and population parameters such as the distribution of families by size, marriage patterns, tax mechanisms and savings behavior within a simple model of inheritance.

PD   October 1998. TI   Statistical Inference for Lorenz Curves with Censored Data. AU   Cowell, Frank A.; Victoria-Feser, Maria-Pia. AA London School of Economics. SR   STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 35; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   22. PR   no charge. JE   C13, D31, D63. KW Lorenz Curves. Sampling Errors. Income Distribution. Wealth.

AB   Lorenz curves and associated tools for ranking income distributions are commonly estimated on the assumption that full, unbiased samples are available. However, it is common to find income and wealth distributions that are routinely censored or trimmed. We derive the sampling distribution for a key family of statistics in the case where data have been modified in this fashion.

PD   November 1998. TI   Measuring Income Mobility with Dirty Data. AU Cowell, Frank A.; Schluter, Christian. AA Cowell: London School of Economics. Schluter: University of Bristol and London School of Economics. SR   STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/16; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   26. PR   no charge. JE   C13, C52, D31, D63. KW Mobility Measures. Robustness. Data Contamination. Income Distribution.

AB   We examine the performance of measures of mobility when allowance is made for the possibility of data contamination. We find that "single- stage" indices -- those that are applied directly to a sample from a multivariate income distribution -- usually prove to be non-robust in the face of contamination. However, "two-stage" models of mobility -- where the distribution is first "discredited" into income intervals and then a transition matrix or other tools is applied -- may be robust if the first stage is appropriately specified.

PD   January 1999. TI   Measurement of Inequality. AA   London School of Economics. SR   STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 36; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   95. PR   no charge. JE   C13, D63. KW Inequality. Social Welfare. Income Distribution.

AB   The analysis of inequality is placed in the context of recent developments in economics and statistics.

PD   January 1999. TI   Income Mobility -- A Robust. AA   London School of Economics. SR   STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 37; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   31. PR   no charge. JE   C13, C52, D31, D63. KW Mobility Measures. Robustness. Data Contamination. Income Distribution.

AB   The performance of two broad classes of mobility indices is examined when allowance is made for the possibility of data contamination. Single-stage indices -- those that are applied directly to a sample from a multivariate income distribution -- usually prove to be non-robust in the face of contamination. For example we find that all stability indices are unstable. Two-stage models of mobility -- where the distribution is first discretized and then a translation matrix or other tool is applied -- may be robust if the first stage is appropriately specified.

Crepon, Bruno
PD   August 1998. TI   Research, Innovation, and Productivity: An Econometric Analysis at the Firm Level. AU Crepon, Bruno; Duguet, Emmanuel; Mairesse, Jacques. AA Crepon: INSEE-DMSE. Duguet: University of Paris. Mairesse: CREST- INSEE and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6696; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   16. PR $5.00. JE   C31, L60, O31, O33. KW Productivity. Innovation. Research and Development.

AB   This paper studies the links between productivity, innovation and research at the firm level. We introduce three new features: (i) A structural model that explains productivity by innovation output, and innovation output by research investment; (ii) New data on French manufacturing firms; (iii) Econometric methods which correct for selectivity and simultaneity biases and take into account the statistical features of the data We find that the more usual data, model specification and methods may lead to sensibly different estimates. Simultaneity tends to interact with selectivity and both sources of bias must be taken into account together. Our main results are consistent with many of the stylized facts of the empirical literature. The probability of engaging in research (R&D) for a firm increases with its size, demand-pull and technology push indicators. The research effort of a firm increases with the same variables, except for size. The firm innovation output rises with its research effort and with the demand-pull and technology indicators. Finally, firm productivity correlates · positively with higher innovation output, even when controlling for the skill composition of labor as well as for physical capital intensity.

Crucini, Mario J.
TI   Oil Prices and the Terms of Trade. AU   Backus, David K.; Crucini, Mario J.

Cuff, Katherine
PD   February 1998. TI   Optimality of Workfare with Heterogeneous   Preferences.   AA   Queen's   University. SR   Queen's Institute for Economic Research Discussion Paper: 968; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG   25. PR $3.21 Canada; $3.50 U.S. and Foreign. JE   H21, H23. KW Workfare. Nonlinear Income Taxation.

AB   Using the standard nonlinear income taxation framework with heterogeneity of preferences, this paper examines the optimality of workfare as a screening tool. It is assumed that workfare does not serve as a human capital investment, participation is mandatory, and administrative costs are negligible. Imposing alternative cardinalizations on individuals

utilities, allows for the possibility that the government optimally redistributes income to or from high disutility of labor individuals. Under either case, workfare is never optimal to impose on these individuals. It is also shown that non-productive workfare can be an efficient policy tool, in contrast to the results found in Besley and Coate (1995), Brett (1997), and Beaudry and Blackorby (1997).

Cummins, J. David
TI   Conglomeration Versus Strategic Focus: Evidence from the Insurance Industry. AU   Berger, Allen N.; Cummins, J. David; Weiss, Mary A.; Zi, Hongmin.

Currie, Janet
PD   December 1998. TI   Distance to Hospital and Children's Access to Care: Is Being Closer Better, and for Whom? AU   Currie, Janet; Reagan, Patricia. AA   Currie: University of California, Los Angeles and National Bureau of Economic Research. Reagan: Ohio State University. SR   National Bureau of Economic Research Working Paper: 6836; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   H40, I11, I12, I31, J13. KW   Health Care. Preventative Care. Children.
AB   Distance to hospital may affect the utilization of primary preventative care if children rely on hospitals for sure routine care. We explore this question using matched data from the National Longitudinal Survey of Youth's Child-Mother file and the American Hospital Association's 1990 Hospital Survey. Our measure of preventative care is whether or not a child has received a regular checkup in the past year. We find that distance to hospital has significant effects on the utilization of preventative care among central-city black children. For these children, each additional mile from the hospital is associated with a 3 percent decline in the probability of having had a checkup (from a mean baseline of 74 percent). This effect can be compared to the 3 percent increase in the probability of having a checkup which is associated with having private health insurance coverage. The size of this effect is similar for both the privately insured and those with Medicaid coverage, suggesting that even black urban children with private health insurance may have difficulty obtaining access to preventative care. In contrast, we find little evidence of a negative distance effect among white or Hispanic central-city children, suburban children, or rural children.

Cutler, David M.
PD   August 1998. TI   Converting Hospitals from Not-For Profit to For-Profit Status: Why and What Effects? AU   Cutler, David M.; Horwitz, Jill R. AA   Cutler: Harvard University and National Bureau of Economic Research. Horwitz: Harvard Medical School. SR   National Bureau of Economic Research Working Paper: 6672; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   30. PR $5.00. JE   D23, D49, D61, D63. KW   Health Care. Incentives. Not-for-profit. Hospital Market.
AB   Over the past twenty-five years, about 330 (7 percent) of the country's 5,000 not-for-profit hospitals have converted to for-profit form, including a dramatic number in the past few years. This paper explores the causes and effects of conversions through two case studies, Wesley Medical Center in Wichita,

Kansas and the Columbia/HealthOne system in Denver, Colorado. We identify two primary explanations of why hospitals convert: financial concerns and board culture-perceived mission. Financial concerns are multifaceted and include expectations about future profits, anticipated problems servicing debt, and pessimism regarding the future of government reimbursement policies. The effects of these conversions are mixed. There are some efficiencies associated with conversions such as cost-cutting, increased access to capital, and debt-burden relief. However, profits are often derived from increasing reimbursement from the public sector. Further, conversions are likely to cause fragmentation of the hospital market between rich and poor. The results show that not-for-profit hospitals are likely to copy the undesirable behavior of for-profit hospitals in their markets.

PD   August 1998. TI   Price and Productivity in Managed Care Insurance. AU   Cutler, David M.; McClellan, Mark; Newhouse, Joseph P. AA   Cutler and Newhouse: Harvard University and National Bureau of Economic Research. McClellan: Office of Economic Policy, Department of Treasury and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6677; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   I11, I12, I18. KW   Health Insurance. Health Care. Productivity.
AB   Integrating the health services and insurance industries (HMO's) could lower expenditure by reducing either the quantity of services or unit price. We compare the treatment of heart attacks and newly diagnosed chest pain in HMO's and traditional plans in two data sets. The nature of these health problems should minimize selection bias, and OLS and instrumental-variable estimates yield consistent results. HMOs have 30 to 40 percent lower expenditures than traditional indemnity plans. Actual treatments and health outcomes differ little; virtually all the difference in spending comes from lower unit prices. Managed care may yield substantial productivity improvements relative to traditional insurance.

TI   Price Indexes for Medical Care Goods and Services: An Overview of Measurement Issues. AU   Berndt, Ernst R.; Cutler, David M.; Frank, Richard G.; Griliches, Zvi; Newhouse, Joseph P.; Triplett, Jack E.

Daniels, Peter
TI   Evaluating the Impact of Business Service Expertise and Business Links on the Performance of SMEs in England. AU   Bryson, John; Ingram, David; Daniels, Peter.

Darnall, Nicole
TI   Environmental Priorities for the District of Columbia: A Report to the Summit Fund. AU   Davies, Terry; Darnall, Nicole.

Das, Ashish
TI   Testing for Market Microstructure Effects in Intraday Volatility: A Reassessment of the Tokyo FX Experiment. AU   Anderson, Torben G.; Bollerslev, Tim; Das, Ashish.

Das, Sanjiv Ranjan
PD   June 1998. TI   Poisson-Gaussian Processes and the Bond Markets. AA   Das: Harvard University and National Bureau of Economic Research. SR   National Bureau of

Economic Research Working Paper: 6631; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE C20, C51, E43, G12. KW Interest Rates. Jump Processes. Diffusion Models. Bonds. Federal Reserve.
AB   That interest rates move in a discontinuous manner is no surprise to participants in the bond markets. This paper proposes and estimates a class of Poisson-Gaussian processes that allows for jumps in interest rates. Estimation is undertaken using exact continuous-time and discrete-time estimators. Analytical derivations of the characteristic functions, moments and density functions of jump-diffusion stochastic processes are developed and employed in empirical estimation. These derivations are general enough to accommodate any jump distribution. We find jump processes capture empirical features of the data which would not be captured by diffusion models. The models in the paper enable an assessment of the impact of Fed activity and day-of-week effects on the stochastic process for interest rates. There is strong evidence that existing diffusion models would be well-enhanced by jump processes.

PD   July 1998. TI   A Direct Approach to Arbitrage-Free Pricing of Credit Derivatives. AU   Das, Sanjiv Ranjan; Sundaram, Rangarajan K. AA   Das: Harvard University and National Bureau of Economic Research. Sundaram: New York University. SR   National Bureau of Economic Research Working Paper: 6635; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE G12, G13. KW Credit Derivatives. Options. Financial Markets. Futures Pricing.
AB   This paper develops a model for the pricing of credit derivatives using observables. The model (i) is arbitrage-free (ii) accommodates path-dependence, and (iii) handles a range of securities, even with American features. The computer implementation uses a recursive scheme that is convenient and seamlessly processes forward induction and backward recursion, needed to compute more complicated derivative securities.

PD   July 1998. TI   On the Regulation of Fee Structures in Mutual Funds. AU   Das, Sanjiv Ranjan; Sundaram, Rangarajan K. AA   Das: Harvard University and National Bureau of Economic Research. Sundaram: New York University. SR   National Bureau of Economic Research Working Paper: 6639; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 43. PR $5.00. JE G11, G23, G24, G28. KW Mutual Funds. Fund Managers. Regulation. Incentive Fees. Fee Structures.
AB   This paper offers an alternative framework for the analysis of mutual funds and uses it to examine the rationale behind existing regulations that require mutual fund advisor fees to be of the "fulcrum" variety. The authors find little justification for the regulations. Indeed, they find that asymmetric "incentive fees" in which the advisor receives a flat fee plus a bonus for exceeding a benchmark index provide Pareto- dominant outcomes with a lower level of equilibrium volatility. Their model also offers some insight into fee structures actually in use in the asset-management industry. The authors find that when leveraging is not permitted and the fee structure must be of the fulcrum variety, the equilibrium fee in their model is a flat fee with no performance component; if asymmetric incentive fees are allowed and leveraging is permitted, the equilibrium fee is an incentive fee with a large performance component.

PD   July 1998. TI   Fee Speech: Adverse Selection and the Regulation of Mutual Fund Fees. AU   Das, Sanjiv Ranjan; Sundaram, Rangarajan K. AA   Das: Harvard University and National Bureau of Economic Research. Sundaram: New York University. SR   National Bureau of Economic Research Working Paper: 6644; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D82, G11, G23, G24, G28. KW Mutual Funds. Fee Structures. Regulation. Incentive Fees. Contracts.
AB   The Investment Advisors Act of 1940 (as amended in 1970) prohibits mutual funds in the U.S. from offering their advisers asymmetric "incentive fee" contracts in which the advisers are rewarded for superior performance vis-a-vis a chosen index but are not correspondingly penalized for underperforming it. The rationale offered in defense of the regulation by both the SEC and Congress is that incentive fee structures of this sort encourage "excessive" risk-taking by advisers. This paper uses an adverse selection model with multiple risky securities to study this issue. We find that incentive funds do, as alleged, lead to more (and suboptimal) risk-taking than do symmetric "fulcrum fees." Nevertheless, from the more important welfare angle, we find that investors may be strictly better off under asymmetric incentive fee structures. Thus, there appears to be little justification for this legislation.

David, Alexander
PD   September 1999. TI   Option Prices with Uncertain Fundamentals Theory and Evidence on the Dynamics of Implied Volatilities. AU   David, Alexander; Veronesi, Pietro. AA   Board of Governors of the Federal Reserve System and University of Chicago. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/47; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 67. PR no charge. JE G12, G13. KW Uncertainty. Changing Return-Volatility Correlation. Belief Risk. Put-Call Ratio. Butterfly Spread. Hedging Violations.
AB   In an incomplete information model, investors' uncertainty about the underlying drift rate of a firm's fundamentals affects option prices through (i) endogenous and belief-dependent stochastic volatility, (ii) stochastic covariance between returns and volatility, and (iii) a market price of "belief risk." For the special case where the drift takes only two values we provide an option pricing formula using Fourier Transforms. The model calibrated to 1960-1998 S&P 500 real earnings growth shows that investors' uncertainty explains intertemporal variation in the slope and curvature of implied volatility curves as well as the conditional moments of the state- return density obtained from option data. The calibrated model generates hedging 'violations' of one-factor markov and deterministic volatility function models with roughly empirical frequencies.

David, Paul A.
PD   November 1997. TI   Path Dependence and the Quest for Historical Economics: One More Chorus of the Ballad of QWERTY. AA   Oxford University and Stanford University. SR   University of Oxford, Discussion Paper in Economic and Social History: 20; c/o Dr. Avner Offer, Nuffield College,

Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 48. PR no charge. JE B41, C19, D59, D61, O38. KW Path Dependence. Non-Ergodicity. Polya Urn Process. Reversible Spin Systems. Sunk Cost Hysteresis.
AB The term path dependence (PD) here refers to a dynamic property of allocative processes, pertaining to non-ergodic stochastic systems -- those whose asymptotic distributions evolve as a function of the history of the process itself.

PD September 1999. TI General Purpose Technologies and Surges in Productivity: Historical Reflections on the Future of the ICT Revolution. AU David, Paul A.; Wright, Gavin. AA David: Oxford University. Wright: Stanford University. SR University of Oxford, Discussion Paper in Economic and Social History: 31; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 24. PR no charge. JE L60, N12, O33, O40, O51. KW Productivity. Manufacturing. Electrification. Technological Change. Economic History.
AB The phenomenon of recurring prolonged swings in the total factor productivity (TFP) growth rate is approached in this paper by examining a particular episode in early twentieth century economic history. A marked acceleration of productivity growth in U.S. manufacturing occurred after World War I, and was the main driver of the absolute and relative rise of the private domestic economy's TFP residual. This discontinuity reflected the elaboration and adoption of a new factory regime based upon the electric dynamo, a general purpose technology (GPT) that brought significant fixed-capital savings while simultaneously raising labor productivity in a wide array of manufacturing operations. But, rather than offering a purely technological explanation of the productivity surge of the 1920s, a more complex conceptualization of the dynamics of GPT diffusion is proposed. This highlights both the generic and the differentiating aspects of U.S. industrial electrification in comparison with that of the contemporary UK. Explicit historical contextualization of the GPT concept sheds further light on the puzzling late twentieth century productivity slowdown.

Davidovitz, Leima
TI Choices in Egalitarian Distribution: Inequality Aversion versus Risk Aversion. AU Kroll, Yoram; Davidovitz, Leima.

Davidson, Russell
PD September 1997. TI Bootstrap Tests: How Many Bootstraps? AU Davidson, Russell; MacKinnon, James G. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 951; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 8. PR $3.21 Canada; $3.50 U.S. and Foreign. JE C12, C15. KW Bootstrap Testing. Bootstrap Samples.
AB This paper discusses how to choose the number of bootstrap samples when performing bootstrap tests. There are two important issues that arise when the number of bootstraps is finite. One is bias in the estimation of bootstrap P values or critical values, and the second is loss of power. We discuss an easy way to avoid bias and thus obtain exact tests if the underlying test statistic is pivotal. We also propose a simple pretest procedure for choosing the number of bootstrap samples so as to avoid power loss, and we illustrate its performance using sampling experiments.

PD September 1997. TI Bootstrap Tests of Nonnested Linear Regression Models. AU Davidson, Russell; MacKinnon, James G. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 954; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 17. PR $3.21 Canada; $3.50 U.S. and Foreign. JE C12, C15. KW J Test. Nonnested Hypothesis Test. Bootstrap. Regression.
AB The J test for nonnested regression models often works badly as an asymptotic test, but it generally works very well when bootstrapped. We provide a theoretical analysis of the J test which explains both of these phenomena. We also propose a modified version of the test which works even better than the ordinary J test when bootstrapped. Using our theoretical results to make simulation much faster, we obtain extremely accurate Monte Carlo results which demonstrate just how well the bootstrapped tests perform.

Davies, Terry
PD September 1996. TI Environmental Priorities for the District of Columbia: A Report to the Summit Fund. AU Davies, Terry; Darnall, Nicole. AA Resources for the Future. SR Resources for the Future Discussion Paper: 97/04; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 65. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE Q24, Q25, Q28. KW District of Columbia. Risk Assessment. Environment Problems. Environmental Policy.
AB This paper examines and ranks the District of Columbia's environmental problems. Four criteria are used to determine each problem's severity: public opinion of the problem, health effects, the number of people affected, and ecological and welfare effects. Public opinion is measured via 345 city resident and 23 stakeholder interviews. Stakeholders included environmental experts familiar with issues in the District. Health and ecological effects are captured by analyzing both the EPA's and District of Columbia's environmental data. The results show that the top four problems facing the city, in order of importance, are: drinking water, air pollution, the Anacostia River, and lead poisoning. Several recommendations for resolving the District's problems are offered and include creating a separate D.C. Environmental Agency, applying for EPA grant monies, publishing a D.C. environmental report, fostering community cooperation, and increasing education about the environment.

Davis, Donald R.
PD November 1998. TI An Account of Global Factor Trade. AU Davis, Donald R.; Weinstein, David E. AA Davis: Harvard University and National Bureau of Economic Research. Weinstein: University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6785; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F10. KW International Trade. Factor Proportions. Exports.
AB A half-century of empirical work on the factor proportions theory has identified "paradoxes" and "mysteries," but has failed to devise simple amendments that bring theory

and data into reasonable congruence. Our study considers standard and novel hypotheses regarding the failures of the Heckscher-Ohlin-Vanek formulation and is the first to examine these directly on the technology and absorption data of interest. We show how a few simple and plausible amendments, verified directly by this data, suffice for a striking confirmation of the HOV theory. Countries export the services of abundant factors and in approximately the right magnitude. HOV works.

PD November 1998. TI Market Access, Economic Geography, and Comparative Advantage: An Empirical Assessment. AU Davis, Donald R.; Weinstein, David E. AA Davis: Harvard University and National Bureau of Economic Research. Weinstein: University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6787; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 39. PR $5.00. JE D50, E10, F10, L11, R30. KW Increasing Returns. International Trade. Economic Geography. Comparative Advantage. Production.
AB The increasing returns revolution in trade is incomplete in an important respect -- there exists no compelling empirical demonstration of the role of increasing returns in determining production and trade structure. One reason is that trade patterns of the canonical increasing returns models are a consequence simply of specialization, which all theories permit. Krugman (1980) shows that increasing returns models with costs of trade -- economic geography -- do allow a simple test: home market effects of demand on production. Davis and Weinstein (1996) reject the simple Krugman (1980) model on OECD data. Here we pair the model with a richer geography structure and find evidence of the importance of increasing returns, in combination with comparative advantage, in affecting OECD manufacturing production structure. The results underscore the importance of market access in implementing models of economic geography.

de Meza, David
PD December 1998. TI The Property-Rights Theory of the Firm with Endogenous Timing of Asset Purchase. AU de Meza, David; Lockwood, Ben. AA de Meza: London School of Economics and University of Exeter. Lockwood: University of Warwick and Centre for Economic Policy Research. SR STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/364; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 36. PR no charge. JE C78, D23, D82, D83, G30. KW Property Rights. Incomplete Contracts. Matching. Asset Ownership. Firms.
AB The standard property-rights theory of the firm assumes that prior to investing in human capital, team members meet and negotiate asset ownership. This paper endogenizes the event sequence in a matching model of market equilibrium. Equilibria exist in which, for strategic and efficiency reasons, agents invest in human capital and buy assets prior to matching and simple ownership arrangements are chosen. As in the original work, ownership of physical assets affects the incentive to invest. However, in this setting ownership creates rent shifting, search and asset transfer advantages, so new results emerge. It is no longer necessarily true that key agents own. As for the form of integration, there may be multiple Pareto-rankable equilibria.

De Mooij, Ruud A.
TI Tax Reform and the Dutch Labor Market: An Applied General Equilibrium Approach. AU Bovenberg, A. Lans; Graafland, Johan J.; De Mooij, Ruud A.

Deacon, Robert T.
TI Ownership Risk, Investment, and the Use of Natural Resources. AU Bohn, Henning; Deacon, Robert T.

Deakin, Simon
PD September 1998. TI Organisational Change, Labour Flexibility and the Contract of Employment. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP105; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 33. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE J30, J41, J51, K31. KW Employment Contracts. Individualization. Flexible Working. Collective Bargaining.
AB This paper reports the findings of an empirical study of the effects upon contracts of employment of organizational change at enterprise level, including the impact of trade union derecognition. A survey of over 30 British companies reveals that the pursuit of flexibility, in the sense of escaping from rigid job and grading structures, was widely reported as a reason for withdrawal from collective bargaining. However, the "individual-ized" employment contracts which replaced collective agreements were not arrived at through individual bargaining, but upon the basis of employers standardized contract terms. The paper examines the nature of these contracts, and concludes that paradoxically, the removal of collective influence can lead to decontractualization, in the sense that many of these employment relationships bore little resemblance to a relational contract based on long-term cooperation. It is thus an open question, at this point, whether the removal of collective and public regulation from the employment relationship will bring about enhanced contractual efficiency.

TI Competitiveness Policy and Economic Organisation: The Case of the British Film Industry. AU Pratten, Stephen; Deakin, Simon.

Dehejia, Rajeev H.
PD December 1998. TI Propensity Score Matching Methods for Non-Experimental Causal Studies. AU Dehejia, Rajeev H.; Wahba, Sadek. AA Dehejia: Columbia University and National Bureau of Economic Research. Wahba: Morgan Stanley and Company. SR National Bureau of Economic Research Working Paper: 6829; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 20. PR $5.00. JE C14, C81. KW Matching Methods. Propensity Score. Causal Inference. Sample Selection Bias. Treatment Effects.
AB This paper considers causal inference and sample selection bias in non-experimental settings in which: (i) few units in the non- experimental comparison group are comparable to the treatment units, and (ii) selecting a subset of comparison units similar to the treatment units is difficult because units must be compared across a high- dimensional set of pre-treatment characteristics. We propose the use of

propensity score matching methods and implement them using data from the NSW experiment. Following Lalonde (1986), we pair the experimental treated units with non-experimental comparison units from the CPS and PSID and compare the estimates of the treatment effect obtained using our methods to the benchmark results from the experiment. We show that the methods succeed in focusing attention on the small subset of the comparison units comparable to the treated units and, hence, in alleviating the bias due to systematic differences between the treated and comparison units.

den Haan, Wouter J.

PD . January 1999. TI Contract-Theoretic Approaches to Wages and Displacement. AU den Haan, Wouter J.; Ramey, Garey; Watson, Joel. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/02; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 23. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C78, E32, J41. KW Employment Relationships. Severance. Verifiability. Contract Imperfections. Business Cycles.
AB This paper develops a theoretical framework for analyzing contracting imperfections in long-term employment relationships. We focus chiefly on limited enforceability and limited worker liquidity. Inefficient severance of employment relationships, payment of efficiency wages, the relative responses of wages and employment to business cycle shocks, and the propagation of these shocks are linked to the nature of contracting imperfections.

PD March 1999. TI Liquidity Flows and Fragility of Business Enterprises. AU den Haan, Wouter J.; Ramey, Garey; Watson, Joel. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/07; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 29. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE E32, E44, G21. KW Business Cycles. Propagation. Credit Markets. Liquidity. Financial Intermediation.
AB This paper considers the efficiency of financial intermediation and the propagation of business cycle shocks in a model of long-term relationships between entrepreneurs and lenders, where lenders may be constrained in their short-run access to liquidity. When liquidity is low, relationships are subject to breakups that lead to loss of joint surplus. Liquidity outflows cause damage to financial structure by breaking up relationships, and damage persists due to frictions in the formation of new relationships. Feedbacks between aggregate investment and the structure of intermediation greatly magnify the effects of shocks. For large shocks, financial collapse may become inescapable in the absence of external intervention.

PD June 1999. TI Job Destruction and the Experiences of Displaced Workers. AU den Haan, Wouter J.; Ramey, Garey; Watson, Joel. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/13; Working Paper Coordinator, Department of Economics, 0508, University of California, San

Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 31. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE J31, J64. KW Labor Markets. Displacement. Wages. Unemployment. Productivity.
AB This paper evaluates a class of endogenous job destruction models based on how well they explain the observed experiences of displaced workers. We show that pure reallocation models in which relationship- specific productivity drifts downward over time are difficult to reconcile with the evidence on postdisplacement wages and displacement rates. Pure reallocation models with upward drift can explain the evidence, but implausibly large and persistent negative productivity shocks are required to generate displacements. Combining upward drift with outside benefits or moral hazard as additional motives for displacement makes it possible to explain the evidence with much smaller shocks. Propagation of aggregate shocks, welfare implications of displacement, upgrade of relationships in lieu of displacement, and learning effects are also discussed.

Dercon, Stefan

PD March 1998. TI Changes in Poverty in Rural Ethiopia 1989-1995: Measurement, Robustness Tests and Decomposition. AU Dercon, Stefan; Krishnan, Pramila. AA Dercon: Centre for the Study of African Economies and Katholieke Universiteit Leuven. Krishnan: Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/07; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 42. PR 3 pounds or $5.00. JE C23, I32. KW Poverty. Ethiopia. Seasonal Fluctuations. Uncertainty.
AB Assessing changes in poverty levels over time is bedeviled by problems in questionnaire design, the choice of the poverty line, the exact timing of the survey and uncertainty about the appropriate cost- of-living deflators. In this paper, we focus on testing the robustness of measured changes in poverty to these common problems, using household panel data collected in rural Ethiopia in 1989, 1994 and 1995: in particular, we implement a simple graphical technique for assessing the impact of uncertainty in measured inflation rates. We find that poverty declined between 1989 and 1994, but remained virtually unchanged between 1994 and 1995. However, the last result disguises substantial seasonal fluctuations in 1994. We also find that households with substantial human and physical capital, and better access to roads and towns have both lower poverty levels and are more likely to get better off over time. Human capital and access to roads and towns also reduce the fluctuations in poverty across the seasons.

TI Prices, Local Measurement Units and Subsistence Consumption in Rural Surveys: An Econometric Approach With an Application to Ethiopia. AU Capeau, Bart; Dercon, Stefan.

TI The Urban Labour Market During Structural Adjustment: Ethiopia 1990- 1997. AU Krishnan, Pramila; Selassie, Tesfaye Gebre; Dercon, Stefan.

TI Rates of Return on Physical and Human Capital in Africa's Manufacturing Sector. AU Bigsten, Arne; Collier, Paul; Dercon, Stefan; Fafchamps, Marcel; Gauthier, Bernard;

Gunning, Jan Willem; Isaksson, Anders; Oduro, Abena; Zeufact, Albert; Teal, Francis; Soderbom, Mans; Pattillo, Cathy; Oostendorp, Remco.

DeTrask, Kimberly
TI Covering Up Trading Losses: Opportunity-Cost Accounting as an Internal Control Mechanism. AU Kane, Edward J.; DeTrask, Kimberly.

Dex, Shirley
TI Would More "Family-Friendly" Working Arrangements Benefit Business and Families? AU Scheibl, Fiona; Dex, Shirley.

Diamond, Peter
PD September 1998. TI The Economics of Social Security Reform. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6719; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D81, G23, H55. KW Social Security. Reform. Defined Benefit. Defined Contribution.
AB Economic analysis of reform centers on three questions -- whether to have a defined benefit plan or a mixed defined contribution/defined benefit plan, how much funding to have and how to invest the funding. The paper begins by comparing a funded defined benefit plan with a funded defined contribution plan without any individual choice. The paper then considers individual choice of the form of benefits, with particular attention to possible effects on widows. Portfolio choice is considered for a central fund and in individual accounts, with particular attention to the costs of implementation. The paper then considers the implications of greater funding. Then, the implications of system design for the labor market are examined. The major economic issues are, by and large, not controversial. The bottom line is that a well-run defined benefit system is economically more efficient than a mixed defined contribution/defined benefit system. The real issue then becomes how well the U.S. government can run a defined benefit system relative to how well it can run a mixed defined contribution/defined benefit system.

Diebold, Francis X.
TI How Relevant is Volatility Forecasting for Financial Risk Management? AU Christoffersen, Peter F.; Diebold, Francis X.

PD December 1998. TI Real-Time Multivariate Density Forecast Evaluation and Calibration: Monitoring the Risk of High-Frequency Returns on Foreign Exchange. AU Diebold, Francis X.; Hahn, Jinyong; Tay, Anthony S. AA Diebold: University of Pennsylvania and National Bureau of Economic Research. Hahn: University of Pennsylvania. Tay: National University of Singapore. SR National Bureau of Economic Research Working Paper: 6845; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE C53, F31, G11, G12. KW Density Forecasting. Risk Management. Exchange Rates.
AB We provide a framework for evaluating and improving multivariate density forecasts. Among other things, a multivariate framework lets us evaluate the adequacy of density forecasts involving cross-variable interactions, such as time-varying conditional correlations. We also provide conditions under which a technique of density forecast "calibration" can be used to improve deficient density forecasts. Finally, motivated by recent advances in financial risk management, we provide a detailed application to multivariate high-frequency exchange rate density forecasts.

Dierker, Egbert
PD October 1998. TI The Price Normalization Problem in Imperfect Competition and the Objective of the Firm. AU Dierker, Egbert; Grodal, Birgit. AA Dierker: Universitat Wien. Grodal: University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 98/08; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 31. PR no charge. JE D21, D42, D43, L13, L21. KW Price Normalization. Imperfect Competition. Oligopoly. Firms' Objectives. Wealth Maximization. Shareholder Demand.
AB General equilibrium models of oligopolistic competition give rise to relative prices only without determining the price level. It is well known that the choice of a numeraire or, more generally, of a normalization rule converting relative prices into absolute prices entails drastic consequences for the resulting set of Nash equilibria when firms are assumed to maximize profits. This is due to the fact that changing the price normalization amounts to altering the objective functions of the firms. Clearly, the objective of a firm must not be based on price normalization rules void of any economic content. In this paper we propose a definition of the firm's objective; the maximization of shareholders' real wealth, which takes shareholders' demand explicitly into account. This objective depends on relative prices only. Real wealth maxima are shown to exist under certain conditions. Moreover, we consider an oligopolistic market and prove the existence of a Nash equilibrium in which each firm maximizes the real wealth of its shareholders.

PD March 1999. TI Incomplete Markets and the Firm. AU Dierker, Egbert; Dierker, Hildegard; Grodal, Birgit. AA Dierker and Dierker: University of Vienna. Grodal: University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 99/05; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 28. PR no charge. JE D43, D51, D52, D61, L23. KW Incomplete Markets. Firms Objectives. Dreze Equilibria. Efficiency.
AB In this paper we analyze the welfare properties of the set of Dreze equilibria for economies with incomplete markets and firms. The well known fact that a Dreze equilibrium need not be constrained Pareto optimal is often attributed to a lack of coordination between firms. We show that there are economies with a single firm in which no Dreze equilibrium is constrained Pareto efficient. Even a unique Dreze equilibrium need not be constrained Pareto efficient.

Dierker, Hildegard
TI Incomplete Markets and the Firm. AU Dierker, Egbert; Dierker, Hildegard; Grodal, Birgit.

Dilling-Hansen, Mogens
PD November 1998. TI Market Structure, Publicly and

Privately Financed R&D Spending. Empirical Evidence for Denmark. **AU** Dilling-Hansen, Mogens; Eriksson, Tor; Madsen, Erik Strojer; Smith, Valdemar. **AA** Dilling-Hansen, Eriksson and Madsen: University of Aarhus. Smith: Danish Institute for Studies in Research and Research Policies. **SR** Centre for Industrial Economics Discussion Paper: 98/20; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. **PG** 25. **PR** no charge. **JE** L13, O33, O38. **KW** Firm Level R&D Spending. R&D Financing. Market Structure.

AB In this paper we analyse the determinants of R&D spending in Danish firms and firms and industries in the nineties. We also examine the complementarity's and substitution between publicly and company financed spending, taking into account the influence from market structure, barriers of entry, demand conditions and other economic factors of the market and the firm. The empirical models of R&D spending are estimated both on industry and on firm level data. This allows us to examine how the investment R&D activities differ according to differences in the organization of the firm, firm size and the firm's debt burden.

DiNardo, John

TI The Immigrant and Native-born Wage Distributions: Evidence from United States Censuses. **AU** Butcher, Kristin F.; DiNardo, John.

Dollar, David

TI Who Gives Foreign Aid to Whom and Why? **AU** Alesina, Alberto; Dollar, David.

Donaldson, John B.

TI Junior Can't Borrow: A New Perspective on the Equity Premium Puzzle. **AU** Constantinides, George M.; Donaldson, John B.; Mehra, Rajnish.

Donohue, John J.

PD November 1998. **TI** The Impact of Race on Policing, Arrest Patterns, and Crime. **AU** Donohue, John J.; Levitt, Steven D. **AA** Donohue: Stanford Law School and National Bureau of Economic Research. Levitt: University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6784; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** $5.00. **JE** J78, K42. **KW** Discrimination. Race. Law Enforcement. Police. Crime Rates.

AB Race has long been recognized as playing a critical role in policing. In spite of this awareness, there has been virtually no previous research attempting to quantitatively analyze the issue. In this paper, we examine the relationship between the racial composition of a city's police force and the racial patterns of arrests and crime. Increases in the number of minority police are associated with significant increases in arrests of whites, but have little impact on arrests of non-whites. Similarly, more white police increase the number of arrests of non- whites, but do not systematically affect the number of white arrests. The race of police officers has a less clear-cut impact on crime rates. It appears that own-race policing may be more effective in reducing property crime, but no systematic differences are observed for violent crime. These results are consistent either with own-race policing leading to fewer false arrests or greater deterrence. In either case, own-race policing appears more "efficient" in fighting property crime.

Downing, Chris

PD December 1999. **TI** Nonparametric Estimation of Multifactor Continuous Time Interest Rate Models. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/62; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 46. **PR** no charge. **JE** C15, C51, E43, G13. **KW** Interest Rate. s Multifactor. Nonparametric.

AB This paper studies the finite sample properties of the kernel regression method of Boudoukh, et al. 1998 for estimating multifactor continuous--time term structure models. Monte Carlo simulations are employed, with a grid-search technique to find the optimal kernel bandwidth. The estimator exhibits truncation and correlated residuals biases near the boundaries of the data. However, the variance of the estimator is so high that the biases are unlikely to be relevant from a hypothesis testing point of view. The performance of the estimator is also studied under model misspecification. Irrelevant regressors reduce efficiency and induce additional biases in the estimates. Using Treasury bill data, I test whether the estimates produced by the nonparametric estimator are statistically distinguishable from estimates obtained under a parametric model. The kernel regressions pick up nonlinearities in the data that the parametric model cannot capture.

Dufour, Alfonso

PD June 1999. **TI** Time and the Price Impact of a Trade. **AU** Dufour, Alfonso; Engle, Robert F. **AA** University of California, San Diego. **SR** University of California, San Diego, Department of Economics Working Paper: 99/15; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. **PG** 26. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C15, C22, C32, G12, G14. **KW** Price Impact. Liquidity. Vector Autoregression. Asymmetric Information. Inter-Trade Duration.

AB We use Hasbrouck (1991)'s vector autoregressive model for prices and trades to empirically test and assess the role played by the waiting time between consecutive transactions in the process of price formation. We find that as the time duration between transactions decreases, the price impact of trades, the speed of price adjustment to trade related information, and the positive autocorrelation of signed trades, all increase. This suggests that times when markets are most active are times when there is an increased presence of informed traders; we interpret such markets as having reduced liquidity.

Duggan, John

TI An Implementation-Theoretic Approach to Non-Cooperative Foundations. **AU** Bergin, James; Duggan, John.

Duguet, Emmanuel

TI Research, Innovation, and Productivity: An Econometric Analysis at the Firm Level. **AU** Crepon, Bruno; Duguet,

Emmanuel; Mairesse, Jacques.

Easterly, William
TI Redistributive Public Employment. AU Alesina, Alberto; Baqir, Reza; Easterly, William.

Eaton, Jonathan
PD December 1998. TI European Technology Policy. AU Eaton, Jonathan; Gutierrez, Eva; Kortum, Samuel. AA Eaton and Kortum: Boston University and National Bureau of Economic Research. Gutierrez: Boston University. SR National Bureau of Economic Research Working Paper: 6827; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 30. PR $5.00. JE O31, O32, O38. KW Research and Development. Innovation. Free Riding. Technological Change. Technology Policy.
AB European countries do less research than Japan and the United States. We use a quantitative multi-country growth model to ask: (i) Why is this so? (ii) Would there be any benefit to expanding research in Europe? (iii) What would various European research promotion policies do? We find that (i) Europe's lower research effort has more to do with the smaller markets facing European inventors than with lower research productivity. (ii) Europe has substantial research potential in that increased research effort in most European countries generates bigger income benefits there than increased effort in the United States and Japan of equivalent amounts. (iii) Policies to stimulate research in Europe raise productivity not only there but elsewhere. But a problem with pursuing these policies at the national level is the potential for free riding. A second possible problem with promoting research is distributional: While all countries within the European Union benefit, the countries that are already best at doing research, which tend to be the richer members, fare best. The benefits of policies that facilitate the adoption of innovations are more evenly spread.

Edelberg, Wendy
PD September 1998. TI Understanding the Effects of a Shock to Government Purchases. AU Edelberg, Wendy; Eichenbaum, Martin; Fisher, Jonas D. M. AA Edelberg: University of Chicago. Eichenbaum: Northwestern University and National Bureau of Economic Research. Fisher: The Federal Reserve Bank of Chicago. SR National Bureau of Economic Research Working Paper: 6737; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 27. PR $5.00. JE E22, E24, E62, H50. KW Government Spending. Exogenous Shocks. Employment. Investment.
AB This paper investigates the consequences of an exogenous increase in U.S. government purchases. We find that in response to such a shock, employment, output, and nonresidential investment rise, while real wages, residential investment, and consumption expenditures fall. The paper argues that a simple variant of the neoclassical model, which distinguishes between nonresidential and residential investment is consistent with this evidence.

Edwards, Sebastian
PD October 1998. TI Interest Rate Volatility, Capital Controls and Contagion. AA University of California, Los Angeles and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6756; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F32, F36, G15, O16. KW Volatility. Contagion. Emerging Markets. Interest Rates.
AB Current debates on globalization often focus on financial market volatility and contagion. Many proponents of capital restrictions in emerging markets have argued that these would help reduce or eliminate spillover across emerging markets. This concern has become more generalized after the Mexican, East Asian and Russian crises. This paper uses high frequency data on short term nominal interest rates during the 1990s in Argentina, Chile and Mexico to analyze whether there has been volatility contagion from Mexico to the two South American nations. The results obtained from the estimation of augmented GARCH equations indicate, quite strongly, that while there has been volatility contagion from Mexico to Argentina, there has been no volatility contagion from Mexico to Chile. However, with the exception of a brief period in 1995, nominal interest rates have been more volatile in Chile than in Argentina. The results also indicate that interest rate differentials with respect to the US disappear somewhat slowly in both Chile and Argentina. Moreover, the estimation of rolling regressions for Chile indicate that after controls on capital inflows were imposed, interest rate differentials became more sluggish and tended to disappear more slowly than during the free capital mobility period.

PD November 1998. TI Capital Flows, Real Exchange Rates, and Capital Controls: Some Latin American Experiences. AA University of California, Los Angeles. SR National Bureau of Economic Research Working Paper: 6800; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E58, F21, F31, F32, F41. KW Capital Flows. Exchange Rates. Capital Controls. Competitiveness. Central Banks.
AB This paper deals with some of the most important aspects of Latin America's experience with capital flows during the last twenty-five years. The paper begins with a historical analysis. The author then deals with the sequencing of reform and discusses issues related to the relationship between capital flows, real exchange rates, and international competitiveness. He next concentrates on the role of capital controls as a device for isolating emerging economies from the volatility of international capital markets. The author presents an empirical analysis of Chile's recent experiences with capital controls and makes comparisons to the recent experiences of Columbia. The analysis of the Chilean experience is particularly important since its practice of imposing reserves requirements on capital inflows has been praised by a number of analysts, including senior staff of the multilateral institutions, as an effective and efficient way of reducing the vulnerability associated with capital flows volatility. The results obtained suggest that capital controls in Chile have had mixed results: while they have allowed the Central Bank to have a greater degree of control over short term interest rates, they have failed in avoiding real exchange rate appreciation.

Eeckhout, Jan
PD December 1998. TI Inequality. AU Eeckhout, Jan; Jovanovic, Boyan. AA Eeckhout: Universitat Pompeu Fabra. Jovanovic: New York University and National Bureau of Economic Research. SR National Bureau of Economic

Research Working Paper: 6841; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** $5.00. **JE** D24, L20, O31. **KW** Capital Productivity. Inequality. Firm Size. Free Riding. Innovation.

AB In a growth model, rent-grabbing and free riding can give rise to inequality in productivity and firm size. Inequality among firms affects a firm's incentive to free ride or to grab rents, and, hence, the incentive to invest in research and training. We follow Lucas and Prescott (1971) and Hayashi (1982) and assume constant returns in production and in adjustment costs for investment, and perfect capital markets. Our conclusion, however, differs starkly from theirs: Average Tobin's q generally exceeds marginal q. That is, the unit value of capital is lower in big firms, and evidence dating back to Fazzari, Hubbard, and Petersen (1988) supports this claim quite decisively. Such evidence is usually taken to imply that small firms invest at a rate lower than its perfect capital market rate. In our model, however, it arises because small firms rely more on copying than big firms do: The marginal product of capital is equal across firms, but its average product is higher than that because small firms get a disproportionately high external benefit.

Eichenbaum, Martin

TI Understanding the Effects of a Shock to Government Purchases. **AU** Edelberg, Wendy; Eichenbaum, Martin; Fisher, Jonas D. M.

TI Prospective Deficits and the Asian Currency Crisis. **AU** Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio.

Eichengreen, Barry

TI Was There Really an Earlier Period of International Financial Integration Comparable to Today? **AU** Bordo, Michael D.; Eichengreen, Barry; Kim, Jongwoo.

PD December 1998. **TI** Does Mercosur Need a Single Currency? **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6821; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** $5.00. **JE** F13, F15, F31, F33, F36. **KW** Monetary Union. Economic Integration. Common Currency. Foreign Exchange. Mercosur.

AB The possibility of a single currency for the Mercosur countries was raised by Argentine President Menem in December 1997 and again at the regional summit this past June. This paper argues whether Mercosur needs a common currency depends on what kind of integrated regional market its architects are creating. A customs union can be sustained despite the existence of separate national currencies that fluctuate against one another. But deeper integration extending beyond the border implies even more open domestic markets and more intense cross-border competition, making exchange-rate changes more disruptive. If South American policy makers intend to press ahead to deeper integration, then they like their European counterparts may have to contemplate monetary integration.

Eissa, Nada

PD December 1998. **TI** The Earned Income Tax Credit and the Labor Supply of Married Couples. **AU** Eissa, Nada; Hoynes, Hilary Williamson. **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6856; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H24, H31, J12, J22. **KW** Income Taxes. Tax Credits. Labor Supply. Marriage.

AB The Earned Income Tax Credit (EITC) is refundable, so that any amount of the credit exceeding the family's liability is returned in the form of a cash refund. The popular view that the credit "encourages work effort" is unlikely to hold among married couples. The authors study the labor supply response of married couples to several EITC expansions between 1984 and 1996. While their primary interest is the response to changes in the budget set induced by the EITC, the authors' estimation strategy takes account of budget set changes caused by federal tax policy, and by cross-sectional variation in wages, income and family size. They use both quasi-experimental and reduced form labor supply models to estimate the impact of EITC induced tax changes. The results suggest that EITC expansions between 1984 and 1996 increased married men's labor force participation only slightly but reduced married women's labor force participation by over a full percentage point. Overall, the evidence suggests that family labor supply and pre-tax family earnings fell among married couples. The results imply that the EITC is effectively subsidizing married mothers to stay at home, and therefore have implications for the design of the program.

Eklof, Matias

TI Tax Reform Evaluation Using Nonparametric Methods: Sweden 1980 - 1991. **AU** Blomquist, Soren; Eklof, Matias; Newey, Whitney.

Elliott, Graham

PD October 1999. **TI** Estimating Restricted Cointegrating Vectors. **AA** University of California, San Diego. **SR** University of California, San Diego, Department of Economics Working Paper: 99/22; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. **PG** 22. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C13, C32. **KW** Cointegration. Minimum Distance. Estimation. Nonlinear Restrictions. Time Series.

AB This paper suggests the use of simple minimum distance methods to estimate restricted cointegrating vectors. The method directly employs minimum distance methods on unrestricted cointegrating matrices estimated in the usual way to estimate restricted parameters which are linearly or nonlinearly related to the unrestricted cointegrating vector coefficients. The limiting distribution of the estimates as well as the usual test for the restrictions are derived. A Monte Carlo experiment is undertaken to examine the effectiveness of these methods for cointegrating vectors.

Ellison, Glenn

PD February 1999. **TI** The Geographic Concentration of Industry: Does Natural Advantage Explain Agglomeration? **AU** Ellison, Glenn; Glaeser, Edward L. **AA** Harvard University. **SR** Harvard Institute for Economic Research

Discussion Paper: 1862; Harvard Institute of Economic Research, Department of Economics, 200 Littauer Center, Cambridge, MA 02138. Website: www.economics.harvard.edu/hier/index.html. PG 8. PR $3.00 per paper domestic (USA & Canada) and $4.00 per paper international. JE L20, R12, R32, R38. KW Natural Advantages. Economic Geography. Agglomeration. Spillovers. Firm Location.

AB Industries' locations are affected by a wide range of natural advantages. About twenty percent of observed geographic concentration can be explained by a small set of advantages. The authors think that this result is particularly notable given the limits on their explanatory variables. For example, nothing in their model can explain why there is no shipbuilding in Colorado, nor can it predict that soybean oil production is concentrated in soybean producing states, as opposed to being spread among all agricultural states. Hopefully, in the future, others will provide better estimates than the authors have been able to give. They conjecture that at least half of observed geographic concentration is due to natural advantages. At the same time, there remain a large number of highly concentrated industries where it seems that agglomeration must be explained by localized intraindustry spillovers. Simple cost differences cannot explain why the fur industry, the most agglomerated industry in the authors' sample, is centered in New York. The authors see the attempt to provide a clearer understanding of the sources of these spillovers as an important topic for future research.

Engel, Eduardo M. R. A.

PD August 1998. TI Least-Present-Value-of Revenue Auctions and Highway Franchising. AU Engel, Eduardo M. R. A.; Fischer, Ronald D.; Galetovic, Alexander. AA Engel: Centro de Economia, Aplicada de Chile and National Bureau of Economic Research. Fischer and Galetovic: Centro de Economia, Aplicada de Chile. SR National Bureau of Economic Research Working Paper: 6689; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 25. PR $5.00. JE D81, H42, H54, L91. KW Highway Franchising. Auction Mechanism.

AB Recently several countries have undertaken massive highway franchising programs via auctions to private firms. In these auctions, the regulator typically sets the franchise term and firms bid on tolls, or, alternatively, the regulator sets tolls and the winner is the firm that asks for the shortest franchise term. In this paper we argue that many of the problems that highway franchises have encountered are due to the fact that the franchise term cannot adjust to demand realizations. We propose a new auction mechanism where the firm that bids the least present value of revenue from tolls (LPVR) wins the franchise. With this scheme, the franchise length adjusts endogenously to demand realizations. Assuming that the regulator is not allowed to make transfers to the franchise holder, and that firms are unable to completely diversify risk due to agency problems, we show that LPVR auctions are optimal, even when the regulator does not know firms' construction costs. Furthermore, for demand uncertainty and risk aversion parameters typical of developing countries, welfare gains associated with substituting a LPVR auction for a fixed-term auction are large (e.g. one-third of the cost of the highway).

PD December 1998. TI Taxes and Income Distribution in

Chile: Some Unpleasant Redistributive Arithmetic. AU Engel, Eduardo M. R. A.; Galetovic, Alexander; Raddatz, Claudio E. AA Engel: Universidad de Chile and National Bureau of Economic Research. Galetovic and Raddatz: Universidad de Chile. SR National Bureau of Economic Research Working Paper: 6828; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H22, H23, H24, H29. KW Taxation. Income Distribution. Chile. Tax Structure. Proportional Taxes.

AB This paper quantifies the direct impact of taxes on income distribution at the household level in Chile and estimates the distributional effect of several changes in the tax structure. We find that income distributions before and after taxes are very similar (Gini coefficients of 0.448 and 0.496, respectively). Moreover, radical modifications of the tax structure, such as raising the value added tax from 18 to 25% or substituting a 20% flat tax for the present progressive income tax affect the after-tax distribution only slightly. We present some arithmetic showing that the scope for direct income redistribution through progressivity of the tax system is rather limited. By contrast, for parameter values observed in Chile, and possibly in most developing countries, the targeting of expenditures and the level of the average tax rate are far more important determinants of income distribution after government transfers. Thus, a high-yield proportional tax can have a far bigger equalizing impact than a low- yield progressive tax. Moreover, a simple model shows that the optimal tax system is biased against progressive taxes and towards proportional taxes, with a bias that grows with the degree of inequality of pre-tax incomes.

Engle, Robert F.

TI Modeling the Impacts of Market Activity on Bid-Ask Spreads in the Option Market. AU Cho, Young-Hye; Engle, Robert F.

TI Time and the Price Impact of a Trade. AU Dufour, Alfonso; Engle, Robert F.

PD October 1999. TI CAViaR: Conditional Autoregressive Value at Risk by Regression Quantiles. AU Engle, Robert F.; Manganelli, Simone. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/20; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. PG 37. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C51, C52, C53, G11, G12. KW Value at Risk. Regression Quantile. Risk Management. Estimation.

AB Value at Risk (VaR) is defined as the value that a portfolio will lose with a given probability, over a certain time horizon. Interpreting the VaR as the quantile of future portfolio values conditional on current information, the authors propose a new approach to quantile estimation which does not require any of the extreme assumptions invoked by existing methodologies (such as normality or i.i.d. returns). The Conditional Autoregressive Value-at-Risk or CAViaR model moves the focus of attention from the distribution of returns directly to the behavior of the quantile. The authors specify the evolution of the quantile over time using a special type of autoregressive process and use the regression quantile

framework introduced by Koenker and Bassett to determine the unknown parameters. Since the objective function is not differentiable, the authors use a differential evolutionary genetic algorithm for the numerical optimization. Utilizing the criterion that each period the probability of exceeding the VaR must be independent of all the past information, they introduce a new test of model adequacy, the Dynamic Quantile test. Applications to simulated and real data provide empirical support to this methodology.

Engstrom, David M.
PD January 1997. TI The Economic Determinants of Ethnic Segregation in Post-War Britain. AA Yale University. SR University of Oxford, Discussion Paper in Economic and Social History: 12; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 43. PR no charge. JE J15, N34, R21, R23. KW Ethnic Segregation. Housing Markets. Labor Markets. Urban Economics. Economic History.
AB Ethnic residential segregation is usually investigated using a constrained-choice approach. This study explains the variation in post- war Afro-Caribbean segregation in fifteen British cities by means of historical patterns of economic opportunity. Its dependent variable is newly available census data on residential segregation. It finds that the observed variation in segregation levels cannot be explained in terms of council housing policies or the passage of civil rights legislation from the mid-1960s, but rather by the interaction of New Commonwealth immigration and local labor and housing market conditions during the critical period 1951-1966.

Epple, Dennis
PD December 1998. TI Estimating Equilibrium Models of Local Jurisdictions. AU Epple, Dennis; Sieg, Holger. AA Epple: Carnegie Mellon University and National Bureau of Economic Research. Sieg: Duke University. SR National Bureau of Economic Research Working Paper: 6822; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 49. PR $5.00. JE C51, H31, R12, R21, R31. KW Regional Economics. Household Distribution. Housing. Locational Equilibrium. Preferences.
AB Research over the past several years has led to development of models characterizing equilibrium in a system of local jurisdictions. An important insight from these models is that plausible single-crossing assumptions about preferences generate strong predictions about the equilibrium distribution of households across communities. To date, these predictions have not been subjected to formal empirical tests. The purpose of this paper is to provide an integrated approach for testing predictions from this class of models. We first test conditions for locational equilibrium implied by these models. In particular, we test predictions about the distribution of households by income across communities. We then test the models predictions about the relationships among locational equilibrium conditions, housing markets, and housing prices. By drawing inferences from a structural general equilibrium model, the approach of this paper offers a unified treatment of theory and empirical testing.

Eriksson, Tor
TI Market Structure, Publicly and Privately Financed R&D Spending. Empirical Evidence for Denmark. AU Dilling-

Hansen, Mogens; Eriksson, Tor; Madsen, Erik Strojer; Smith, Valdemar.

Estevao, Marcello
PD October 1999. TI Measuring Temporary Labor Outsourcing in U.S. Manufacturing. AU Estevao, Marcello; Lach, Saul. AA Estevao: Board of Governors of the Federal Reserve System. Lach: The Hebrew University and National Bureau of Economic Research. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/57; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 46. PR no charge. JE C14, D02, E02, J02. KW Outsourcing. Contingent Workers. Adjustment Margin. Productivity. New Economy Structural Changes.
AB Many analysts claim that manufacturing industries have substantially stepped up their demand for temporary help supply (THS) workers since the mid-1980s. If this is true, not accounting for this flow of workers from the service sector to manufacturing may lead to misleading conclusions about the cyclical and long-term path of manufacturing employment and hours of work. We close this gap by providing several estimates of the number of individuals employed by temporary help supply THS firms who worked in the manufacturing sector from 1972 to 1997. One estimate, in particular, is based on a new methodology that uses minimal assumptions to put bounds on the probability that a manufacturing worker is employed by a THS firm. The bounds rely on readily available data on workers' individual characteristics observable in the CPS. We show that manufacturers have been using THS workers more intensively in the 1990s. In addition, the apparent flatness of manufacturing employment in the 1990s can be explained in part by this type of outsourcing from the service sector. Finally, not accounting for THS hours overstated the increase in average annual manufacturing labor productivity by 1/2 percentage point during the 1991-1997 period.

PD October 1999. TI The Evolution of the Demand for Temporary Help Supply Employment in the United States. AU Estevao, Marcello; Lach, Saul. AA Estevao: Board of Governors of the Federal Reserve System. Lach: The Hebrew University and National Bureau of Economic Research. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/58; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 23. PR no charge. JE C14, D02, E02, J02. KW Contingent Workers. Adjustment Margin. New Economy. Structural Changes. Sectoral Effects.
AB The level of temporary help supply THS employment surged during the late 1980s and the 1990s. However, we know little about where these workers were placed and, thus, there is a gap in our understanding of cyclical and trend industry employment in the U.S. To close this gap, we estimate the proportion of THS employees in each major U.S. industry during 1977-97 using information from input-output tables and from the Contingent Worker Supplements to the CPS surveys of February 1995 and February 1997. Our estimates indicate that almost all of the growth in THS employment is attributed to a change in the hiring behavior of firms, rather than to a disproportional increase in the size of more THS-intensive industries. In fact, the proportion of THS employees in each

major American industry, except the public sector, increased during our sample period. These increases were particularly large in services and in manufacturing where by 1997 close to 4 percent of all employees were THS workers. The public sector, which had demanded almost 40 percent of all THS workers in 1982, hired a negligibly small number of THS workers in 1997.

Evans, Martin
PD   June 1997. TI   Minimum Pensions and Safety Nets in Old Age: A Comparative Analysis. AU   Evans, Martin; Falkingham, Jane. AA   London School of Economics. SR   STICERD, (LSE) Welfare State Programme Discussion Paper: WSP/131; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   58. PR   no charge. JE   D31, H55, I38. KW   Pensions. Incomes.
AB   This paper compares the performance of public pensions in providing a minimum income in old age in six countries: Australia, Chile, Italy, Poland, Sweden and the UK. It uses hypothetical individual life histories to assess the impact of low pay, unemployment, part-time work, and absences from work to care for children on pension entitlement upon reaching pensionable age in each country. The pensions from each national pension system are calculated according to their current rules for the whole duration of each hypothetical life history. The resulting pensions are evaluated using four relative standards. The distributional outcome is measured by the value of pension as a proportion of average earnings and is termed the Relative Income Standard. The performance of the pension against minimum pensions standards set by each scheme is measured by the value of the pension as a proportion of this standard and is termed the Relative Minimum Standard. The performance of the pension against the income standard set by social assistance is measured by the value of pension as a proportion of assistance and is termed the Relative Safety Net Standard. Last, the performance of the pension in maintaining living standards is measured by the replacement rate.

TI   Tightropes and Tripwires: New Labour's Proposals and Means-Testing in Old Age. AU   Rake, Katherine; Falkingham, Jane; Evans, Martin.

TI   Partnership in Pensions? Responses to the Pensions Green Paper. AU   Rake, Katherine; Falkingham, Jane; Agulnik, Phil; Evans, Martin; Barr, Nicholas.

TI   Partnership in Pensions? Responses to the Pensions Green Paper. AU   Rake, Katherine; Falkingham, Jane; Agulnik, Phil; Evans, Martin; Barr, Nicholas.

Evans, Peter B.
TI   Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries. AU   Rauch, James E.; Evans, Peter B.

Fafchamps, Marcel
TI   Rates of Return on Physical and Human Capital in Africa's Manufacturing Sector. AU   Bigsten, Arne; Collier, Paul; Dercon, Stefan; Fafchamps, Marcel; Gauthier, Bernard; Gunning, Jan Willem; Isaksson, Anders; Oduro, Abena; Zeufact, Albert; Teal, Francis; Soderbom, Mans; Pattillo, Cathy; Oostendorp, Remco.

TI   Rates of Return on Physical and Human Capital in

Africa's Manufacturing Sector. AU   Bigsten, Arne; Collier, Paul; Dercon, Stefan; Fafchamps, Marcel; Gauthier, Bernard; Gunning, Jan Willem; Isaksson, Anders; Oduro, Abena; Zeufact, Albert; Teal, Francis; Soderbom, Mans; Pattillo, Cathy; Oostendorp, Remco.

Falkingham, Jane
TI   Minimum Pensions and Safety Nets in Old Age: A Comparative Analysis. AU   Evans, Martin; Falkingham, Jane.

PD   February 1999. TI   Welfare in Transition: Trends in Poverty and Well-Being in Central Asia. AA   London School of Economics. SR   STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/20; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   54. PR   no charge. JE   I31, I32, I38, P21. KW   Central Asia. Transition Economies. Poverty. Living Standards. Welfare.
AB   This paper examines the impact of the transition on living standards and welfare in the five Republics of former Soviet Central Asia -- Kazakhstan, Kyrgyzstan, Tajikistan, Turkmenistan and Uzbekistan, along with the Republic of Azerbaijan. A broad definition of welfare is taken, including both economic measures of poverty based on incomes or expenditures and capability-based indicators, reflecting the health and education of the population. The picture that emerges is of a regional population facing severe economic, physical and psycho-social stress. Over half the population is now living in poverty. Real wages have fallen, joblessness has increased, school enrollment has dropped and general health has deteriorated. However, despite this gloomy picture, households are also proving to be remarkably resilient to the dramatic drop in living standards most have experienced. Nevertheless, strategies for alleviating poverty and encouraging regeneration that increase employment opportunities, improve the social safety net, and protect the region's human capital are urgently required.

TI   Tightropes and Tripwires: New Labour's Proposals and Means-Testing in Old Age. AU   Rake, Katherine; Falkingham, Jane; Evans, Martin.

TI   Partnership in Pensions? Responses to the Pensions Green Paper. AU   Rake, Katherine; Falkingham, Jane; Agulnik, Phil; Evans, Martin; Barr, Nicholas.

Fallick, Bruce C.
TI   Minimum Wage Careers? AU   Carrington, William J.; Fallick, Bruce C.

Farber, Henry S.
PD   August 1998. TI   Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse? AU   Farber, Henry S.; Levy, Helen. AA   Farber: Princeton University and National Bureau of Economic Research. Levy: Princeton University. SR   National Bureau of Economic Research Working Paper: 6709; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   I19, J32. KW   Health Insurance. Non-wage Benefits.
AB   We examine whether the decline in the availability of employer- provided health insurance is a phenomenon common to all jobs or is concentrated only on certain jobs. In particular,

have employers continued to provide health insurance on "core" jobs while reducing availability on "peripheral" jobs. Jobs are considered peripheral if they are new (tenure less than one year) or part-time. We consider three outcomes whose product is the health insurance coverage rate: 1) the fraction of workers who are in firms that offer health insurance to a least some workers (the offer rate); 2) the fraction of workers who are eligible for health insurance, conditional on being in a firm where it is offered (the eligibility rate); and 3) the fraction of workers who enroll in health insurance when they are eligible for it (the takeup rate). We find that declines in own-employer insurance coverage over the 1988-1997 period are driven primarily by declines in takeup for core workers and declines in eligibility for peripheral workers. Employers are continuing to make health insurance available to their core long-term employees but are restricting access to health insurance by their peripheral short-term and part-time employees.

Faure-Grimaud, Antoine

AB   We propose a theory of supervision with endogenous transaction costs. A principal delegates part of his authority to a supervisor who can acquire soft information about an agent's productivity. If the supervisor were risk-neutral, the principal would simply make the better informed supervisor residual claimant for the hierarchy's profit. Under risk-aversion, the optimal contract trades-off the supervisor's incentives to reveal his information with an insurance motive. This contract can be identified with the one obtained in a simple hard information model of hierarchical collusion with exogenous transaction costs. Now, transaction costs are endogenous and depend on the collusion stake, the accuracy of the supervisory technology and the supervisor's degree of risk-aversion. We then discuss various implications of the model for the design and management of organizations.

Feenstra, Robert C.

AB   The paper argues that the theoretical foundations for the gravity equation are general, while the empirical performance of the gravity equation is specific to the type of goods examined. Most existing theory for the gravity equation depends on the assumption of differentiated goods. We show that the gravity equation can also be derived from a "reciprocal dumping" model of trade in homogenous goods. The different theories have different testable implications. Theoretically, the gravity equation should have a lower domestic income elasticity for exports of homogenous goods than of differentiated goods, because of a "home market" effect which depends on barriers to entry. We quantify the home market effect empirically using cross-sectional gravity equations, and find that domestic income export elasticities are indeed substantially higher for differentiated goods than for homogenous goods.

Feinstein, Charles

AB   This paper presents new estimates of nominal earnings, the cost of living and real earnings for manual workers in Great Britain over the period 1770 to 1870. The estimates are adjusted to allow for unemployment and for the inclusion of agricultural workers in Ireland. The series are then analyzed to establish their implications for the debates about the impact of the industrial revolution on the standard of living; and about the pace of economic growth during this period. The main findings are that the improvement in the material standard of living of the British working class was negligible before 1815 and very modest until after 1861; and that the income-based estimates are consistent with recent evidence from other sources showing a relatively slow rate of growth during the industrial revolution.

Feldstein, Martin

AB   The first part of this paper argues that income inequality is not a problem in need of remedy. The common practice of interpreting a rise in the gini coefficient measure of inequality as a bad thing violates the Pareto principle and is equivalent to using a social welfare function that puts negative weight on increases in the income of high income individuals. The real distributional problem is not inequality but poverty. The paper considers three sources of poverty and asks what if anything might be done about each of them: unemployment; a low level of earning capacity; and individual choice.

www.nber.org. **PG** not available. **PR** $5.00. **JE** H55. **KW** Social Security. Public Pensions. Defined Contributions. Defined Benefits. China.
AB China has legislated a mixed social security pension system with a defined benefit pay-as-you-go portion and an investment-based defined contribution portion. This paper analyzes the economics of these two types of systems in the Chinese context and calculates the advantage to China of using an investment-based portion. Several options for reform of the recently legislated system are considered.

PD December 1998. **TI**. Individual Risk and Intergenerational Risk Sharing in an Investment- Based Social Security Program. **AU** Feldstein, Martin; Ranguelova, Elena. **AA** National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6839; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 45. **PR** $5.00. **JE** H55, J26. **KW** Social Security. Defined Contribution. Risk. Retirement.
AB This paper examines the risk aspects of a fully phased-in investment- based defined contribution Social Security plan. Individuals save a fraction of wages in a Personal Retirement Account (PRA) invested in a 60:40 equity-debt mix and receive a similarly invested variable annuity from age 65. The real return on these assets follows a random walk with the historic mean (5.5 percent) and standard deviation (12.5 percent) from 1946 to 1995. The authors study 10,000 stochastic distributions of this process for the 80 year experience from 1995 to 2074. With a non- stochastic 5.5 percent rate of return, individuals could purchase the future benefits promised in the current Social Security law (the "benchmark" level of benefits) by saving 3.6 percent of earnings, just one-fifth of the payroll tax that Social Security actuaries project will be needed in the paygo system. A higher saving rate provides a "cushion" that reduces the risk of unacceptably low benefits. The authors also study a modified plan in which retirees face no risk of receiving less than the benchmark benefit because the government provides a conditional pension transfer to any retiree whose annuity is less in any year than the benchmark level of benefits.

Felli, Leonardo
TI Costly Bargaining and Renegotiation. **AU** Anderlini, Luca; Felli, Leonardo.

TI Costly Coasian Contracts. **AU** Anderlini, Luca; Felli, Leonardo.

Ferrall, Christopher
TI Unemployment Insurance and the Business Cycle. **AU** Brown, Laura; Ferrall, Christopher.

Ferreira, Francisco H. G.
PD July 1998. **TI** Education or Inflation: The Roles of Structural Factors and Macroeconomic Instability in Explaining Brazilian Inequality in the 1980s. **AU** Ferreira, Francisco H. G.; Litchfield, Julie A. **AA** London School of Economics. **SR** STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 41; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 35. **PR** no charge. **JE** D31, D63, E31, I32, N36. **KW** Inequality Decomposition. Poverty. Inflation. Unemployment. Brazil.

AB This paper investigates possible explanations for the increases in inequality observed in Brazil during the 1980s. While the static decompositions of inequality by household characteristics reveal that education and race of the household head, as well as geographic location, can account for a substantial proportion of inequality levels, a dynamic decomposition suggests that the changes in equality are not explained by income or allocation effects across these groups, but by pure within-group inequality effects. The analysis then turns to the role of macroeconomic instability, and finds some significant correlation and regression coefficients which suggest a link between inflation and inequality, while poverty appears to be more strongly driven by real wages, growth and employment.

Finan, Frederico S.
PD October 1999. **TI** Optimal Control of Large, Forward-Looking Models: Efficient Solutions and Two Examples. **AU** Finan, Frederico S.; Tetlow, Robert. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/51; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 11. **PR** no charge. **JE** C06, C08. **KW** Optimal Control. Mathematical Programs. Simple Rules.
AB An optimal control tool is described that is particularly useful for computing rules of large-scale models where users might otherwise have difficulty determining the state vector a priori and where the inversion of large, sparse matrices is involved. A small-scale demonstration is presented, as are data on performance with the Board of Governors large-scale rational expectations macroeconometric model, FRB/US.

Fischer, Ronald D.
TI Least-Present-Value-of Revenue Auctions and Highway Franchising. **AU** Engel, Eduardo M. R. A.; Fischer, Ronald D.; Galetovic, Alexander.

Fisher, Jonas D. M.
TI Understanding the Effects of a Shock to Government Purchases. **AU** Edelberg, Wendy; Eichenbaum, Martin; Fisher, Jonas D. M.

TI Organizational Flexibility and Employment Dynamics at Young and Old Plants. **AU** Campbell, Jeffrey R.; Fisher, Jonas D. M.

Fleischman, Charles A.
PD October 1999. **TI** The Causes of Business Cycles and the Cyclicality of Real Wages. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/53; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 36. **PR** no charge. **JE** E24, E32, E12, C32. **KW** Real Wages. Cyclicality. Busines Cycles. Structural VAR.
AB A model's ability to explain procyclical movements in real wages has become an important benchmark by which macroeconomists judge business cycle theories. Keynesian models with sticky nominal wages predict countercyclical real

wages, have dismissed in favor of Real Business Cycle models or New Keynesian models based on price stickiness or countercyclical markups. The bulk of the evidence for procyclical real wages, however, comes from studies using panel data that estimate the unconditional, contemporaneous correlation between real wages and the unemployment rate. These studies constrain real wage cyclicality to be the same irrespective of the source of the business cycle fluctuations. This paper relaxes this constraint and estimates a structural VAR identified by long-run restrictions on the responses of hours and output to labor supply, technology, oil price, and aggregate demand shocks. Real wages are procyclical in response to technology shocks and oil price shocks, but are countercyclical in response to labor supply shocks and aggregate demand shocks. The procyclicality of real wages during the periods covered by the panel data sets may be explained by the productivity slowdown and the 1970s oil price shocks. The results cast doubt on the appropriateness of the rejection of sticky wage models.

Forchini, Giovanni
TI Conditional Inference for Possibly Unidentified Structural Equations. AU Hillier, Grant; Forchini, Giovanni.

Foresi, Silverio
TI Discrete-Time Models of Bond Pricing. AU Backus, David K.; Foresi, Silverio; Telmer, Chris.

Foster, Lucia
PD November 1998. TI Aggregate Productivity Growth: Lessons from Microeconomic Evidence. AU Foster, Lucia; Haltiwanger, John; Krizan, C. J. AA Foster and Krizan: Bureau of the Census. Haltiwanger: University of Maryland and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6803; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 54. PR $5.00. JE D24, J24, O47. KW Productivity. Aggregate Productivity. Growth. Reallocation. Production.
AB This paper exploits establishment-level data to examine the relationship between microeconomic productivity dynamics and aggregate productivity growth. After synthesizing the evidence from recent studies, the authors conduct their own analysis using establishment-level data for U.S. manufacturing establishments as well for selected service industries. The use of longitudinal micro data on service sector establishments is one of the novel features of this analysis. The main findings are summarized as follows: (i) the contribution of reallocation of outputs and inputs from less productive to more productive establishments plays a significant role in accounting for aggregate productivity growth; (ii) for the selected service industries considered, the contribution of net entry is dominant; (iii) the contribution of net entry to aggregate productivity growth is disproportionate and is increasing in the horizon over which the changes are measured since longer horizon yields greater differentials from selection and learning effects; (iv) the contribution of reallocation to aggregate productivity growth varies over time and industries and is somewhat sensitive to subtle differences in measurement and decomposition methodologies.

Frank, Richard G.
TI Price Indexes for Acute Phase Treatment of Depression.

AU Berndt, Ernst R.; Busch, Susan H.; Frank, Richard G.

TI Price Indexes for Medical Care Goods and Services: An Overview of Measurement Issues. AU Berndt, Ernst R.; Cutler, David M.; Frank, Richard G.; Griliches, Zvi; Newhouse, Joseph P.; Triplett, Jack E.

TI Price Indexes for Medical Care Goods and Services: An Overview of Measurement Issues. AU Berndt, Ernst R.; Cutler, David M.; Frank, Richard G.; Griliches, Zvi; Newhouse, Joseph P.; Triplett, Jack E.

PD December 1998. TI Measuring Adverse Selection in Managed Health Care. AU Frank, Richard G.; Glazer, Jacob; McGuire, Thomas G. AA Frank: Harvard Medical School. Glazer: Tel Aviv University. McGuire: Boston University. SR National Bureau of Economic Research Working Paper: 6825; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 32. PR $5.00. JE D82, G22, I11, I12, I18. KW Health Care. Managed Care. Adverse Selection. Medicaid. Risk.
AB Health plans paid by capitation have an incentive to distort the quality of services they offer to attract profitable and to deter unprofitable enrollees. We characterize plans' rationing as imposing a "shadow price" on access to various areas of care and show that the profit maximizing shadow price depends on the dispersion in health costs, how well individuals forecast their health costs, the correlation between use in different illness categories, and the risk adjustment system used for payment. We further show how these factors can be combined in an empirically implementable index that can be used to identify the services that will be most distorted in competition among managed care plans. A simple welfare measure is developed to quantify the distortion caused by selection incentives. We illustrate the application of our ideas with a Medicaid data set, and conduct policy analyses of risk adjustment and other options for dealing with adverse selection.

PD December 1998. TI Parity for Mental Health and Substance Abuse Care Under Managed Care. AU Frank, Richard G.; McGuire, Thomas G. AA Frank: Harvard Medical School and National Bureau of Economic Research. McGuire: Boston University. SR National Bureau of Economic Research Working Paper: 6838; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 16. PR $5.00. JE G22, G28, I11, I12, I18. KW Mental Health. Substance Abuse. Insurance. Health Care. Managed Care.
AB Parity in insurance coverage for mental health and substance abuse has been a key goal of mental health and substance abuse care advocates in the United States during most of the past 20 years. The authors' goal in this research is to reexamine the economics of parity in the light of recent changes in the delivery of health care in the United States. Specifically, managed care has fundamentally altered the way in which health services are rationed. The authors examine the implication of these changes for policies aimed at achieving parity in insurance coverage. They develop a theoretical approach to characterizing rationing under managed care. They then analyze the traditional efficiency concerns in insurance, adverse selection and moral hazard in the context of policy aimed at regulating health and mental health benefits under private insurance. They show that since managed care controls costs and utilization in new ways parity in benefit design no longer implies equal access to and quality of mental health and

substance abuse care. Because costs are controlled by management under managed care and not primarily by out of pocket prices paid by consumers, demand response recedes as an efficiency argument against parity.

Frederick, Kenneth D.

PD   October 1996. TI   Economic Values of Freshwater in the United States. AU   Frederick, Kenneth D.; Vandenberg, Tim; Hanson, Jean. AA Resources for the Future. SR   Resources for the Future Discussion Paper: 97/03; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG   85. PR   Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE   D61, Q15, Q25, Q26. KW   Water Values. Water Use.

AB   This report presents nearly 500 water value estimates for four withdrawal uses (domestic, irrigation, industrial processing, and thermoelectric power generation) and four instream uses (hydropower, recreation/fish & wildlife habitat, navigation, and waste disposal). The first section discusses important caveats for interpreting the data and the relevance of water values for achieving efficient use of the resource. The second section discusses the presentation of the data. Tables and graphs are used to summarize and help interpret the water value data that have been converted to constant 1994 dollars. Section 3 present the data by geographic region to illustrate how the values within a region vary among uses. Section 4 presents the data for individual water uses to illustrate how the values for specific uses vary within each of the 18 water resources regions that comprise the conterminous United States. Information such as the location, year, and methodology used to derive each of the values are presented in the appendices along with each of the water value estimates. The data are organized by water resources region in Appendix B and by type of use in Appendix C.

Freeman, Richard B.

PD   July 1998. TI   Dunning Delinquent Dads: The Effects of Child Support Enforcement Policy on Child Support Receipt by Never Married Women. AU   Freeman, Richard B.; Waldfogel, Jane. AA Freeman: Harvard University and National Bureau of Economic Research. Waldfogel: Columbia University. SR   National Bureau of Economic Research Working Paper: 6664; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   I32, I38, K42. KW   Single-Parents. Poverty. Child Support.

AB   Since the mid-1970's, the number of single-parent families has increased greatly in the U.S., contributing to the nation's child poverty problem. In response, the federal government and various states have tried to increase child support payments from non-custodial parents. Using data from administrative records and from the child support modules in the Survey of Income Program and Participation (SIPP) and the April and March Current Population Surveys (CPS), we find that the proportion of never married mothers receiving child support rose sharply in the 1980's and 1990's, with the largest increases in states where child support payment were particularly modest. Using within-state variation over time to determine the effect of policy of child support payments, we estimate that increased government expenditures on child support policies are responsible for about one fifth of the upward trend. Our results show that child support expenditures and tougher child support legislation policies work best in tandem. States that both increased expenditures and adopted tougher laws experienced the largest increase in the proportion of never married mothers receiving support.

PD   October 1998. TI   The Last American Shoe Manufacturers: Changing the Method of Pay to Survive Foreign Competition. AU   Freeman, Richard B.; Kleiner, Morris M. AA Freeman: National Bureau of Economic Research. Kleiner: University of Minnesota and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6750; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   27. PR $5.00. JE   J33, L23, L67. KW   Methods of Compensation. Shoe Industry. Piece Rate. Time Rate.

AB   During the last 150 years, shoe manufacturing in the U.S. has gone from one of the largest employers in manufacturing to one of the smallest, yet some firms have survived and remained profitable. During the 1970s - 1990s, most firms in the industry shifted from piece rate to time rate modes of compensation. Using longitudinal establishment data files, this paper finds wide variation in labor input usage and in labor's share of sales among establishments, with establishments having high labor shares of cost disproportionately likely to close down; and a widening range of labor input usage in production associated with the widening U.S. wage structure. The authors find that the shift to time rate methods of pay was part of a move toward continuous flow methods of production, with job rotation and rapid changes in work tasks to introduce new styles. The switch reduced productivity, but brought offsetting cost savings through lower workers' compensation insurance costs, smaller inventories, lower monitoring costs, and lower hourly wages, and made it easier for the firm to introduce new shoe styles. On net, the shift to time rates lowered labor's share of cost and increased the economic surplus available to the firm.

Friedberg, Leora

PD   June 1999. TI   The Impact of Technological Change on Older Workers: Evidence from Data on Computers. AA   University of California, San Diego. SR   University of California, San Diego, Department of Economics Working Paper: 99/11; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG   33. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE   J24, J26, O33. KW   Computers.   Retirement.   Skill   Requirements. Technological Change.

AB   This paper explores the impact on older workers of new technologies that change skill requirements. Older workers, with older skills and less skills than prime-age workers, will suffer in comparison. Furthermore, if skill acquisition is costly, older workers have less incentive to acquire new skills because they have a shorter time horizon until retirement. Several data sets show that the rate of computer use is surprisingly flat over most ages but declines for the oldest workers. The evolution of computer use suggests that most workers, old or young, learn to use computers as needed, and further that older workers use computers less not because they are old, but because they are nearing retirement. In turn, we might expect older workers who do not use computers to retire sooner. In the Health and Retirement Survey non-computer users were 25% more likely

to leave work between 1992 and 1996. Instrumental variables estimates, which aim to control for the impact of retirement plans on computer use, do not yield conclusive results, but they suggest that computer use lowers the retirement probability, especially for 55-59 year olds.

Froot, Kenneth A.

PD   August 1998. TI   The Portfolio Flows of International Investors AU   Froot, Kenneth A.; O'Connell, Paul G. J.; Seasholes, Mark S. AA   Froot: Harvard Business School and National Bureau of Economic Research. O'Connell: Emerging Markets Finance, LLC. Seasholes: Harvard Business School. SR   National Bureau of Economic Research Working Paper: 6687; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   F21, F32. KW   Portfolio investment. International Investment.

AB   This paper explores the behavior of daily, international portfolio flows into and out of 46 countries from 1994 through 1998. Our data are from State Street Bank and Trust and encompass over 3 million trades by client institutions. We find a number of interesting facts. First, we detect regional factors within the flows. Second, the flows are strongly persistent -- the persistence decays only slowly over time. Third, flows are strongly influenced by past returns, so that investor trend-following is apparent. Fourth, we find that inflows have forecasting power for future emerging market returns, but not for developed country returns. Fifth, we find the sensitivity of local stock prices to foreign inflows to be positive and determine that transitory inflows impact future returns negatively. Finally, we examine and reject that the positive covariance of returns and inflows is associated with an information disadvantage on the part of international investors.

Fuchs, Victor R.

PD   July 1998. TI   Provide, Provide: The Economics of Aging. AA   Stanford University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6642; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   16. PR $5.00. JE   I11, I18, J14. KW   Elderly. Health Care. Consumption.

AB   Data from the Bureau of the Census, the Health Care Financing Administration, the NBER Tax File, and the Current Population Survey are used to estimate for the elderly (ages 65 and above) consumption of health care and income available for other goods and services in 1975, 1985, and 1995. Extrapolation of 1975-1995 and 1985-1995 trends are used to obtain projections for 2020. Even more conservative projection shows that in 2020 health care for the elderly would consume 10 percent of the GDP, and income available for other goods and services would show an absolute decline from the 1995 level. Changes in age-specific consumption of health care are found to be much more important than demographic changes. Income inequality among the elderly in 1995 is found to be much less than at younger ages.

PD   August 1998. TI   Health, Government, and Irving Fisher. AA   Stanford University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6710; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   15. PR $5.00. JE   H51, I18. KW   Health Economics. Government. Health Policy.

Irving Fisher.
AB   This paper provides a few historical notes on government involvement in health, followed by a summary of the theoretical arguments that economists offer in its support. Irving Fisher's views and recommendations about health are examined in the light of today's perceptions concerning health, health economics, and health policy. The wide variety of roles that the U.S. and other governments currently play in health is reviewed and the ability of economics to explain these roles is assessed. The consequences of government involvement for the health of populations, for expenditures on health care, and for political and social stability are examined. The paper concludes with an overview of new worldwide trends in health policy and some probably explanations for these trends.

PD   October 1998. TI   Health Care for the Elderly: How Much? Who Will Pay for It? AA   Stanford University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6755; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   H51, I11, I18, J14. KW   Health Care. Medical Costs. Medicare. Elderly.

AB   The tendency of health care expenditures on the elderly to grow about 4 percent per annum more rapidly than the Gross Domestic Product could plunge the nation into a severe economic and social crisis within two decades. This paper describes recent growth in the age-sex-specific health care utilization by the elderly and discusses the important role of technology in that growth. It also explores the potential for the elderly to pay for additional care through increases in work and savings. Efforts to "save Medicare" will prove to be "too little too late" unless they are embedded in broader policy initiative that slow the rate of growth of health care expenditures and/or increase the income of the elderly.

Fuest, Clemens

PD   August 1998. TI   Why Do Countries Subsidize Investment and Not Unemployment? AU   Fuest, Clemens; Huber, Bernd. AA   Universitat Munchen, Germany. SR   National Bureau of Economic Research Working Paper: 6685; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   H20, H31, H32, J51. KW   Investment Subsidy. Employment Subsidy. Underinvestment.

AB   The governments of nearly all industrialized countries use subsidies to support the economic development of specific sectors or regions with high rates of unemployment. Conventional economic wisdom would suggest that the most efficient way to support these regions or sectors is to pay employment subsidies. We present evidence showing that capital subsidies are empirically much more important than employment subsidies. We then discuss possible explanations for the dominance of investment subsidies and develop a simple model with unemployment to explain this phenomenon. In our model, unemployment arises due to bargaining between unions and heterogeneous firms that differ with respect to their productivity. Union bargaining power raises wage costs and leads to a socially inefficient collapse of low productivity firms and a corresponding job loss. Union-firm bargaining also gives rise to underinvestment. In this framework, it turns out that an investment subsidy dominates an employment subsidy in terms of welfare. The reason is that investment subsidies are a more

efficient instrument to alleviate the underinvestment problem and to raise the number of operating firms.

Fuhrer, Jeffrey C.
PD   September 1998. TI   Risky Habits: On Risk Sharing, Habit Formation, and the Interpretation of International Consumption Correlations. AU Fuhrer, Jeffrey C.; Klein, Michael W. AA   Fuhrer: Federal Reserve Bank of Boston. Klein: Tufts University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6735; National. Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   36. PR $5.00. JE   D81, F36, F41, G11.   KW Consumption   Correlations.   Portfolio Diversification. Risk Sharing. Habit Formation.
AB   Standard international economic models with life cycle/permanent income consumption behavior predict that international portfolio diversification leads to high bilateral consumption correlations. Thus international consumption correlations have been empirically estimated as a test of international portfolio diversification and risk sharing. In this paper we investigate the international consumption correlations generated by a more general model which incorporates habit formation in consumption. We show that, in the presence of common interest rate movements, habit formation itself can generate positive international consumption correlations even in the absence of any international risk sharing. Empirical evidence presented in this paper suggests habit formation characterizes consumption behavior among most of the G-7 countries. Thus, the extent of international portfolio diversification may be even lower than that suggested by previous research which studied international consumption correlations.

Fuss, Melvyn
TI   The Effects of Capital Subsidization on Israeli Industry. AU   Bregman, Arie; Fuss, Melvyn; Regev, Haim.

Gaetner, Wulf
PD   March 1999. TI   Evaluation via Extended Ordering: Empirical Findings from West and East. AU Gaetner, Wulf; Jungeilges, Jochen. AA Gaetner: University of Osnabruck. Jungeilges: University of Vilnius. SR   STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 42; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   38. PR   no charge.   JE   D63,   D71.   KW Distributive   Justice. Rawlsianism. Equity Considerations. Borda Rule. Social Choice.
AB   The   theoretical   background   of   the   empirical investigations to be reported in this paper are positionalist aggregation functions which are numerically representable. More concretely, the broad Borda rule is proposed as an aggregation mechanism for the case of a complete set (profile) of so-called individual extended orderings. The Borda rule becomes an interpersonal position rule and it is modified to reflect considerations of equity. Such considerations are introduced by transforming the original linear weighting system such that an equity axiom well known from the social choice literature is satisfied. Students from Osnabruck University and from universities in the Baltic States were confronted with questionnaires that describe six "situations", most of which

reflect different aspects of needs. All situations start from the preference structure which underlies the equity axiom. Three of the points focused on are: (a) What is the percentage of respondents satisfying the equity axiom? (b) How often do the students revise their initial decision when more and more people join the side of the more advantaged? (c) Are there major differences in the empirical results from the West and East?.

Gal, John
PD   June 1997. TI   Categorical Benefits in Welfare States: Findings from Britain and Israel. AA   Hebrew University. SR   STICERD, (LSE) Welfare State Programme Discussion Paper: WSP/132; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   46. PR   no charge. JE   H55, I38. KW Social Security. Welfare States. Categorical Benefits.
AB   This paper examines the role of categorical benefits, i.e. non-means tested and non-contributory cash benefits, in Britain and Israel. After introducing a more rigorous definition of the term and differentiating between various types of categorical benefits, the study looks at the role and recent development of these benefits in the two countries. It finds that they play a growing and significant role in the social security systems of Britain and Israel. An examination of the decision- making process surrounding the adoption of these benefit programs indicates why this is so. On the basis of the findings, initial conclusions relating to changes in the nature of social security are presented.

Galetovic, Alexander
TI   Least-Present-Value-of Revenue Auctions and Highway Franchising. AU   Engel, Eduardo M. R. A.; Fischer, Ronald D.; Galetovic, Alexander.

TI   Taxes and Income Distribution in Chile: Some Unpleasant Redistributive Arithmetic. AU   Engel, Eduardo M. R. A.; Galetovic, Alexander; Raddatz, Claudio E.

Gallo, Giampiero M.
PD   August 1999. TI   The Impact of the Use of Forecasts in Information Sets. AU Gallo, Giampiero M.; Granger, Clive W. J.; Jeon, Yongil. AA   Gallo: Universita di Firenze. Granger: University of California, San Diego. Jeon: Harvard University. SR   University of California, San Diego, Department of Economics Working Paper: 99/18; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. PG   14. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE   C51, C52, C53.   KW Multistep   Forecasts.   Consensus   Forecasts. Preliminary Data. Forecasting. Information Sets.
AB   We analyze the properties of multiperiod forecasts which are formulated by a number of companies for a fixed horizon ahead which moves each month one period closer and are collected and diffused each month by some polling agency. Some descriptive evidence and a formal model suggest that knowing the views expressed by other forecasters the previous period is influencing individual current forecasts in the form of an attraction to conform to the mean forecast. There are two implications: one is that the forecasts polled in a multiperiod framework cannot be seen as independent from one another and

hence the practice of using standard deviations from the forecasts' distribution as if they were standard errors of the estimated mean is not warranted. The second is that the forecasting performance of these groups may be severely affected by the detected imitation behavior and lead to convergence to a value which is not the "right" target (either the first available figure or some final values available at a later time).

TI Interest Rate Volatility Regimes and Exchange Rate Behavior in a Target Zone. AU Avesani, Renzo G.; Gallo, Giampiero M.

Gallup, John Luke

PD December 1998. TI Geography and Economic Development. AU Gallup, John Luke; Sachs, Jeffrey D.; Mellinger, Andrew D. AA Gallup and Mellinger: Harvard University. Sachs: Harvard Institute for International Development and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6849; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 58. PR $5.00. JE O11, O13, O40, O57, R11. KW Geography. Development. Growth. Macroeconomic Policy. Population.
AB This paper addresses the complex relationship between geography and macroeconomic growth. We investigate the ways in which geography may matter directly for growth, controlling for economic policies and institutions, as well as the effects of geography on policy choices and institutions. We find that location and climate have large effects on income levels and income growth, through their effects on transport costs, disease burdens, and agricultural productivity, among other channels. Furthermore, geography seems to be a factor in the choice of economic policy itself. When we identify geographical regions that are not conducive to modern economic growth, we find that many of these regions have high population density and rapid population increase. This is especially true of populations that are located far from the coast, and thus that face large transport costs for international trade, as well as populations in tropical regions of high disease burden. Furthermore, much of the population increase in the next thirty years is likely to take place in these geographically disadvantaged regions.

Galor, Oded

PD November 1998. TI Population, Technology, and Growth: From the Malthusian Regime to the Demographic Transition. AU Galor, Oded; Weil, David N. AA Galor: Brown University. Weil: Brown University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6811; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J13, J24, O11, O33, O40. KW Growth. Population. Technological Change. Human Capital. Demographic Transition.
AB This paper develops a unified model of growth, population, and technological progress that is consistent with long-term historical evidence. The economy endogenously evolves through three phases. In the Malthusian regime, population growth is positively related to the level of income per capita. Technological progress is slow and is matched by proportional increases in population, so that output per capita is

stable around a constant level. In the post-Malthusian regime, the growth rates of technology and total output increase. Population growth absorbs much of the growth of output, but income per capita does rise slowly. The economy endogenously undergoes a demographic transition in which the positive relationship between income per capita and population growth is reversed. In the Modern Growth regime, population growth is moderate or even negative, and income per capita rises rapidly. Two forces drive the regime transitions: First, technological progress is driven both by increases in population size and by increases in the average level of education. Second, technological progress creates a state of disequilibrium, which raises the return to human capital and induces the substitution of child quality for quantity.

Garber, Alan M.

PD October 1998. TI Medical Care at the End of Life: Diseases, Treatment Patterns, and Costs. AU Garber, Alan M.; MaCurdy, Thomas E.; McClellan, Mark. AA National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6748; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 11. PR $5.00. JE H51, I12, I18, J14. KW Hospice Care. Medicare. Home Healthcare. Medical Costs.
AB In recent years, the use of Medicare-covered home health care and hospice services has grown dramatically. Hospice care addresses the needs of dying patients, who are known to generate disproportionately large costs of care. The authors examined linked Medicare claims files from 1988 to 1995, determining the location of death, days of use of services, and expenditures for the care of beneficiaries in the final months of life. Use of hospice and home health services by decedents grew rapidly over the study period, particularly among patients with a predictably terminal illness. For such patients, these alternatives to acute hospital care have reduced the use of hospital care near the end of life. Most of the growth in these services in the year or two before death, however, appears to involve additional Medicare-covered services. Consequently, Medicare-covered home health and hospice care by dying beneficiaries has increased over time, while the proportion of deaths occurring in acute-care hospitals has declined. However, the growth in Medicare expenditures for end-of-life hospital services has not slowed appreciably, nor has there been a marked change in the intensity of end-of-life treatment for Medicare beneficiaries dying of more acute illnesses or requiring substantial supportive care.

Garber, Peter M.

PD June 1998. TI Notes on the Role of Target in a Stage III Crises. AA Brown University. SR National Bureau of Economic Research Working Paper: 6619; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E58, F31, F32, F33. KW European Union. Euro. Exchange Rates. Central Banks. Capital Flows.
AB When Stage III of EMU begins on January 1, 1999, member countries will irrevocably lock exchange rates, and interbank payments in euros will commence. Will the ensuing respite from Stage II instabilities be permanent or only the eye of the storm? Can Stage III itself be subject to an attack that forces a realignment of the "irrevocably fixed" exchange rates and a breakup of the system? The key question for this paper is

how the infrastructural arrangements designed to underpin the monetary union will emerge to determine capital flow dynamics in a crisis and accentuate potential cross-border flows. The answer lies in the details of the TARGET payment system, which can provide the inter- central bank credit necessary to fund an attack.

PD June 1998. TI Derivatives in International Capital Flows. AA Brown University. SR National Bureau of Economic Research Working Paper: 6623; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F13, F31, F32, F36, G13. KW Derivatives. Capital Flows. Regulation. Current Account. AB This paper will discuss the role of derivative products in international capital flows, especially in providing a means of reducing and enhancing market risks associated with given net flows. It will emphasize how derivatives can be used to evade risk-control or prudential regulation, circumvent capital controls, drive the dynamics of currency instabilities, and obscure true risk positions and thereby undermine the usefulness of balance of payments capital account categories.

Garfinkel, Irwin

PD August 1998. TI Fathers Under Fire: The Revolution in Child Support Enforcement in the USA. AU Garfinkel, Irwin; McLanahan, Sara; Meyer, Daniel; Seltzer, Judith. AA Garfinkel: Columbia University. McLanahan: Princeton University. Meyer: University of Wisconsin at Madison. Seltzer: University of California at Los Angeles. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/14; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 42. PR no charge. JE H53, J12, J13. KW Child Support. Non-Resident Fathers. Children. Marriage.
AB Nearly two-thirds of all American children today will live apart from at least one of their parents, usually the father. This has serious implications for the economic, employment, and educational status of mothers and the development and well being of children. But a more comprehensive perspective on non-resident fathers is essential in order to derive value from the past twenty years of policy change, and to design more effective policies for the future. The book traces the recent evolution of child support policy which is shifting the burden of supporting children in single parent families from the public and mothers to non-resident fathers and explores the various "side effects" of rigorous enforcement, especially for low-income fathers, finding that a "proportional standard" of support determination would improve compliance without economically crippling those fathers who are already hovering in or near poverty. Child support enforcement does seem to reduce the likelihood of both remarriage and subsequent out-of-wedlock births for low-income non-resident fathers. Payment of support does tend to coincide with seeing the children more often, and having more influence in child-rearing decisions.

Gaynor, Martin

PD August 1998. TI Change, Consolidation, and Competition in Health Care Markets. AU Gaynor, Martin; Haas-Wilson, Deborah. AA Gaynor: Carnegie Mellon University and National Bureau of Economic Research. Haas-

Wilson: Smith College. SR National Bureau of Economic Research Working Paper: 6701; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE I11, I18, L44. KW Health Care Market. Mergers and Acquisitions.
AB The health care industry is being transformed. Large firms are merging and acquiring other firms. Alliances and contractual relations between players in this market are shifting rapidly. It is predicted that within the next few years, many markets will be dominated by a few large firms. Antitrust enforcement authorities like the Department of Justice and the Federal Trade Commission, as well as courts and legislators at both the federal and state levels, are struggling with the implications of these changes for the nature and consequences of competition in health care markets. In this paper, we summarize the nature of the changes in the structure of the health care industry. We will focus on the markets for health insurance, hospital services, and physician services. We will discuss the potential implications of the restructuring of the health care industry for competition, efficiency, and public policy. As will become apparent, this area offers a number of intriguing questions for inquisitive researchers.

Geanakoplos, John

PD August 1998. TI Would a Privatized Social Security System Really Pay a Higher Rate of Return? AU Geanakoplos, John; Mitchell, Olivia S.; Zeldes, Stephen P. AA Geanakoplos: Yale University. Mitchell: University of Pennsylvania and National Bureau of Economic Research. Zeldes: Columbia University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6713; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 36. PR $5.00. JE D91, G23, H55. KW Social Security. Privatization. Diversification. Prefunding.
AB Three distinct social security reforms are commonly muddled. Privatization means creating individual accounts. Diversification means investing in stocks and other assets, as well as bonds. Prefunding means closing the gap between social security benefits promised to date and the assets available to pay for them. Under privatization without diversification or prefunding the social security system would need to raise taxes or issue new debt to pay benefits already accrued. If the burden were spread evenly across future generations via a constant proportional tax, the added taxes would completely eliminate any rate of return advantage. Prefunding would raise rates of return for later generations, but with lower returns for today's workers. For households about to invest in the stock market on their own, diversification would not raise rates of return, correctly adjusted to recognize risk. Households that are constrained from holding stock would gain higher risk-adjusted returns and would benefit from diversification. If this group is large, diversification would help current stockholders, but would hurt young unconstrained households. Since the number of constrained households is probably fairly small, privatization and diversification would have a much smaller effect on returns than reforms typically claim.

PD September 1998. TI Social Security Money's Worth. AU Geanakoplos, John; Mitchell, Olivia S.; Zeldes, Stephen P. AA Geanakoplos: Yale University. Mitchell: University of Pennsylvania and National Bureau of Economic Research.

Zeldes: Columbia University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6722; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 67. PR $5.00. JE D81, G23, H55. KW Social Security. Reform. Money's Worth. Prefunding.

AB This paper describes three money's worth measures used in social security analyses -- benefit-to-tax ratio, internal rate of return, and net present value. Declining social security returns are the result of an unfunded (pay-as-you-go) system. But future workers cannot necessarily do better by investing in capital markets. Unfunded liabilities of 9-10 trillion dollars still must be paid unless already accrued benefits are cut. In a world without uncertainty, privatization without prefunding would not increase returns, net of the taxes required to cover unfunded liabilities. Prefunding, by reducing accrued benefits or raising taxes, increases money's worth for later generations, but decreases it for today's workers. Computing money's worth under uncertainty is difficult unless four conditions hold: optimization, time homogeneity, stable prices, and spanning. Under these conditions, diversification into stocks has no effect on money's worth when properly adjusted for risk. When spanning fails, diversification can raise welfare for constrained households, but the exact money's worth depends on attitudes toward risk. The authors estimate that a 2-percent-of-payroll equity fund would increase net present value by 59 cents per dollar of bonds switched into equities. The Social Security Advisory Council's two dollar and eighty-five cent estimate ignores the disutility of risk.

Gebhardt, Gunther
TI Derivatives Usage in Risk Management By U.S. and German Non- Financial Firms: A Comparative Survey. AU Bodnar, Gordon M.; Gebhardt, Gunther.

Gertler, Mark
TI "Overreaction" of Asset Prices in General Equilibrium. AU Aiyagari, S. Rao; Gertler, Mark.

Gibbens, Richard
PD September 1998. TI Multiproduct Competition Between Congestible Networks. AU Gibbens, Richard; Mason, Robin; Steinberg, Richard. AA Gibbens and Steinberg: University of Cambridge. Mason: University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9816; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 40. PR annual subscription 40 pounds ($80); individual copies on application. JE D43, L13, L96. KW Multiproduct Competition. Congestion. Internet Charging. Paris Metro Pricing.

AB This paper analyses competition between firms who sell multiple products in the presence of negative externalities. The model involves two networks who each may offer several service classes. Service classes are generated by forming sub-networks differentiated by their congestion levels. The level of congestion on a sub-network is determined by its capacity and the number of users i.e. quality is demand-dependent. This paper shows that networks will choose to offer only one service class, and thus not to form distinct sub-networks, in equilibrium. In addition to contributing to the theory of multiproduct competition, the paper addresses applied problems. For example, the results suggest that current proposals to implement pricing on the Internet will not be viable under competition.

Gibbons, Robert
PD August 1998. TI Incentives in Organizations. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6695; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J33, J41. KW Agency Theory. Incentive Contracts.

AB In this paper I summarize four new strands in agency theory that help me think about incentives in real organizations. As a point of departure, I being with a quick sketch of the classic agency model. I then discuss static models of objective performance measurement in which firms get what they pay for; repeated-game models of subjective performance assessments; incentives for skill development rather than simply for effort; and incentive contracts between versus within organizations. I conclude by suggesting two avenues for further progress in agency theory: better integration with organizational economics, as launched by Coase and reinvigorated by Williamson, and cross-pollination with other fields that study organizations, including industrial relations, organizational sociology, and social psychology.

Gibson, Michael S.
PD November 1999. TI Is Corporate Governance Ineffective in Emerging Markets? AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/63; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 40. PR no charge. JE G34, J63. KW Management Turnover. Performance. Ownership Concentration.

AB I test whether corporate governance is ineffective in emerging markets by estimating the link between CEO turnover and firm performance for over 1,200 firms in eight emerging markets. While previous papers on corporate governance in emerging markets have studied corporate governance mechanisms, such as concentrated ownership, I study a corporate governance outcome: are poorly performing managers replaced? Others have answered this question in the affirmative for the United States and other developed countries. This paper is the first to address this question for emerging markets. I find that CEOs of emerging market firms are more likely to lose their jobs when their firm's performance is poor, suggesting that corporate governance is not ineffective in emerging markets. Earnings-based measures of performance have the strongest relationship, and stock- return-based measures the weakest relationship, with CEO turnover in emerging markets. The magnitude of the relationship is surprisingly similar to what Kaplan (1994) found for the United States. Firms whose large shareholder is another domestic firm exhibit a weaker link between CEO turnover and firm performance. These results should be of interest to investors in emerging markets, as well as to those who debate the role of corporate governance in the recent Asian financial crisis.

Gilchrist, Simon

PD July 1998. TI Investment, Fundamentals and Finance. AU Gilchrist, Simon; Himmelberg, Charles. AA Gilchrist: Boston University and National Bureau of Economic Research. Himmelberg: Columbia University. SR National Bureau of Economic Research Working Paper: 6652; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E22, E44, G31. KW Investment. Structural Models. Corporate Finance. Capital Markets.

AB Financial variables such as cash flow and cash stocks are robust and quantitatively important explanatory variables for firm-level investment. A large body of recent empirical work attributes these findings to capital market imperfections. This interpretation is controversial, however, because even in the absence of capital market imperfections, such financial variables may appear as an explanatory variable for investment if they contain information about the expected marginal value of capital. This paper shows how structural models of investment with costly external finance can be used to identify and quantify the "fundamental" versus the "financial" determinants of investment. The empirical results show that investment responds significantly to both fundamental and financial factors. Point estimates from the structural model imply that, for the average firm in the authors' sample, financial factors raise the overall response of investment to an expansionary shock by 25%, relative to a baseline case where financial frictions are zero.

PD November 1998. TI Putty-Clay and Investment: A Business Cycle Analysis. AU Gilchrist, Simon; Williams, John C. AA Gilchrist: Boston University and National Bureau of Economic Research. Williams: Board of Directors of the Federal Reserve System. SR National Bureau of Economic Research Working Paper: 6812; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 30. PR $5.00. JE D24, E22, E32, G32. KW Putty-Clay. Investment. Capacity. Business Cycles.

AB This paper develops a dynamic stochastic general equilibrium model with putty-clay technology that incorporates embodied technology, investment irreversibility, and variable capacity utilization. Low short-run capital-labor substitutability native to the putty-clay framework induces the putty-clay effect of a tight link between changes in capacity and movements in employment and output. As a result, persistent shocks to technology or factor prices generate business cycle dynamics absent in standard neoclassical models, including a prolonged lump-shaped response of hours, persistence in output growth, and positive comovement in the forecastable components of output and hours. Capacity constraints result in nonlinear aggregate production function that implies asymmetric responses to large shocks with recessions steeper and deeper than expansions. Minimum distance estimation of a two-sector model that nests putty-clay and neoclassical production technologies supports a significant role for putty-clay capital in explaining business-cycle and medium-run dynamics.

Giraitis, Liudas

PD January 2000. TI Adaptive Semiparametric Estimation of the Memory Parameter. AU Giraitis, Liudas; Robinson, Peter M.; Samarov, Alexander. AA Giraitis and Robinson: London School of Economics. Samarov: University of Massachusetts, Lowell and Massachusetts Institute of Technology. SR STICERD, (LSE) Econometrics Discussion Paper: EM/00/379; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 23. PR no charge. JE C13, C14. KW Long-Range Dependence. Semiparametric Models. Convergence Rates. Adaptive Bandwidth. Bandwidth Selection.

AB In Giraitis, Robinson, and Samarov (1997), the authors have shown that the optimal rate for memory parameter estimators in semiparametric long memory models with degree of 'local smoothness' beta is (n to the - r(beta)), r(beta) = beta/(2beta+1), and that a log-periodogram regression estimator with maximum frequency m = m(beta) = (n to the 2r(beta)) is rate optimal. The question addressed in this paper is what is the best obtainable rate when beta is unknown, so that estimators cannot depend on beta. The authors obtain a lower bound for the asymptotic quadratic risk of any such adaptive estimator, which turns out to be larger than the optimal nonadaptive rate by a logarithmic factor. The authors then consider a modified log-periodogram regression estimator based on tapered data and with a data-dependent maximum frequency m = m(beta circumflex), which depends on an adaptively chosen estimator beta circumflex of beta, and show that this estimator attains the lower bound up to a logarithmic factor. The proofs contain results which are also of independent interest.

PD October 1998. TI Variance-Type Estimation of Long Memory. AU Giraitis, Liudas; Robinson, Peter M.; Surgailis, Donatas. AA Giraitis and Robinson: London School of Economics. Surgailis: Institute of Mathematics and Informatics, Bilnius, Lithuania. SR STICERD, (LSE) Econometrics Discussion Paper: EM/98/363; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 30. PR no charge. JE C14, C22. KW Long Memory. Aggregation. Semiparametric Models. Time Series.

AB The aggregation procedure when a sample of length N is divided into blocks of length m = o(N), m goes to infinity and observations in each block are replaced by their sample mean, is widely used in statistical inference. Taqqu, Teverovsky and Willinger (1995), Teverovsky and Taqqu (1997) introduced an aggregate variance estimator of the long memory parameter of a stationary sequence with long range dependence and studied its empirical performance. With respect to autovariance structure and marginal distribution, the aggregated series is closer to Gaussian fractional noise than the initial series. However, the variance type estimator based on aggregated data is seriously biased. A refined estimator, which employs least squares regression across varying levels of aggregation, has much smaller bias, permitting derivation of limiting distributional properties of suitably centered estimates, as well as of a minimum mean squared error choice of bandwidth m. The results vary considerably with the actual value of the memory parameter.

Glaeser, Edward L.

PD November 1998. TI Not-For-Profit Entrepreneurs. AU Glaeser, Edward L.; Shleifer, Andrei. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6810; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE L31.

KW Nonprofit Firms. Entrepreneurs. Product Quality. Financing.

AB Entrepreneurs who start new firms may choose not-for-profit status as a means of committing to soft incentives. Such incentives protect donors, volunteers, consumers and employees from ex-post expropriation of profits by the entrepreneur. We derive conditions under which completely self-interested entrepreneurs opt for not-for-profit status, despite the fact that this status limits their ability to enjoy the profits of their enterprises. When entrepreneurs have a taste for producing high quality products, the incentives are even softer, and, moreover, non-profit status can serve as a signal of that taste. We also show that even in the absence of tax advantages, unrestricted donations would flow to non-profits rather than for-profit firms because donations have more significant influence on the decisions of the non-profits.

TI The Geographic Concentration of Industry: Does Natural Advantage Explain Agglomeration? AU Ellison, Glenn; Glaeser, Edward L.

Glazer, Jacob
TI Measuring Adverse Selection in Managed Health Care. AU Frank, Richard G.; Glazer, Jacob; McGuire, Thomas G.

Glennerster, Howard
PD March 1999. TI Poverty, Social Exclusion and Neighbourhood: Studying the Area Bases of Social Exclusion. AU Glennerster, Howard; Lupton, Ruth; Noden, Philip; Power, Anne. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/22; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 45. PR no charge. JE D63, H70, I31, I38, R13. KW Neighborhoods. Poverty. Social Exclusion. Welfare. Area-Based Initiatives.

AB Area-based policies have become a significant part of the new Labor Government's approach to tackling social exclusion. This paper reviews the long-running debate about whether area-based policies can make a significant impact on poverty and social exclusion. There is a strong tradition of academic work that argues that this is a misguided strategy. The authors argue that recent work, both in the US and the UK, suggests that there may be causal factors at work which derive from area-based problems that suggest area-based solutions. However, too little is understood about what these factors are and how they might be addressed. Deeper local studies are required to tease out these effects. The paper then goes on to describe how the authors have gone about choosing twelve areas for particular study. In the course of doing so, much has been learned about the characteristics of the most deprived areas in the country and where they are.

Glick, Reuven
PD November 1998. TI Contagion and Trade: Why are Currency Crises Regional? AU Glick, Reuven; Rose, Andrew K. AA Glick: Federal Reserve Bank of San Francisco. Rose: University of California, Berkeley and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6806; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE F31, F32, F36. KW Currency Crises. International Trade. Speculative Attacks. Foreign Exchange. Contagion.

AB Currency crises tend to be regional; they affect countries in geographic proximity. This suggests that patterns of international trade are important in understanding how currency crises spread, above and beyond any macroeconomic phenomena. We provide empirical support for this hypothesis. Using data for five different currency crises (in 1971, 1973, 1992, 1994, and 1997) we show that currency crises affect clusters of countries tied together by international trade. By way of contrast, macroeconomic and financial influences are not closely associated with the cross-country incidence of speculative attacks. We also show that trade linkages help explain cross-country correlations in exchange market pressure during crisis episodes, even after controlling for macroeconomic factors.

Goldberg, Lawrence G.
TI The Dynamics of Market Entry: The Effects of Mergers and Acquisitions on De Novo Entry and Small Business Lending in the Banking Industry. AU Berger, Allen N.; Bonime, Seth D.; Goldberg, Lawrence G.; White, Lawrence J.

TI The Dynamics of Market Entry: The Effects of Mergers and Acquisitions on De Novo Entry and Small Business Lending in the Banking Industry. AU Berger, Allen N.; Bonime, Seth D.; Goldberg, Lawrence G.; White, Lawrence J.

Goldberg, Linda S.
TI Employment Versus Wage Adjustment and the U.S. Dollar. AU Campa, Jose Manuel; Goldberg, Linda S.

Goldberg, Pinelopi Koujianou
PD November 1998. TI The Evolution of Price Discrimination in the European Car Market. AU Goldberg, Pinelopi Koujianou; Verboven, Frank. AA Goldberg: Princeton University and National Bureau of Economic Research. Verboven: University of Antwerp. SR National Bureau of Economic Research Working Paper: 6818; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 46. PR $5.00. JE D43, F12, F14, L13, L62. KW Automobiles. Price Discrimination. Product Differentiation. Exchange Rates.

AB Car prices in Europe are characterized by large and persistent differences across countries. The purpose of this paper is to document and explain this price dispersion. Using a panel data set extending from 1980 to 1993, the authors first demonstrate two main facts concerning car prices in Europe: (1) The existence of significant differences in quality adjusted prices across countries; (2) substantial year-to-year volatility that is to a large extent accounted for by exchange rate fluctuation and the incomplete response of local currency prices to these fluctuations. These facts are analyzed within the framework of a multi-product oligopoly model with product differentiation. The model identifies three potential sources for the international price differences: price elasticities generating differences in markups, costs, and import quota constraints. The authors find that the primary reason for the higher prices in Italy is the existence of a strong bias for domestic brands that generates high markups for the domestic firm. In the UK higher prices are mainly attributed to better equipped cars and/or differences in the dealer car practices. The import quota constraints are found to have a significant impact on Japanese

car prices.

Gompers, Paul A.

PD September 1998. **TI** Institutional Investors and Equity Prices. **AU** Gompers, Paul A.; Metrick, Andrew. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6723; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** $5.00. **JE** G11, G12, G23. **KW** Institutional Investors. Stock Prices. Stock Returns. Predicted Returns.

AB We analyze institutional investors' preferences for stocks and the implications that these preferences have for stock-market prices and returns. We find that "large" institutional investors -- a category including all managers with greater than 100 million dollars under discretionary control -- have nearly doubled their share of the common- stock market from 1980 to 1996, with most of this increase driven by the growth in holdings of the largest one-hundred institutions. Large institutions, when compared with other investors, prefer stocks that have greater market capitalizations, are more liquid, and have higher book-to-market ratios and lower returns for the previous year. We discuss how institutional preferences, when combined with the rising share of the market held by institutions, induce changes in the relative prices and returns of large stocks and small stocks. We provide evidence to support the in-sample implications for prices and realized returns and we derive out-of-sample predictions for expected returns.

PD September 1998. **TI** The Determinants of Corporate Venture Capital Successes: Organizational Structure, Incentives, and Complimentarities. **AU** Gompers, Paul A.; Lerner, Josh. **AA** Gompers: Harvard University and National Bureau of Economic Research. Lerner: Harvard Business School and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6725; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G31, G32, L21. **KW** Venture Capital. Corporate Parents. Strategic Investment. Complementarities.

AB We examine a sample of over thirty thousand transactions by corporate and other venture organizations. Corporate venture investments in entrepreneurial firms appear to be at least as successful (using such measures as the probability of the portfolio firm going public) as those backed by independent venture organizations, particularly when there is a strategic overlap between the corporate parent and the portfolio firm. While corporate venture capitalists tend to invest at a premium to other firms, this premium appears to be no higher in investments with a strong strategic fit. Finally, corporate programs without a strong strategic focus appear to much less stable, frequently ceasing operations after only a few investments, but strategically focused programs appear to be as stable as independent venture organizations. The evidence is consistent with the existence of complementarities that allow corporations to effectively select and add value to portfolio firms, but is somewhat at odds with suggestions that the structure of corporate venture funds limits their effectiveness.

PD December 1998. **TI** Conflict of Interest in the Issuance of Public Securities: Evidence from Venture Capital. **AU** Gompers, Paul A.; Lerner, Josh. **AA** Harvard Business School and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6847; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** G24, G28, G32, G38. **KW** Investment Banking. Venture Capital. Initial Public Offerings. Conflict of Interest. Universal Banking.

AB In this paper we investigate potential conflicts of interest in the issuance of public securities in a setting analogous to a universal bank, i.e., the underwriting of initial public offerings by investment banks that hold equity in a firm through a venture capital subsidiary. We contrast two hypotheses. Under "rational discounting," all market participants fully anticipate the conflict. The "naive investor" hypothesis suggests that investment banks are able to utilize superior information when they underwrite securities. The evidence supports the rational discounting hypothesis. Initial public offerings that are underwritten by affiliated investment banks perform as well or better than issues of firms in which none of the investment banks held a prior equity position. Investors do, however, require a greater discount at the offering to compensate for potential adverse selection. We also provide evidence that investment bank-affiliated venture firms address the potential conflict by investing in and subsequently underwriting less information-sensitive issues. Our evidence provides no support for the prohibitions on universal banking instituted by the Glass-Steagall Act of 1933.

Goolsbee, Austan

PD June 1998. **TI** Coveting Thy Neighbor's Manufacturing: The Dilemma of State Income Apportionment. **AU** Goolsbee, Austan; Maydew, Edward L. **AA** Goolsbee: University of Chicago and National Bureau of Economic Research. Maydew: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6614; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 22. **PR** $5.00. **JE** E24, H23, H25, H32, H71. **KW** Business Taxes. Corporate Income Taxes. Payroll Taxes. Employment. Externalities.

AB This paper investigates the economic impact of the apportionment formulae used to divide corporate income taxes among the states. Most apportionment formulae, by including payroll, turn the state corporate income tax at least partially into a payroll tax. Using panel data from 1978-1994, the results show that this distortion has an important effect on state-level employment. For the average state, reducing the payroll weight from one-third to one-quarter increases manufacturing employment around 3% and the result is highly robust. The results also indicate that apportionment changes have important negative externalities on other states since the apportionment formula's effect on aggregate employment is zero. This externality suggests that the U.S. would be better off if the apportionment formula were set at a federal level. The paper also shows that the deadweight loss from the payroll tax component of state corporate income taxation may be significant, despite the low tax rates.

PD September 1998. **TI** Taxes and the Quality of Capital. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6731; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** E62, H21, L15,

L64. KW Tax Policy. Quality of Capital. Relative Prices. Tax Distortion.
AB This paper shows that tax policy toward investment, by changing the relative prices of capital varieties, can have a direct effect on the quality of capital goods that firms purchase. The empirical results indicate that this impact is economically important and readily apparent in disaggregated data on farming, mining, and construction machinery. The paper also applies a general method for aggregation using index number theory which suggests that all of the investment increase generated by tax subsidies comes from buying higher quality capital goods as opposed to buying a larger number of capital goods. It shows, further, that the supply of capital is upward sloping with an elasticity of about one. The tax induced quality changes documented in the paper imply a tax distortion whose deadweight loss is neglected in the conventional literature but whose magnitude indicates that it may represent a substantial efficiency cost from capital taxation (or subsidy).

Goulder, Lawrence H.
TI When Can Carbon Abatement Policies Increase Welfare? The Fundamental Role of Distorted Factor Markets. AU Parry, Ian W. H.; Williams, Robertson C., III..; Goulder, Lawrence H.

Graafland, Johan J.
TI Tax Reform and the Dutch Labor Market: An Applied General Equilibrium Approach. AU Bovenberg, A. Lans; Graafland, Johan J.; De Mooij, Ruud A.

Graham, Wayne
PD August 1996. TI The Randlord's Bubble 1894-6: South African Goldmines and Stock Market Manipulation. AA Anglo-American Corporation, Johannesburg. SR University of Oxford, Discussion Paper in Economic and Social History: 10; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 32. PR no charge. JE G10, L72, N23, N27, N53. KW South Africa. Stock Market. Boer War. Investor Rationality. Economic History.
AB The early history of the Transvaal gold mines for long has been linked with imperialism, the Jameson Raid and the Boer War. The gold mine owners actually had no financial interest in war with the Boers since their money was made primarily by stock market manipulation, rather than in efficiently utilizing the underlying assets. South African gold mining shares were consistently overvalued relative to their true earning power, both before and after the Jameson Raid. Only the outbreak of the war caused them to slump badly.

Granger, Clive W. J.
PD June 1999. TI Modelling the Absolute Returns of Different Stock Indices: Exploring the Forecastability of an Alternative Measure of Risk. AU Granger, Clive W. J.; Sin, Chor-Yiu. AA Granger: University of California, San Diego. Sin: City University of Hong Kong. SR University of California, San Diego, Department of Economics Working Paper: 99/12; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 29. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C22, C52, C53, G10. KW Absolute Returns. Asymmetric Least Squares. Log-Likelihood. Stock Returns. Risk.
AB Conventional measures of the risk of a financial asset make use of the unobserved (conditional) variance or standard deviation of its return. In this paper, we treat the observed absolute return as a measure of risk and explore its forecastability. Two simple models are considered. One is a new AR-like model which is applied to the absolute return. The other is an ARCH-like model called Asymmetric Power ARCH. The forecastability is evaluated with the average log-likelihood of absolute return, instead of that of return itself. While the absolute return is interpreted as "volatility", some quantities of its entire distribution, such as the 95-th quantiles, can be interpreted as "volatility of volatility". We apply both models to three stock indices, namely Hang Seng Index, Nikkei 225 Index and Standard and Poors 500 Index. The new model by and large outperforms the ARCH-like model in both in-sample goodness of fit and post-sample forecastability. It performs exceptionally well in the post-sample period after the outbreak of the Asian financial crisis.

PD June 1999. TI Occasional Structural Breaks and Long Memory. AU Granger, Clive W. J.; Hyung, Namwon. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/14; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 22. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C22, G10. KW Structural Breaks. Long Memory. Autocorrelations. Time Series.
AB This paper shows that a linear process with breaks can mimic autocorrelations and other properties of I(d) processes, where d can be a fraction. Simulation results show that S&P 500 absolute stock returns are more likely to show the "long memory" property because of the presence of breaks in the series rather than an I(d) process.

TI The Impact of the Use of Forecasts in Information Sets. AU Gallo, Giampiero M.; Granger, Clive W. J.; Jeon, Yongil.

Grant, Oliver
PD December 1998. TI The Diffusion of the Herringbone Parlour: A Case Study in the History of Agricultural Technology. AA Oxford University. SR University of Oxford, Discussion Paper in Economic and Social History: 27; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 28. PR no charge. JE N54, O33, Q16. KW Herringbone Parlour. Diffusion. Innovation. Agriculture. Technological Change.
AB The herringbone parlour, a mechanical milking technology, was invented in 1908, but took over 70 years to be adopted by the majority of British farmers. Among the reasons were the need to improve original designs, the need for complementary institutional changes such as management systems, new labor contracts and suitable herd sizes. These determinants are analyzed by means comparison of regions in Britain, which also brings out roles for farmer age, capital constraints, resistance to change, and path dependence. A critical factor was the ability of regions which were late adopters to avoid investment in intermediate systems and to leap-frog the leaders. The paper concludes with a theoretical model of the innovation process.

Grant, Simon

AB Savage motivated his Sure-Thing Principle by arguing that, whenever an act would be preferred if an event obtains and preferred if an event did not obtain, then it should be preferred overall. The idea that it should be possible to decompose and recompose decision problems in this way has normative appeal. We show, however, that it does not require the full separability across events implicit in Savage's axiom. We formulate a weaker axiom that suffices for decomposability, and show that this implies an implicit additive representation. Our decomposability property makes local necessary conditions for optimality, globally sufficient. Thus, it is useful in computing optimal acts. None of these results rely on probabilistic sophistication; indeed, our axiom is consistent with the Ellsberg paradox. If we assume probabilistic sophistication, however, then the axiom holds if and only if the agent's induced preferences over lotteries satisfy betweenness. Thus, the weak sure-thing principle forms part of an axiomatization of subjective betweenness theory, just as its stronger ancestor did for subjective expected utility.

Green, David

TI What is Driving U.S. and Canadian Wages: Exogenous Technical Change or Endogenous Choice of Technique? AU Beaudry, Paul; Green, David.

Green, Richard C.

TI Optimal Investment, Growth Options and Security Returns. AU Berk, Jonathan; Green, Richard C.; Naik, Vasant.

TI Valuation and Return Dynamics of New Ventures. AU Berk, Jonathan B.; Green, Richard C.; Naik, Vasant.

Greenstone, Michael

TI Does Air Quality Matter? Evidence from the Housing Market. AU Chay, Kenneth Y.; Greenstone, Michael.

Greenwood, Jeremy

AB A satisfactory account of the postwar growth experience of the United States should be able to come to terms with the following three facts: 1. Since the early 1970's there has been a slump in the advance of productivity. 2. The price of new equipment has fallen steadily over the postwar period. 3. Since the mid-1970's the skill premium has risen. Variants of Solow's (1960) vintage-capital model can go a long way toward explaining these facts, as this paper shows. In brief, the explanations are: 1. Productivity slowed down because the implementation of information technologies was both costly and slow. 2. Technological advance in the capital goods sector has led to a decline in equipment prices. 3. The skill premium rose because the new, more efficient capital is complementary with skilled labor and/or because the use of skilled labor facilitates the adoption of new technologies.

Gregory, Allan W.

AB This note illustrates that, under the null hypothesis of no cointegration, the correlation of p-values from a single-equation residual-based test (i.e. ADF, Zt, or Zx) with a system-based test (trace or maximum eigenvalue) is very low. With data generating processes under the null or "near" it, the two types of tests can yield virtually any combination of p-values regardless of sample size.

Griliches, Zvi

TI Empirical Patterns of Firm Growth and R&D Investment: A Quality Ladder Model Interpretation. AU Klette, Tor Jakob; Griliches, Zvi.

TI Do Subsidies to Commercial R&D Reduce Market Failures -- Microeconomic Evaluation Studies. AU Klette, Tor Jakob; Moen, Jarle; Griliches, Zvi.

Grodal, Birgit

TI The Price Normalization Problem in Imperfect Competition and the Objective of the Firm. AU Dierker, Egbert; Grodal, Birgit.

TI Incomplete Markets and the Firm. AU Dierker, Egbert; Dierker, Hildegard; Grodal, Birgit.

Groes, Ebbe

AB This paper uses a two-dimensional version of a standard common consequence experiment to test the intransitivity explanation of Allais-paradox-type violations of expected utility theory. We compare the common consequence effect of

two choice problems differing only with respect to whether alternatives are statistically correlated or independent. We framed the experiment so that intransitive preferences could explain violating behavior when alternatives are independent, but not when they are correlated. We found the same pattern of violation in the two cases. This is evidence against intransitivity as an explanation of the Allais Paradox. The question whether violations of expected utility are mainly due to intransitivity or to violation of independence is important since it is exactly on this issue the main new decision theories differ.

Grossman, Gene M.

PD September 1998. TI Diversity and Trade. AU Grossman, Gene M.; Maggi, Giovanni. AA Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6741; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 28. PR $5.00. JE D51, F11, J21. KW Factor Endowments. Labor Diversity. Comparative Advantage. Trade Patterns.

AB We develop a competitive model of trade between countries with similar aggregate factor endowments. The trade pattern reflects differences in the distribution of talent across the labor forces of the two countries. The country with a relatively homogenous population exports the good produced by a technology with complementarities between tasks. The country with a more diverse work force exports the good for which individual success is more important. Imperfect observability of talent strengthens the forces of comparative advantage. Finally, we examine an aspect of education policy concerning the spread of human capital across the student population.

Grossman, Michael

TI The Effects of Alcohol Regulation on Physical Child Abuse. AU Markowitz, Sara; Grossman, Michael.

Gruber, Jonathan

PD October 1998. TI Physician Fees and Procedure Intensity: The Case of Cesarean Delivery. AU Gruber, Jonathan; Kim, John; Mayzlin, Dina. AA Gruber: Massachusetts Institute of Technology and National Bureau of Economic Research. Kim and Mayzlin: Massachusetts Institute of Technology. SR National Bureau of Economic Research Working Paper: 6744; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE D18, I11, I12, I18. KW Medicaid Reimbursement. Treatment Intensity. Fee Differentials. Substitution Effects.

AB While there is a large literature investigating the response of treatment intensity to Medicare reimbursement differentials, there is much less work on this question for the Medicaid program. The answers for Medicare may not apply in the Medicaid context, since a smaller share of physician's patients will be Medicaid insured, so that income effects from fee changes may be dominated by substitution effects. We investigate the effect of Medicaid fee differentials on the use of cesarean delivery over the 1998-1992 period. We find, in contrast to the backward-bending supply curve implied by the Medicare literature, that larger fee differentials between cesarean and normal childbirth for the Medicaid program leads to higher cesarean delivery rates. In particular, we find that the lower fee differentials between cesarean and normal childbirth under the Medicaid program than under private insurance can explain between one-half and three-quarters of the difference between Medicaid and private cesarean delivery rates. Our results suggest that Medicaid reimbursement reductions can cause real reductions in the intensity with which Medicaid patients are treated.

PD October 1998. TI Health Insurance and the Labor Market. AA Massachusetts Institute of Technology. SR National Bureau of Economic Research Working Paper: 6762; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 64. PR $5.00. JE I11, I18, J23, J31, J60. KW Health Insurance. Labor Markets. Wage Determination. Employment Determination. Mobility.

AB A distinctive feature of the health insurance market in the U.S. is the restriction of group insurance availability to the workplace. This has a number of important implications for the functioning of the labor market, through mobility from job-to-job or in and out of the labor force, wage determination, and hiring decisions. This paper reviews the large literature that has emerged in recent years to assess the impact of health insurance on the labor market. I begin with an overview of the institutional details relevant to assessing the interaction of health insurance and the labor market. I then present a theoretical overview of the effects of health insurance on mobility and wage/employment determination. I critically review the empirical literature on these topics, focusing in particular on the methodological issues that have been raised, and highlighting the unanswered questions which can be the focus of future work in this area.

Gustman, Alan L.

PD August 1998. TI Effects of Pensions on Savings: Analysis with Data from the Health and Retirement Study. AU Gustman, Alan L.; Steinmeier, Thomas L. AA Gustman: Dartmouth College and National Bureau of Economic Research. Steinmeier: Texas Tech University. SR National Bureau of Economic Research Working Paper: 6681; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D31, D91, E21, H55, J14, J26. KW Pension. Social Security. Retirement Wealth. Savings.

AB This paper examines the composition and distribution of total wealth for a cohort of 51 to 61 year olds from the Health and Retirement Study (HRS), and the role of pensions in forming retirement wealth. Pensions account for one quarter of accumulated wealth and are held by two thirds of households. Social security benefits account for another quarter of total wealth. As calculated from earnings records, the present discounted value of social security benefits is less than the present value of taxes paid. When pensions and social security are included, wealth accumulated by the HRS population to date is substantial. When pensions and social security are counted in total wealth, the ratio of wealth to lifetime earnings is consistent with the predictions of a simple, stripped down life cycle model. However, real estate and business wealth are a larger share of total wealth for those without pensions. Pensions add to total wealth by at least half the value of the pension, and in most estimates by a good deal more. These findings are inconsistent with a simple life cycle model. They also raise

questions about whether pensions are fundamentally a tax avoidance device, allowing substitution of pension for nonpension savings.

PD December 1998. TI Changing Pensions in Cross-Section and Panel Data: Analysis with Employer Provided Plan Descriptions. AU Gustman, Alan L.; Steinmeier, Thomas L. AA Gustman: Dartmouth Collegevand National Bureau of Economic Research. Steinmeier: Texas Tech University. SR National Bureau of Economic Research Working Paper: 6854; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 13. PR $5.00. JE J14, J26, J32. KW Pension Plans. Retirement. Defined Benefits.
AB This study analyzes changes in the value of defined benefit (DB) pension plans over time. It uses summary plan descriptions provided by the employers of respondents to the Survey of Consumer Finances (SCF) in 1983 and in 1989, applying them to similar earnings histories. Pension changes between 1990 and 1995 are also analyzed, using employer plan descriptions for large firms published by the Watson Wyatt Company. Substantial changes are found in pension values and pension accruals between the two SCF cross-sections. Also, early retirement age falls over the time period. Because there are important changes in the composition of the pensions in each cross-section, those who are covered by the same plan in both years experience smaller, although important, changes than are suggested by comparing cross-section data from two different time periods. Using the data from Watson Wyatt, the authors also find similar evidence of important changes over the period 1990 to 1995. These findings suggest that substantial errors will be introduced into retirement studies if pension incentives and pension values are estimated from a single cross-section under the assumption than pension plans remain stable over time.

Gutierrez, Eva
TI European Technology Policy. AU Eaton, Jonathan; Gutierrez, Eva; Kortum, Samuel.

Guy, Frederick
PD June 1999. TI Earnings Distribution, Corporate Governance and CEO Pay. AA University of London. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP126; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 13. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D31, G34, J31, J33, J44. KW Chief Executive Officers. Executive Earnings. Share Options. Firm Size. Income Distribution.
AB This paper investigates the relationship between earnings differentials and the pay of Chief Executive Officers (CEOs) of 186 British companies between 1970 and 1990. It is found that (i) changes in the differential between the 90th and the 50th weekly earning percentiles for non-manual adult male workers explain changes in the level of real CEO salary and bonus in the sample of companies; (ii) changes in this differential also explain changes in the elasticity of CEO pay; (iii) broader measures of earnings inequality do a far worse job of explaining changes in both the level and the firm-size elasticity of CEO pay; and (iv) fitting the model on data for 1970-83 and predicting pay levels for the period starting with the adoption of executive share option schemes in 1984, the model essentially continues to predict CEO salary plus bonus, and fails to account for the additional compensation represented by the share options.

Guzzo, Vincenzo
TI The Case for a Populist Central Banker. AU Velasco, Andres; Guzzo, Vincenzo.

Haas-Wilson, Deborah
TI Change, Consolidation, and Competition in Health Care Markets. AU Gaynor, Martin; Haas-Wilson, Deborah.

Hahn, Jinyong
TI Real-Time Multivariate Density Forecast Evaluation and Calibration: Monitoring the Risk of High-Frequency Returns on Foreign Exchange. AU Diebold, Francis X.; Hahn, Jinyong; Tay, Anthony S.

Haldane, Andrew G.
TI Some Costs and Benefits of Price Stability in the United Kingdom. AU Bakhshi, Hasan; Haldane, Andrew G.; Hatch, Neal.

Hall, Brian J.
PD August 1998. TI The Pay to Performance Incentives of Executive Stock Options. AA Harvard Business School and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6674; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 29. PR $5.00. JE G32, J32, J33. KW Performance incentives. Options. Managers.
AB Detailed data on stock option contracts are used to measure and analyze the pay to performance incentives created by the revaluation of stock option holdings and yearly stock option grants. The findings suggest that if CEO stock holdings were replaced by the same ex ante value of stock options, the pay to performance sensitivity of the median CEO would approximately double. Relative to granting at the money options, a value neutral policy of regularly granting options out of the money would increase pay to performance sensitivity by approximately 27 percent. It is shown that different option granting plans have significantly different pay to performance incentives since changes in current stock prices affect the value of future option grants in different ways. The following four option granting policies are compared and contrasted: 1) LBO-style up-front options; 2) fixed number policies; 3) fixed value policies; and 4) an (unofficial) policy of "back-door repricing". Empirical evidence suggests that (even ignoring the revaluation of past option grants) the pay to performance relationship in practice is stronger for 1) stock option grants relative to salary and bonus, and 2) fixed number plans relative to non-fixed number plans.

PD December 1998. TI Regulatory Free Cash Flow and the High Cost of Insurance Company Failures. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6837; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE G22, G28, G33, G38. KW Insurance Companies. Regulation.

Regulatory Failure. Liquidation. Free Cash Flow.

AB Why is the cost of resolving insurance company failures so· high? Evidence in this paper suggests that the state insurance regulatory bodies in charge of the liquidation process turn over an average of only 33 cents for each $1.00 of pre-insolvency assets to the guaranty funds (the state agencies responsible for paying claims). This very low "recovery rate" could result from ex ante regulatory failure -- the assets of the company are not worth much, reflecting regulatory problems prior to liquidation. Or the low recovery rate could reflect ex post regulatory failure -- a regulatory version of the "free cash flow" theory (Jensen, 1986). In this latter case, cash-rich liquidators, who pay their own expenses out of the liquidation receipts first, are reluctant to turn over the money from asset sales to the guaranty funds. The evidence suggests that the low recovery rates arise from both types of regulatory failure.

Haltiwanger, John

TI Aggregate Productivity Growth: Lessons from Microeconomic Evidence. AU Foster, Lucia; Haltiwanger, John; Krizan, C. J.

Hamermesh, Daniel S.

PD June 1998. TI Crime and the Timing of Work. AA University of Texas and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6613; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J22, K42. KW Time Allocation. Labor Supply. Crime. Illegal Behavior.

AB Two striking facts describe work timing in the United States: a lower propensity to work evenings and nights in large metropolitan areas, and a secular decline in such work since 1973. One explanation is higher and possibly increasing crime in large areas. I link Current Population Survey data on work timing to FBI crime reports. Neither fact is explained by changes in nor inter-area differences in crime rates, but higher homicide rates do reduce such work. This reduction implicitly costs the economy between $4 and $10 billion. This negative externality illustrates a larger class of previously unmeasured costs of social pathologies.

PD October 1998. TI Tools or Toys? The Impact of High Technology on Scholarly Productivity. AU Hamermesh, Daniel S.; Oster, Sharon M. AA Hamermesh: University of Texas and National Bureau of Economic Research. Oster: Yale University. SR National Bureau of Economic Research Working Paper: 6761; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 22. PR $5.00. JE A14, D24, J24, O33. KW Productivity. Computers. Scholarship. Technological Change. Consumption Goods.

AB Toys. The impact of computers on productivity has been examined directly on macro data and indirectly (on wages) using microeconomic data. This study examines the direct impact on the productivity of scholarship by considering how high technology might alter patterns of coauthoring of articles in economies and their influence. Using all coauthored articles in three major economics journals from 1970-1979 and 1992-96, we find: 1) Sharp growth in the percentage of distant co-authorships (those between authors who were not in the same metropolitan areas in the four years prior to publication), as the theory predicts. Contrary to the theory: 2) Lower productivity

(in terms of subsequent citations) of distant than close-coauthored papers; and 3) No decline in their relative disadvantage between the 1970s and 1990s. These findings are reconciled by the argument that high-technology functions as a consumption rather than an investment good. As such, it can be welfare- increasing without increasing productivity.

Hamilton, James D.

PD January 1999. TI A Parametric Approach to Flexible Nonlinear Inference. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/03; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 48. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C14, C53, E24, E31. KW Nonparametric Methods. Spline. Nonlinear. Phillips Curve. Forecasting.

AB This paper proposes a new framework for determining whether a given relationship is nonlinear, what the nonlinearity looks like, and whether it is adequately described by a particular parametric model. The paper studies a regression or forecasting model of the form $y_t = u(x_t) + e_t$ where the functional form of $u(.)$ is unknown. We propose viewing $u(.)$ itself as the outcome of a random process. The paper introduces a new stationary random field $m(.)$ that generalizes finite-differenced Brownian motion to a vector field and whose realizations could represent a broad class of possible forms for $u(.)$. We view the parameters that characterize the relation between a given realization of $m(.)$ and the particular value of $u(.)$ for a given sample as population parameters to be estimated by maximum likelihood or Bayesian methods. We show that the resulting inference about the functional relation also yields consistent estimates for a broad class of deterministic functions $u(.)$. The paper further develops a new test of the null hypothesis of linearity based on the Lagrange multiplier principle and small-sample confidence intervals based on numerical Bayesian methods. An empirical application suggests that properly accounting for the nonlinearity of the inflation-unemployment tradeoff may explain the previously reported uneven empirical success of the Phillips Curve.

Hammour, Mohamad

TI Improper Churn: Social Costs and Macroeconomic Consequences. AU Caballero, Ricardo J.; Hammour, Mohamad.

Hansen, Gary D.

PD December 1998. TI Malthus to Solow. AU Hansen, Gary D.; Prescott, Edward C. AA Hansen: University of California, Los Angeles. Prescott: Federal Reserve Bank of Minnesota and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6858; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 22. PR $5.00. JE D24, O11, O13, O14, O41. KW Growth. Economic Transition. Industrial Revolution. Total Factor Productivity. Technological Change.

AB A unified growth theory is developed that accounts for the roughly constant living standards displayed by world economies prior to 1800 as well as the growing living standards

exhibited by modern industrial economies. Our theory also explains the industrial revolution, which is the transition from an era when per capita incomes are stagnant to one with sustained growth. This transition is inevitable given positive rates of total factor productivity growth. We use a standard growth model with one good and two available technologies. The first, denoted by "Malthus" technology, requires land, labor and reproducible capital as inputs. The second, denoted the "Solow" technology, does not require land. We show that in the early stages of development, only the Malthus technology is used and, due to population growth, living standards are stagnant despite technological progress. Eventually, technological progress causes the Solow technology to become profitable and both technologies are employed. At this point, living standards improve since population growth has less influence on per capita income growth. In the limit, the economy behaves like a standard Solow growth model.

Hanson, Jean
TI   Economic Values of Freshwater in the United States.
AU   Frederick, Kenneth D.; Vandenberg, Tim; Hanson, Jean.

Hanushek, Eric A.
PD   August 1998. TI   Does Special Education Raise Academic Achievement for Students with Disabilities? AU   Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G. AA   Hanushek: University of Rochester and National Bureau of Economic Research. Kain: University of Texas, Dallas. Rivkin: Amherst College. SR   National Bureau of Economic Research Working Paper: 6690; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   H04, I02, I21. KW   Education Effectiveness. Special Education.
AB   While special education has become a hotly debated issue of school policy, most of the discussion has centered on the aggregate costs of providing mandated programs for disabled children. Little attention has been paid to the effectiveness of such programs or possible interactions with the provision of regular education. This study, building on the unique data of the Harvard/UTD Texas School Projects, provides direct evidence on the effectiveness of special education programs. The average special education program boosts mathematics and reading achievement of special education students, particularly those classified as learning disabled, while not detracting from regular education students. These results are estimated quite precisely from models of fixed effects in achievement gains, and they are robust to a series of specification tests. At this stage, it is not possible to judge whether the program benefits are sufficiently large to justify the added spending involved.

PD   August 1998. TI   Teachers, Schools, and Academic Achievement. AU   Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G. AA   Hanushek: University of Rochester and National Bureau of Economic Research. Kain: University of Texas, Dallas. Rivkin: Amherst College. SR   National Bureau of Economic Research Working Paper: 6691; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   35. PR $5.00. JE   I21. KW   Education. Teacher Quality. Educational Achievement.
AB   Considerable controversy surrounds the impact of schools and teachers on the achievement of students. This paper disentangles the separate factors influencing achievement with special attention given to the role of teacher differences and other aspects of schools. Unique matched panel data from the Harvard/UTD Texas Schools Project permit distinguishing between total effects and the impact of specific, measured components of teachers and schools. While schools are seen to have powerful effects on achievement differences, these effects appear to derive most importantly from variations in teacher quality. A lower bound suggests that variations in teacher quality account for at least seven and a half percent of the total variation in student achievement, and there are reasons to believe that the true percentage is considerably larger. The subsequent analysis estimates educational production based on models of achievement growth with individual fixed effects. It identifies a few systematic factors -- a negative impact of initial years of teaching and a positive effect of smaller class sizes for low income children in earlier grades. However, these effects are very small relative to the effects of overall teacher quality differences.

Harkness, Susan
PD   November 1999. TI   The Family Gap in Pay: Evidence from Seven Industrialised Countries. AU   Harkness, Susan; Waldfogel, Jane. AA   Harkness: University of Sussex. Waldfogel: Columbia University and London School of Economics. SR   STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/30; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   38. PR   no charge. JE   J16, J31, J32, J39. KW   Women. Earnings. Children. Wages. Employment.
AB   This paper uses microdata on employment and earnings from a variety of industrialized countries to investigate the family gap in pay -- the differential in hourly wages between women with children and women without children. The authors present results from seven countries: Australia, Canada, the United Kingdom, the United States, Germany, Finland, and Sweden. They find that there is a good deal of variation across the sample countries in the effects of children on women's employment. They also find large differences in the effects of children on women's hourly wages even after controlling for differences between women with children and women without children in characteristics such as age and education. Among the seven countries, the United Kingdom displays the largest wage penalties to children. Why does the family gap in pay vary so much across countries? The authors find that the variation in the family gap in pay across countries is not primarily due to differential selection into employment or to differences in wage structure. The authors therefore suggest that future research should examine the impact of family policies such as maternity leave and child care on the family gap in pay.

Harrington, Winston
TI   Public Support for Pollution Fee Policies for Motor Vehicles: Survey Results. AU   Krupnick, Alan J.; Harrington, Winston; Alberini, Anna.

Hart, Oliver
PD   January 1998. TI   Cooperatives vs. Outside Ownership. AU   Hart, Oliver; Moore, John. AA   Hart: Harvard University. Moore: London School of Economics and University of St. Andrews. SR   STICERD, (LSE) Theoretical

Economics Discussion Paper: TE/98/346; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 56. PR no charge. JE D23, D82, L22, L31, P10. KW Cooperatives. Firms. Ownership. Property Rights. Corporate Control.
AB See the abstract for Hart, Oliver; Moore, John. September 1998. "Foundations of Incomplete Contracts". National Bureau of Economic Research Working Paper: 6726; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.

PD September 1998. TI Foundations of Incomplete Contracts. AU Hart, Oliver; Moore, John. AA Hart: Harvard University and National Bureau of Economic Research. Moore: London School of Economics. SR National Bureau of Economic Research Working Paper: 6726; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 46. PR $5.00. JE D23, D52, D81, K11. KW Incomplete Contracts. Maskin and Tirole. Transaction Costs. Describability.
AB In the last few years a new area has emerged in economic theory, which goes under the heading of "incomplete contracting." However, almost since its inception, the theory has been under attack for its lack of rigorous foundations. In this paper, we evaluate some of the criticisms that have been made of the theory, in particular, those in Maskin and Tirole (1998a). In doing so, we develop a model that provides a rigorous foundation for the idea that contracts are incomplete.

PD September 1998. TI Foundations of Incomplete Contracts. AU Hart, Oliver; Moore, John. AA Hart: Harvard University and London School of Economics. Moore: London School of Economics and University of St. Andrews. SR STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/358; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 52. PR no charge. JE D23, L14. KW Incomplete Contracts. Rigorous Foundations. Economic Theory.
AB See the abstract for Hart, Oliver; Moore, John. September 1998. "Foundations of Incomplete Contracts". National Bureau of Economic Research Working Paper: 6726; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.

Harvey, Andrew
TI Testing for the Presence of a Random Walk in Series with Structural Breaks. AU Busetti, Fabio; Harvey, Andrew.

Harvey, Campbell R.
TI Capital Flows and the Behavior of Emerging Market Equity Returns. AU Bekaert, Geert; Harvey, Campbell R.

TI Dating the Integration of World Markets. AU Bekaert, Geert; Harvey, Campbell R.; Lumsdaine, Robin L.

Hassett, Kevin A.
PD August 1998. TI Are Investment Incentives Blunted by Changes in Prices of Capital Goods? AU Hassett, Kevin A.; Hubbard, R. Glenn. AA Hassett: American Enterprise Institute. Hubbard: Columbia University. SR National Bureau of Economic Research Working Paper: 6676; National Bureau of Economic Research, 1050 Massachusetts Avenue,

Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D92, E22, H25, H32, O38. KW Investment. Capital Stock. Tax Incentives. Cost of Capital.
AB Recent research on business investment decisions suggests that real investment in plant and equipment is quite sensitive to changes in the user cost of capital, pointing to the possibility that long-run changes in tax policy may have a significant impact on an economy's capital stock. Indeed, many countries have at times adopted investment tax incentives to stimulate investment. The prevalence of investment incentives suggests that local policymakers believe that incentives are effective in increasing investment at a reasonable cost in terms of lost revenue for a given increment to investment. In this paper, we explore this issue by estimating the extent to which countries are price-takers in the world market for capital goods. We find that most countries -- even the United States -- face a highly elastic supply of capital goods, suggesting that the effect of investment incentives on the price of investment goods is small. Hence long-run changes in investment tax policy are likely to materialize in real investment rather than simply being dissipated in changes in capital-goods prices.

Hatch, Neal
TI Some Costs and Benefits of Price Stability in the United Kingdom. AU Bakhshi, Hasan; Haldane, Andrew G.; Hatch, Neal.

Haug, Alfred A.
TI Conflicts Among Tests for Cointegration. AU Gregory, Allan W.; Haug, Alfred A.

Heckman, James
PD August 1998. TI Characterizing Selection Bias Using Experimental Data. AU Heckman, James; Ichimura, Hidehiko; Smith, Jeffrey; Todd, Petra. AA Heckman: University of Chicago and National Bureau of Economic Research. Ichimura: University of Pittsburgh. Smith: University of Western Ontario and National Bureau of Economic Research. Todd: University of Pennsylvania and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6699; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 41. PR $5.00. JE C14, C93. KW Semiparametric methods. Selection Bias.
AB This paper develops and applies semiparametric econometric methods to estimate the selection bias that arises from using nonexperimental comparison groups to evaluate social programs and to test the identifying assumptions that justify three widely-used classes of estimators (a) the method of matching; (b) the classical econometric selection model which represents the bias solely as a function of the probability of participation; and (c) the method of difference-in- differences. Using data from an experiment on a prototypical social program combined with unusually rich data from a nonexperimental comparison group, we reject the assumptions justifying matching and our extensions of that method but find evidence in support of the index- sufficient selection bias model and the assumption that justify application of a conditional semiparametric version of the method of difference-in-difference. We present a rigorous definition of selection bias and find that in our data it is a small component of

conventionally measured bias, but is still substantial when compared with experimentally-estimated program impacts. We find that matching participants to comparison group members in the same labor market, giving them the same questionnaire, and making sure they have comparable characteristics substantially improve the performance of any econometric program evaluation estimator.

Helliwell, John F.

PD June 1998. TI Comparing Capital Mobility Across Provincial and National Borders. AU Helliwell, John F.; McKitrick, Ross. AA Helliwell: University of British Columbia and National Bureau of Economic Research. McKitrick: University of Guelph. SR National Bureau of Economic Research Working Paper: 6624; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 10. PR $5.00. JE E21, E22, F21, F23, R30. KW Saving. Investment. Canada. International Investment.
AB The persistence of high savings-investment correlations and home- country bias in portfolio construction at the national level is contrasted with new evidence of savings behavior in Canadian provinces. We confirm that national borders clearly divert flows of capital to domestic investments, but provincial borders have no such effect. In particular, while there is a significant correlation between national savings and investments, among provinces that effect disappears. We discuss the implications for interpreting the distinction between provincial and national borders.

Helpman, Elhanan

PD October 1998. TI The Structure of Foreign Trade. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6752; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 35. PR $5.00. JE F11, F12, F13. KW Foreign Trade. Empirical Survey. Product Differentiation. Factor Composition.
AB During the last two decades, new research has greatly advanced our understanding of the structure of world trade. This article reviews the empirical literature that grew out of this effort, emphasizing the ways in which it relied on theoretical developments.

Hendry, Ross

PD November 1998. TI Fair Shares for All? The Development of Needs Based Government Funding in Education, Health and Housing. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/18; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 67. PR no charge. JE D63, D71, H51, H52, I38. KW Resource Allocation. Funding. Public Choice. Geographical Equity. Housing.
AB Furthering equity as an achievable public policy objective is based on the ability to assess needs accurately and to distribute resources accordingly. This paper plots the development of the formulae governing resource allocation in education, health and social housing and charts their course as a tool with which governments attempted to achieve various objectives. The paper begins by suggesting that allocation

systems can be explained through a form of public choice theory. It then charts the development of needs based resource allocation from its origin in the nineteenth century, through the pre and post Second World War period, and into the major flowering of needs based formulae since 1970 -- when resources were constrained and attempts were made to push allocation even further down and apply the formulae to smaller units. The conclusion looks at equity, public choice and technical ability as over-riding features governing the development of resource allocation within the English state sector.

Henry, M.

TI Long and Short Memory Conditional Heteroscedasticity in Estimating the Memory Parameter of Levels. AU Robinson, Peter M.; Henry, M.

Henstridge, N. M.

PD May 1997. TI The Reconstruction of a Macroeconomic Dataset for Uganda. AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/03; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 42. PR 3 pounds or $5.00. JE C82, E20. KW Macroeconomic Data. Uganda. Gross Domestic Product. Production.
AB This paper is an account of the reconstruction of a macroeconomic dataset for Uganda. The sources of data, the splicing together of consumer price indices and interpolation of missing quarterly observations, the interpolation of quarterly GDP and the estimation of quarterly monetary GDY and GDE, are described. The resulting dataset (which is presented in an appendix) is then used to highlight the collapse in GDP, change in the structure of production and de- monetization which resulted from insecurity, and more recent macroeconomic stability and re-monetization. The final section of the paper discusses some of the time-series characteristics of the data.

Hersh, Robert

PD December 1996. TI A Review of Integrated Pollution Control Efforts in Selected Countries. AA Resources for the Future. SR Resources for the Future Discussion Paper: 97/15; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 88. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE F42, Q24, Q25, Q28. KW Pollution. Cross-Media Policies. Regulation. Environment.
AB This report describes the reasons why integrated pollution control (IPC) became accepted as a necessary part of the environmental regulatory systems of the Netherlands, the United Kingdom, and Sweden and examines the experience these countries have had with unified environmental statutes, alternative compliance approaches, cross-media permitting, and other aspects of IPC that are under consideration in this country. Chapter one provides a brief overview of the intellectual pedigree of IPC and discusses arguments for and against it. Chapter two details how the United Kingdom is developing an integrated system of industrial pollution control based on its 1990 Environmental Protection Act. Chapter three examines how the Dutch Environmental Ministry was able to forge a consensus among diverse groups for the need to

embrace innovative, integrated policies and then examines in detail the Dutch experience with alternative compliance efforts. Chapter four analyzes Sweden's successful industrial permitting system. Chapter five considers the development and implications of the European Union's recently adopted Directive on Integrated Pollution Prevention and Control.

Hertzendorf, Mark N.

AB We analyze how duopoly competition affects the incentives of firms to signal quality through prices. One firm has a high quality, the other a low, but initially potential customers are unable to verify who has the high quality. The incentives are such that the high quality firm prefers to reveal its identity, whereas the low quality firm prefers to hide. The scope for separation of the qualities is shown to be related to the size of the quality difference. If the difference is small, separation is impossible, but if the difference is sufficiently large, the high quality firm can separate in equilibrium. We conclude that, whether there is pooling or separation, in a focal equilibrium the prices of both firms are likely distorted above their full information levels. Non-standard equilibrium refinements are proposed to deal with the added complexities of competitive duopoly signaling.

Hillier, Grant

AB Using recently developed methods for obtaining exact distribution results for implicitly defined estimators, we study the exact properties of the maximum likelihood estimator in exponential regression modes. The main technical problem is the evaluation of a surface integral over an (n- k)-dimensional hyperplane embedded in the n-dimensional sample space. Details of the calculation are given in the cases k=1 and k=2, and some general properties of the densities for arbitrary k are indicated.

AB Many inference problems reduce to a normalized quadratic form in a standard normal vector, normalized by the squared length of that vector. The Durbin-Watson statistic, and serial correlation coefficients, are prominent examples. Although much studied, the exact density function of such a statistic remains unknown. It is known that the density is non-analytic at the characteristic roots of the matrix in the numerator quadratic form, and has a different functional form in each open interval between those roots. This paper gives formulae for the density in each of these open intervals. Instead of a conventional approach based on characteristic function inversion, we start from a representation of the density as a surface integral over an (n-2)- dimensional hyperplane, the level set of the numerator and denominator components of the statistic. The results are expressed in terms of matrix-argument hypergeometric functions involving only top-order zonal polynomials.

AB The possibility that a structural equation may not be identified casts doubt on the measures of estimator precision that are normally used. We argue that the observed identifiability test statistic is directly relevant to the precision with which the structural parameters can be estimated, and that inference in such models should be conditioned on the observed value of that statistic. We examine in detail the effects of conditioning on the properties of the OLS and TSLS estimators for the coefficients in a single structural equation. We show that: (a) conditioning has very little impact on the properties of the OLS estimator, but a substantial impact on those of the TSLS estimator; (b) the conditional variance of the TSLS estimator can be much larger than its unconditional variance (when the identifiability statistic is small), or much smaller (when the identifiability statistic is large); and (c) conditional mean-square-error comparisons of the two estimators favor the OLS estimator when the sample evidence only weakly supports the identifiability hypothesis, can favor TSLS slightly when that evidence is moderately favorable, but there is nothing to choose between the two estimators when the data strongly supports the identification hypothesis.

Hills, John

I31, I38. KW Welfare State. Welfare Reform. Thatcherism. Government Expenditures.

AB This paper examines the extent to which the policies towards the welfare state pursued by the Labor Government in its first fifteen months represent a break with those of its Conservative predecessor and with earlier policies put forward by Labor in opposition. Four key parts of its inheritance from the Conservatives are identified: attempts to control public spending; privatization (more in terms of welfare provision than of its financing); the growth of means-testing; and the growth of inequality. The paper summarizes the main policy developments towards the welfare state since May 1997, and identifies four linking themes: the importance to Labor of shedding its "tax and spend" image leading to tight budget constraints, but with significant reallocation towards health and education; a strong focus on the promotion of paid work; a series of measures intended to reduce inequality and relative poverty, but with controversy over benefit levels; and the new dominance of the Treasury in making welfare and social policy. Some of these policies mark clear reversals from those of the Conservatives, but in others they continue an evolution which was already underway, despite the earlier Labor rhetoric about "thinking the unthinkable" on welfare reform.

Himmelberg, Charles

TI Investment, Fundamentals and Finance. AU Gilchrist, Simon; Himmelberg, Charles.

Hines, James R., Jr.

PD June 1998. TI Investment Ramifications of Distortionary Tax Subsidies. AA University of Michigan Business School and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6615; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE G31, G32, G33, H25. KW Investment. Tax Subsidies. Business Taxes. Corporate Bonds.

AB This paper examines the investment effects of tax subsidies for which some assets and not other are eligible. Distortionary tax subsidies encourage firms to concentrate investments in tax favored assets, thereby reducing the expected pre-tax profitability of investment and reducing payoffs to bondholders in the event of default. Anticipation of asset substitution makes borrowing more expensive, which in turn discourages investment. Borrowing rates react so strongly that aggregate investment may rise very little, or even fall, in response to higher tax credits. Observed positive corporate bond market reactions to events surrounding passage of the U.S. Tax Reform Act of 1986 are consistent with the model's implications.

PD September 1998. TI "Tax Sparing" and Direct Investment in Developing Countries. AA University of Michigan Business School and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6728; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 29. PR $5.00. JE F21, F23, H25, H87. KW Tax Sparing. Foreign Investment. Direct Investment. Tax Concessions.

AB This paper analyzes the effect of "tax sparing" on the location and performance of foreign direct investment (FDI). "Tax sparing" is the practice of adjusting home country taxation of foreign investment income so investors receive the full benefits of host country tax reductions. For example, Japanese firms investing in countries with whom Japan has "tax sparing" agreements are entitled to claim foreign tax credits for income taxes that they would have paid to foreign governments in the absence of tax holidays and other special abatements. Most high-income capital-exporting countries grant "tax sparing" for FDI in developing countries, while the United States does not. The volume of Japanese FDI located in countries with whom Japan has "tax sparing" agreements is 1.4-2.4 times larger than what it would have been otherwise. In addition, Japanese firms are subject to 23 percent lower tax rates than are their American counterparts in countries with whom Japan has "tax sparing" agreements. Similar patterns appear when "tax sparing" agreements with the United Kingdom are used as instruments for Japanese "tax sparing" agreements, suggesting that "tax sparing" influences the level and location of foreign direct investment.

PD December 1998. TI Nonprofit Business Activity and the Unrelated Business Income Tax. AA University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6820; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 27. PR $5.00. JE H25, L31. KW Nonprofit Institutions. Business Taxes. Tax Exemption. Competition.

AB American nonprofit organizations are generally exempt from federal income tax, with the exception that profits earned from activities that are "unrelated" to exempt purposes are subject to the Unrelated Business Income Tax (UBIT). The UBIT is intended to prevent "unfair" competition between tax-exempt nonprofits and taxable for-profit firms, and also to prevent erosion of the federal tax base through tax-motivated transactions between taxable and tax-exempt entities. The evidence indicates that American nonprofit organizations engage in very little unrelated business activity, paying aggregate UBIT of less than $200 million annually. Large nonprofit organizations, and those with pressing financial needs due to high program-related expenses and low receipts of contributions and government grants, are the most likely to have unrelated business income. The same organizational characteristics are not associated with earning income from inventory sales that are "related" to exempt purposes. This evidence suggests that nonprofits incur important organizational costs in undertaking unrelated business activity, since unrelated business income is concentrated among organizations facing the strongest financial pressures.

PD December 1998. TI Three Sides of Harberger Triangles. AA University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6852; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 24. PR $5.00. JE B21, D61, H21. KW Harberger Triangles. Market Imperfections. Deadweight Loss. Economic Welfare. Efficiency.

AB Harberger triangles are used to calculate the efficiency costs of taxes, government regulations, monopolistic practices, and various other market distortions. This paper considers the historical development of Harberger triangles, the associated theoretical controversies, and the contribution of Harberger triangles to subsequent empirical work and theories of market imperfections. Prior to the publication of Arnold Harberger's

papers, economists very rarely estimated deadweight losses. The empirical deadweight loss literature expanded greatly since the 1960s, making such estimation now quite common. Meanwhile, critical evaluation of deadweight loss estimates led to new theories of rent- seeking and other inefficiencies of economies with multiple distortions.

Hobcraft, John
PD November 1998. TI Intergenerational and Life-Course Transmission of Social Exclusion: Influences of Childhood Poverty, Family Disruption, and Contact With the Police. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/15; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 100. PR no charge. JE D63, I31, I32, J12, J13. KW Social Exclusion. Childhood. Family. Poverty. Police.
AB This study uses data from the National Child Development Study (NCDS), a longitudinal study of children born in 1958, to examine the following questions. How far is social exclusion and disadvantage transmitted from parents to their children and from childhood into adulthood? In particular, how far do childhood experiences of poverty, family disruption, and contact with the police link to adult outcomes? What associations are there for a range of other parental and childhood factors -- social class of origin, social class during childhood, housing tenure, father's and mother's interest in schooling, "aggression", "anxiety", and "restlessness", and educational test scores? And how do these factors link to outcomes by age 33, including three indicators of demographic behavior, one of psychological well- being, three of welfare position, two of educational qualifications and three of economic position? Which childhood factors have a general influence on adult exclusion and are there specific 'inheritance' patterns?

PD July 1999. TI Childhood Poverty, Early Motherhood and Adult Social Exclusion. AU Hobcraft, John; Kiernan, Kathleen. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/28; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 36. PR no charge. JE I31, I32, J13. KW Poverty. Early Motherhood. Social Exclusion. Adult Outcomes.
AB The key new issue addressed in this research is the relative importance of childhood poverty and of early motherhood as correlates of outcomes later in life. How far are the 'effects' of early motherhood on later outcomes due to childhood precursors, especially experience of poverty? Using National Child Development Study data, the authors examine a range of outcomes at age 33 in a number of domains representing different aspects of adult social exclusion, and control for a wide range of childhood factors. The authors show that there are clear associations for the adult outcomes with age at first birth, even after controlling for childhood poverty and a wide range of other childhood background factors. The widest gulf in adult outcomes occurs for those who enter motherhood early (before age 23), though further reinforced for teenage motherhood for most adult outcomes. The authors also show that it is any experience of childhood poverty that is most clearly associated with adverse outcomes in adulthood.

Becoming a mother early and any experience of childhood poverty are clear dividing points in differentiating risks of adverse outcomes in later adulthood.

Hoffmaister, A.
TI Contagion, Bank Lending Spreads and Output Fluctuations. AU Agenor, Pierre-Richard; Aizenman, Joshua; Hoffmaister, A.

Holderness, Clifford G.
PD October 1998. TI Constraints on Large-Block Shareholders. AU Holderness, Clifford G.; Sheehan, Dennis P. AA Holderness: Boston College. Sheehan: Smeal Penn State University. SR National Bureau of Economic Research Working Paper: 6765; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 31. PR $5.00. JE G32, G34, G38, K22. KW Corporate Managers. Majority Shareholders. Corporate Ownership. Reorganization. Corporate Law.
AB Corporate managers who own a majority of the common stock in their company or who represent another firm owning such an interest appear to be less constrained than managers of diffusely held firms, yet their power to harm minority shareholders must be circumscribed by some organizational or legal arrangements. Empirical investigations reveal that boards of directors in majority-owned firms are little different from firms with diffuse stock ownership. Another source of constraints on majority shareholders -- capital market activity -- also appears to be no different from firms with diffuse ownership. Finally, there is little evidence that new organizational mechanisms have evolved to constrain managers who own large blocks of stock. The frequency and associated wealth effects of reorganizations of majority shareholder firms, however, indicate that the law constrains managerial majority shareholders, both in their day-to-day management and when they redeem the ownership interest of minority shareholders.

Hollard, Guillaume
PD September 1998. TI An Asymmetric Model of Spatial Competition. AA University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 98/12; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 11. PR no charge. JE D71, D72. KW Spatial Voting. Retrospective Voting.
AB This paper explores a generalized spatial voting model in which parties are not supposed to be identical before the game. This new approach to the political market leads to substantial changes in parties' strategies. Our model provides new explanations of why parties may choose non-median policies, i.e. other than that preferred by the median voter. It also provides explanations on why elections may not lead to close races.

Holmstrom, Bengt
PD August 1998. TI LAPM: A Liquidity-Based Asset Pricing Model. AU Holmstrom, Bengt; Tirole, Jean. AA Holmstrom: Massachusetts Institute of Technology and National Bureau of Economic Research. Tirole: Universite des Sciences Socilaes De Toulouse. SR National Bureau of Economic Research Working Paper: 6673; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 58. PR $5.00.

JE G12, G30. KW Asset Pricing. Corporate Finance.
AB This paper develops an alternative to the intertemporal CAPM approach to asset pricing. The approach of this paper is based on industrial and financial corporations' desire to hoard liquidity to fulfill future cash needs. Our corporate finance approach to market finance suggests new determinants of asset prices such as the distribution of wealth within the corporate sector and between the corporate sector and the consumers. Also, leverage ratios, capital adequacy requirements, and the composition of savings affect the corporate demand for liquid assets and thereby interest rates. The paper sets up a general model of corporate demand for liquid assets, and obtains an explicit formula for the associated liquidity premia. It derives some implications of corporate liquidity demand for the equity premium puzzle, for the yield curve, and for the state-contingent volatility of asset prices. Macroeconomic implications of the theory are discussed. Government may be able to boost aggregate liquidity and enhance economic efficiency by promoting job and asset price stability.

Hong, Yongmiao
TI M-Testing Using Finite and Infinite Dimensional Parameter Estimators. AU White, Halbert; Hong, Yongmiao.

Hooker, Mark
PD August 1999. TI Oil and the Macroeconomy Revisited. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/43; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 13. PR no charge. JE E32, E37. KW Macroeconomic Fluctuations. Oil Price Shocks. Granger Causality.
AB The relationship between oil price shocks and U.S. macroeconomic fluctuations advocated by Hamilton (1983) broke down in the 1980's amidst a new regime of highly volatile oil price movements. Several authors have argued that asymmetric and nonlinear transformations of oil prices restore that relationship, and thus that the economy responds asymmetrically and nonlinearly to oil price shocks. In this paper, I show that this is only part of the story: the two leading such transformations do not in fact Granger cause output or unemployment in the post-1980 period without further refinements, and they derive much of their apparent success from data in the 1950's. If output is expressed in year-over-year changes, which are smoother than the usual quarterly changes, and the equations exclude variables like interest rates and inflation, then asymmetric and nonlinear oil prices predict output, but not unemployment, while the real level of oil prices predicts unemployment, but not output. I interpret this evidence as supportive of significant oil price effects on the macroeconomy which a) are at relatively low frequencies, b) are indirect, through variables like interest rates and inflation, c) can induce departures from Okun's law, and d) changed qualitatively around 1980.

Horsley, Anthony
PD March 1998. TI Berge's Maximum Theorem with Two Topologies on the Action Set. AU Horsley, Anthony; Van Zandt, Timothy; Wrobel, A. J. AA Horsley and Wrobel: London School of Economics. Wrobel: Princeton University. SR STICERD, (LSE) Theoretical Economics Discussion

Paper:

TE/98/347; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 15. PR no charge. JE C61, C62, D10. KW Berge's Maximum Theorem. Demand Continuity. Topology. Preferences.
AB We give variants on Berge's Maximum Theorem in which the lower and the upper semicontinuities of the preference relation are assumed for two different topologies on the action set, i.e., the set of actions available a priori to the decision-maker (e.g. a household with its consumption set). Two new uses are pointed to. One result, stated here without a detailed proof, is the norm-to-weak continuity of consumer demand as a function of prices (a property pointed to in existing literature but without proof or precise formulation). This improves significantly upon an earlier demand continuity result which, with the extremely strong "finite" topology on the price space, is of limited interest other than as a vehicle for an equilibrium existence proof. With the norm topology on the price space, our demand continuity result acquires an independent significance -- particularly for practical implementations of the equilibrium solution. The second application referred to establishes the continuity of the optimal plan as a function of the decision-maker's information (represented by a field of events in a probability space of states).

Horwitz, Jill R.
TI Converting Hospitals from Not-For Profit to For-Profit Status: Why and What Effects? AU Cutler, David M.; Horwitz, Jill R.

Hoxby, Caroline M.
PD November 1998. TI All School Finance Equalizations Are Not Created Equal. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6792; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H52, H71, H72, I22, I28. KW Education. Educational Finance. Tax Prices. Local Government.
AB Public school finance equalization programs can be characterized by the change they impose on the tax price of an additional dollar of local school spending. The author calculates the tax price of spending for each school district in the United States for 1972, 1982, and 1992. She finds that using the actual tax prices resolves apparently conflicting evidence about the effects of equalizations on per-pupil spending. Depending on whether they impose tax prices greater than or less than one, school finance equalizations either "level down" or "level up." Poor districts enjoy increased spending under most equalization schemes. More importantly, regardless of whether an equalization levels down or up, it should be understood as a tax system on districts' spending. The author shows that school finance equalization schemes have properties that are generally considered undesirable: they raise revenue on a base that is itself a function of the school finance system and they assign tax prices so that people with a high demand for education are penalized relative to otherwise identical people with the same income. The author discusses some simple, familiar schemes that do not have these undesirable properties,

Hoynes, Hilary Williamson
TI   The Earned Income Tax Credit and the Labor Supply of Married Couples.   AU   Eissa, Nada;   Hoynes, Hilary Williamson.

Hubbard, R. Glenn
TI   Are Investment Incentives Blunted by Changes in Prices of Capital Goods?   AU   Hassett, Kevin A.;   Hubbard, R. Glenn.

Huber, Bernd
TI   Why Do Countries Subsidize Investment and Not Unemployment?   AU   Fuest, Clemens;   Huber, Bernd.

Hudson, Suzanne L.
TI   The Optimum Currency Area Case for EMU: A Structural VAR Approach.   AU   Chadha, Jagjit S.;   Hudson, Suzanne L.

Hughes, Alan
PD   November 1998.   TI   Growth Constraints on Small and Medium-Sized Firms.   AA   University of Cambridge. SR   University of Cambridge, ESRC Centre for Business Research Working Paper: WP107;   Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk.   PG   64.   PR $10.00   (5 pounds);   checks   payable   to   University   of   Cambridge. JE   L10, L21, L23, O31, O32.   KW   Small Firms. Growth Constraints.   Management   Skills.   Human   Capital. Technological Change.
AB   The study investigates the nature of barriers to growth experienced by a sample of manufacturing and business service SMEs in Britain during the 1990s. Using a "real-time" survey methodology, it reveals a virtuous growth cycle in sustained growth firms, which reflects their adoption of a management and organization structure involving a disciplined and transparent framework of information, reward, and marketing systems. The study suggests that policy should focus on enhancing internal human capital resources, and raising the general level and depth of SME management capability.

Hyung, Namwon
TI   Occasional Structural Breaks and Long Memory. AU   Granger, Clive W. J.;   Hyung, Namwon.

Ichimura, Hidehiko
TI   Characterizing Selection Bias Using Experimental Data. AU   Heckman, James;   Ichimura, Hidehiko;   Smith, Jeffrey; Todd, Petra.

Ingram, David
TI   Evaluating the Impact of Business Service Expertise and Business Links on the Performance of SMEs in England. AU   Bryson, John;   Ingram, David;   Daniels, Peter.

Iorwerth, Aled A.
PD   July 1998.   TI   Meals on Wheels: Restaurant and Home Meal Production and the Exemption of Food from Sales and Value Added Taxes.   AU   Iorwerth, Aled A.;   Whalley,

John.   AA   Iorwerth: University of Western Ontario. Whalley: University of Western Ontario and and National Bureau of Economic Research.   SR   National Bureau of Economic Research Working Paper: 6653;   National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   7.   PR $5.00.   JE   H21, H24.   KW   Food. Taxation. Tax Exemptions. Increasing Returns.
AB   This paper discusses efficiency considerations underlying the widespread exemption of food from sales and value added taxes and analyzes the implications for tax policy. Although there are increasing returns in both household and market production of meals, there are critical differences between them. The authors use a numerical simulation model using 1994 Canadian data with increasing returns to scale in both home and restaurant meals resulting from fixed costs and where a Dixit-Stiglitz Chamberlinian structure is used to represent restaurant meal provision. Because food is an input into home provided meals, more than full taxation of food would seem to be justified to offset the non taxation of time inputs into household production. Because of the differences in pricing rules between market and household production with increasing returns, not only are gains from taxing food higher but they are amplified by also subsidizing food in restaurant use.

Irwin, Douglas A.
PD   December 1998.   TI   Did Late Nineteenth Century U.S. Tariffs Promote Infant Industries? Evidence from the Tinplate Industry.   AA   Dartmouth College and National Bureau of Economic Research.   SR   National Bureau of Economic Research Working Paper: 6835;   National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   not available. PR $5.00.   JE   F13, L61, N71.   KW   Tariffs. Tinplate Industry. Protection. International Trade. Economic History.
AB   This paper examines the role of late nineteenth century U.S. tariffs in promoting infant industries by focusing on the much heralded example of the tinplate industry. After earlier failures, the tinplate industry became established and flourished after receiving protection in the McKinley tariff of 1890. Treating the entry and exit decisions of producers as endogenous, a probability model is estimated to determine the conditions under which domestic tinplate production will take place. Counterfactual simulations indicate that, in the absence of the McKinley duties, domestic tinplate production would have arisen about a decade later as U.S. iron and steel prices (comprising three-quarters of production costs) converged with those in Britain. While the tariff accelerated the industry's development, welfare calculations suggest that protection does not pass a cost-benefit test.

Ito, Takatoshi
PD   September 1998.   TI   How did the Dollar Peg Fail in Asia?   AU   Ito, Takatoshi;   Ogawa, Eiji;   Sasaki, Yuri Nagataki. AA   Ito: Hitotsubashi University and National Bureau of Economic Research. Ogawa: Hitotsubashi University. Sasaki: Takachiho University.   SR   National Bureau of Economic Research Working Paper: 6729;   National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   not available.   PR $5.00. JE   F31, F33, O11, O53.   KW   Dollar Peg. Asia. Currency Weights. Japanese Yen.
AB   In this paper we have constructed a theoretical model in

which Asian firms maximize their profit, competing with Japanese and US firms in their markets. The duopoly model is used to determine export prices and volumes in response to the exchange rate fluctuations vis-a-vis the Japanese yen and the US dollar. Then, the optimal basket weight to minimize the fluctuation of the growth rate of trade balance is derived. These are the novel features of our model. The export price equation and export volume equation are estimated for several Asian countries for the sample period of 1981 to1996. Results are generally reasonable. The optimal currency weights for the yen and the US dollars are derived and compared with actual weights that had been adopted before the currency crisis of 1997. For all the countries in the sample, it is shown that the optimal weight of the yen is significantly higher than the actual weight.

PD September 1998. TI Impacts of the Basle Capital Standard on Japanese Banks' Behavior. AU Ito, Takatoshi; Sasaki, Yuri Nagataki. AA Ito: Hitotsubashi University and National Bureau of Economic Research. Sasaki: Takachiho University. SR National Bureau of Economic Research Working Paper: 6730; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 35. PR $5.00. JE G18, G21, G28. KW Capital Standard. Basle Accord. Subordinated Debts. Risk Assets.
AB This paper examines how the risk based capital standard, the so- called Basle Accord, influenced 87 major Japanese banks' behavior between 1990 and 1993. As the Japanese stock prices fell, banks' latent capital gains, which are part of tier II capital, became smaller. Empirical findings are consistent with a view that banks with lower capital ratios tended to issue more subordinated debts (tier II) and to reduce lending (risk assets).

Iwai, Katsuhito
TI Post-War Institutional Shocks: The Divergence of Italian and Japanese Corporate Governance Models. AU Barca, Fabrizio; Iwai, Katsuhito; Pagano, Ugo; Trento, Sandro.

Jacobs, Didier
PD July 1998. TI Social Welfare Systems in East Asia: A Comparative Analysis Including Private Welfare. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/10; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 146. PR no charge. JE D31, H53, H55, I31, I38. KW East Asia. Welfare. Social Security. Income Distribution. Public Expenditures.
AB This paper is an overview of the social welfare systems of Japan, Korea, Taiwan, Hong Kong and Singapore. It analyzes the overall costs of welfare as well as income distribution aspects, based on both aggregate data and a program-by-program review of their welfare states. Private welfare is introduced in two ways. First, it is argued that sometimes welfare programs are characterized by a mix of public and private interventions. Second, this study explores the welfare roles played by private actors alone, namely enterprises and families. The main conclusions are that (i) Hong Kong and Singapore's public welfare expenditures will remain very low as long as they continue to rely mainly upon privately financed welfare programs, (ii) Korea and Taiwan's public welfare expenditures will grow significantly in the

coming years, (iii) Japan's aging problem is compounded by the weakening of the family as a provider of welfare, (iv) Japan and Korea's enterprises are challenged in their chief welfare role, namely securing employment and (v) the main income equalizing factor in East Asia is the very equal distribution of work across households, which is also threatened by the weakening of enterprise and family welfare.

Jacobsen, Hans Jorgen
TI Testing the Intransitivity Explanation of the Allais Paradox. AU Groes, Ebbe; Jacobsen, Hans Jorgen; Sloth, Birgitte; Tranaes, Torben.

Jaeger, David A.
PD July 1998. TI Is Job Stability in the United States Falling? Reconciling Trends in the Current Population Survey and Panel Study of Income Dynamics. AU Jaeger, David A.; Stevens, Ann Huff. AA Jaeger: Hunter College and CUNY Graduate School. Stevens: Yale University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6650; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 32. PR $5.00. JE E24, J23, J63. KW Job Stability. PSID. Current Population Survey. Turnover. Employment.
AB Documenting trends in job stability over the past twenty-five years has become a controversial exercise. The two main sources of information on employer tenure, the Panel Study of Income Dynamics (PSID) and the Current Population Survey (CPS), have generally given different pictures of the degree of job stability in the U.S. economy. This paper examines whether the PSID and CPS yield systematically different results with respect to comparable measures of job stability. The authors find that the two data sets provide nearly identical results for the 1980's and 1990's while in the 1970's they give results that are somewhat less comparable. The authors argue that this is probably the result of changes in the CPS tenure question following the 1981 survey. The effects of this change and the choice of ending year and variable definition in PSID-based studies are the most likely explanations for the disparate findings in the literature.

PD October 1998. TI Coding Geographic Areas Across Census Years: Creating Consistent Definitions of Metropolitan Areas. AU Jaeger, David A.; Loeb, Susanna; Turner, Sarah E.; Bound, John. AA Jaeger: Hunter College. Loeb: University of California, Davis. Turner: University of Virginia. Bound: University of Michigan and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6772; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 12. PR $5.00. JE J11, J18, R10. KW Metropolitan Areas. Census.
AB This paper presents suggested matches for the geographical coding (geocoding) of metropolitan areas in the 1970, 1980, and 1990 Censuses. The Census Bureau used different definitions and taxonomies to describe the geography of metropolitan areas in these three Census years. As a result, the geographical areas referred to by the standard Census Bureau definitions differ among the three Census data sets. The geographic matching scheme explained in this paper attempts to maximize consistency over time for metropolitan areas in the U.S.

Jansen, Mathijs
TI Invariance Properties of Persistent Equilibria and Related Solution Concepts. AU Balkenborg, Dieter; Jansen, Mathijs; Vermeulen, Dries.

Jasso, Guillermina
PD October 1998. TI The Changing Skill of New Immigration to the United States: Recent Trends and Their Determinants. AU Jasso, Guillermina; Rosenzweig, Mark R.; Smith, James P. AA Jasso: New York University. Rosenzweig: University of Pennsylvania. Smith: RAND. SR National Bureau of Economic Research Working Paper: 6764; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 35. PR $5.00. JE F22, J61, J68. KW Immigrants. Immigration Law. Skill.
AB The objective of this paper is to describe and understand the determinants of changes in the number and quality of new, legal immigrants to the United States over the last 25 years. The authors main interest is in understanding the behavioral response of potential immigrants to changes in the U.S. immigration law regime (as well as in the origin-country determinants of demand for immigration to the United States) and how these affect and have affected the skill composition of immigrants. Thereby, a better understanding of the consequences of future immigration reforms may be attained. The authors assemble a new data set based on annual INS records of all new, legal immigrants over the period 1972 through 1995. Inspection of the new data indicates that since the mid-1980s the average skill of new, legal immigrants has been rising relative to that of the U.S. population. An econometric analysis of a panel of country-specific measures of the skill of immigrants based on these data over the period 1972-1992 indicates that these changes are due in part to changes in immigration law and to the overall rise in the real purchasing power of countries outside the United States.

Jayanthi, Shekhar
PD December 1998. TI Modelling the Innovation Implementation Process in the Context of High-Technology Manufacturing: An Innovation Diffusion Perspective. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP112; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 21. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE C51, D21, O31, O32. KW Innovation. Manufacturing. Semi-Conductors. Technological Change. High Technology.
AB High-technology manufacturing operations are characterized by rapid and ongoing innovation implementation and knowledge transfer. This study identifies a model-based approach to capture successive innovation implementations, and tests this with detailed empirical data for a wafer fabrication plant of a semiconductor manufacturer. The model's excellent fit is evaluated, and implications for theory, practice, public policy and future research are discussed.

Jenkins, Carolyn
PD April 1997. TI Is Southern Africa Ready for Regional Monetary Integration? AU Jenkins, Carolyn; Thomas, Lynne. AA Jenkins: Centre for the Study of African Economies and London School of Economics. Thomas: London School of Economics. SR Centre for the Study of African Economies Working Paper: 97/03; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 32. PR 3 pounds or $5.00. JE E61, E63, F31, F33, F42. KW SADC. Monetary Integration. Macroeconomic Policy. Policy Coordination. Convergence.
AB This paper examines whether Southern Africa is ready for regional monetary integration. It reviews the lessons from theory and experience, focusing on (i) the problem of spillover effects and the implications for policy coordination; (ii) the appropriate conditions for exchange- rate coordination; and (iii) issues surrounding convergence of per capita income and convergence of macroeconomic stability indicators. The paper considers macroeconomic policy and convergence in SADC. It provides summary information of the macroeconomic policies currently pursued in SADC, and highlights the areas of key policy weaknesses. There is no evidence of convergence in the SADC countries, but a pattern of convergence amongst the SACU countries is evident. The paper examines whether this result can be explained by divergence in policy variables. Using the Maastricht criteria variables as a starting point, the paper shows that there is significant divergence of key policy and stability indicators among SADC as a whole. The paper concludes that the lack of convergence of the economies and the significant divergence of policy and stability indicators suggest that Southern Africa is not ready for regional monetary integration.

PD April 1997. TI Post-Independence Economic Policy and Investment in Zimbabwe. AA Centre for the Study of African Economies and London School of Economics. SR Centre for the Study of African Economies Working Paper: 97/04; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 49. PR 3 pounds or $5.00. JE E22, F41, H63, O11, O16. KW Investment. Poverty. Debt. Capital Flows.
AB A macroeconomic model shows that in Zimbabwe the availability of internal sources of finance is the key long-run constraint on aggregate investment, together with the existence of a large external debt (which increases uncertainty), while foreign capital inflows have played a minor role. Foreign exchange availability, no matter how it is defined, is not a constraint. However, in the short-run, the timing of implementation of private investment decisions is governed by the availability of foreign exchange lagged one period, as well as by changes in the relative costs of capital and output. Firms therefore feel constrained by these factors. Price controls did not affect the viability of firms (because they were administered on a cost-plus basis), and actually removed one form of risk: price variability. Changes in formal sector wages appear to have had no effect on aggregate private investment behavior. These findings are largely supported by firm-level evidence. The running up of a large external debt in an astonishingly short period of time -- and then having to service it -- and government ambivalence towards foreign investment, have been most harmful to private capital formation. Existing firms found a way around the economic controls.

Jensen, Richard
PD August 1998. TI Proofs and Prototypes for Sale: The

Tale of University Licensing. **AU** Jensen, Richard; Thursby, Marie. **AA** Jensen: University of Kentucky. Thursby: Purdue University. **SR** National Bureau of Economic Research Working Paper: 6698; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** O31, O34, O38. **KW** Innovation. Effort. Moral Hazard. Patents.

AB Proponents of the Bayh-Dole Act argue that unless universities have the right to license patentable inventions, many results from federally funded research would never be transferred to industry. Our survey of U.S. research universities supports this view. Results point to the embryonic state of most technologies licensed and the need for inventor cooperation in the commercialization process. Thus, for most university inventions, there is a moral hazard problem with regard to inventor effort. Our theoretical analysis shows that for such inventions, development would not occur unless the inventor's income is tied to the licensee's output by payments such as royalties or equity. Sponsored research can also be critical to commercialization, but it alone does not solve the inventor's moral hazard problem.

Jeon, Yongil
TI The Impact of the Use of Forecasts in Information Sets. **AU** Gallo, Giampiero M.; Granger, Clive W. J.; Jeon, Yongil.

Jin, Jim
TI Sequencing R&D Decisions in a Two-Period Duopoly with Spillovers. **AU** Amir, Madjid; Amir, Rabah; Jin, Jim.

Johnson, John H., IV.
TI Effects of Work-Related Absences on Families: Evidence from the Gulf War. **AU** Angrist, Joshua D.; Johnson, John H., IV..

Jones, Barry E.
PD October 1999. **TI** Tests for Non-Linear Dynamics in Systems of Non-Stationary Economic Time Series: The Case of Short-Term U.S. Interest Rates. **AU** Jones, Barry E.; Nesmith, Travis D. **AA** Jones: Binghamton University. Nesmith: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/55; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 45. **PR** no charge. **JE** C14, C32, C51, C82, E04. **KW** Non-Linear Dynamics. Co-Integration. Interest Rates. Bispectrum.

AB Using Hall and Heyde's 1980 representation theorem, we show that the stationary co-integration relations of an integrated system are generally non-linear stochastic processes. We propose a sequential non-parametric procedure to test stationary co-integration relations for non-linear dynamics, and apply this procedure to short-term US interest rates as an illustration. We demonstrate that the weekly federal funds rate is co-integrated with Treasury bill and commercial paper rates and that the co-integration relations are non-linear.

Jones, Ian
PD March 1999. **TI** Putting Values into Action in Business: A Study of the Development of an "Integrity" Value at SmithKline Beecham. **AU** Jones, Ian; Pollitt, Michael. **AA** Jones: London Business School. Pollitt: University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP121; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. **PG** 24. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** M14. **KW** Values. Code of Ethics. Integrity. SmithKline Beecham. Health Care.

AB This paper is a case study of the implementation of an 'integrity' value at the Anglo-American healthcare firm, SmithKline Beecham (SB). SB was established as a result of a merger in 1989 following which the new company deliberately sought to design a new corporate culture based on a set of values which included 'integrity'. The case study charts the development of the integrity value as part of the new culture and how this particular value has been put into action. We show that the new value was accompanied by detailed codification and inclusion in employee evaluation and training programs. The case highlights the difficulties in implementing high level values at the grass roots of a large corporation. An appendix demonstrates how the lessons from the case have parallels in biblical teaching.

Jones, Patricia
PD December 1997. **TI** The Impact of Minimum Wage Legislation in Developing Countries Where Coverage is Incomplete. **AA** Centre for the Study of African Economies. **SR** Centre for the Study of African Economies Working Paper: 98/02; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. **PG** 40. **PR** 3 pounds or $5.00. **JE** J23, J38, O15, O17. **KW** Minimum Wages. Formal Sector. Informal Sector. Development. Employment.

AB This paper examines the impact of minimum wage legislation in developing countries where coverage is incomplete. Using a rich data set from Ghana, it estimates the extent to which a binding minimum wage alters employment in both the formal and informal sectors of the labor market. The data reveal that Ghana's minimum wage policies during the 1970s and 1980s led to a reduction of formal sector jobs and an increase in informal sector jobs. In addition, there is some evidence to suggest that a large proportion of the displaced workers from the formal sector ended up working in the informal sector.

Jovanovic, Boyan
TI Accounting for Growth. **AU** Greenwood, Jeremy; Jovanovic, Boyan.

TI Inequality. **AU** Eeckhout, Jan; Jovanovic, Boyan.

Ju, Jiandong
PD December 1998. **TI** Firm Behavior and Market Access in a Free Trade Area with Rules of Origin. **AU** Ju, Jiandong; Krishna, Kala. **AA** Ju: University of Oklahoma. Krishna: Pennsylvania State University. **SR** National Bureau of Economic Research Working Paper: 6857; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D21, F12, F13, F41, L10. **KW** Firm Behavior. Free Trade Areas. Rules of Origin. Imports. Specialization.

AB We develop a model to study the behavior of firms in a

Free Trade Area with Rules of Origin and the consequences of this behavior on the market equilibrium and outcome. We show that firms will choose to specialize, and that an FTA with strict ROOs on the intermediate good raises imports and hence improves market access in the final good market, but reduces imports and hence harms market access in the intermediate good market. More restrictive ROOs on the final good first raise and then lower imports on the final good, but first lower then raise imports of the intermediate good. Their turning point is common so that imports of the final good are maximized and imports of the intermediate good are minimized at a common level of restrictiveness of the rules of origin. We show that our model can be reinterpreted to show that more restrictive ROOs on the final good first improves and then harms the fortunes of labor, and to cast light on a particular policy to improve market access. Other problems with a similar structure could also be analyzed using our techniques; we expect similar results.

Jungeilges, Jochen
TI Evaluation via Extended Ordering: Empirical Findings from West and East. **AU** Gaetner, Wulf; Jungeilges, Jochen.

Kain, John F.
TI Does Special Education Raise Academic Achievement for Students with Disabilities? **AU** Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

TI Teachers, Schools, and Academic Achievement. **AU** Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

Kajii, Atsushi
TI Weakening the Sure-Thing Principle: Decomposable Choice Under Uncertainty. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

Kane, Edward J.
PD June 1998. **TI** Capital Movements, Asset Values, and Banking Policy in Globalized Markets. **AA** Boston College and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6633; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 18. **PR** $5.00. **JE** G21, G28, K20, L50. **KW** Banking. Deposit Insurance. Silent Runs. Capital Flows. Financial Crises.
AB Weakness in banking systems are rooted in government credit- allocation preferences that prove unsupportable in private markets. A silent run begins when sophisticated depositors recognize that assets in the country's combined banking and deposit-insurance system cannot cover the claims of bank depositors without being supplemented by substantial injections of funds from domestic or foreign taxpayers. Longstanding banking-system weakness devolves into a countrywide economic crisis when and as doubts about the government's willingness to force taxpayers to support an economically insolvent banking system are spread by an escalating "silent run". Financial crises become more frequent, but also shallower when foreign-bank presence and activities are expanded. Offshore banks put the supervisory systems and safety-net guarantees of their homelands into competition with those of host countries. In effect, banking crises discipline inefficient and unfair regulatory systems and push the social burdens created by weak supervisory systems toward the levels

found in best-practices countries.

PD December 1998. **TI** Covering Up Trading Losses: Opportunity-Cost Accounting as an Internal Control Mechanism. **AU** Kane, Edward J.; DeTrask, Kimberly. **AA** Kane: Boston College and National Bureau of Economic Research. DeTrask: Boston College. **SR** National Bureau of Economic Research Working Paper: 6823; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G20, G30. **KW** Loss Concealment. Rogue Traders. Opportunity Costs. Accounting Profits. Financial Services.
AB This paper analyzes the methods of loss concealment used by rogue traders in the Barings and Daiwa scandals. The analysis clarifies how and why these firms' top managers and home-country regulators deserve blame for allowing cumulative losses to become so large. The central point is that information systems that focus exclusively on cash flows tempt amoral traders to build "star" status for themselves by booking fictitious credits that generate a high level of accounting profits. Constructing opportunity-cost measures of profit imposes additional restraints on reporting activity. These restraints make it easier for higher-ups, auditors, and regulators to identify the true sources of accounting profit and to challenge counterfeit earnings.

Karp, Larry
PD July 1998. **TI** Learning-by-Doing and the Choice of Technology: The Role of Patience. **AU** Karp, Larry; Lee, In Ho. **AA** Karp: University of California, Berkeley. Lee: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9810; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. **PG** 21. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** D92, O14, O33. **KW** Learning-By-Doing. Overtaking. Leapfrogging. Technology Adoption. Economic Growth.
AB Jovanovic and Nyarko (1996) showed that when agents learn-by-doing and are myopic, less advanced agents may adopt new technologies while more advanced firms stick with the old technology since the new technology takes time to learn. In this case, the less advanced agents might eventually overtake (or "leapfrog") the advanced agents. We show that this kind of overtaking can also occur if agents are forward looking and have high discount rates. However, if agents are sufficiently patient, overtaking cannot occur. A lower discount rate increases the set of states at which agents adopt new technologies, so more patient agents tend to upgrade their technology more frequently.

Keeble, David
TI A Marshallian Approach to the Eclectic Paradigm of Foreign Investment: The Clustering of Film TNCs in Central London. **AU** Nachum, Lilach; Keeble, David.

Keller, Godfrey
PD July 1997. **TI** Optimal Experimentation in a Changing Environment. **AU** Keller, Godfrey; Rady, Sven. **AA** Keller: Universite Libre de Bruxelles, and London School of Economics. Rady: Stanford University. **SR** STICERD, (LSE) Theoretical Economics Discussion Paper: TE/97/333; STICERD, Room 415, London School of

Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 62. **PR** no charge. **JE** C61, D42, D83, L12. **KW** Bayesian Learning. Optimal Control. Monopoly Experimentation.
AB This paper studies optimal experimentation by a monopolist who faces an unknown demand curve subject to random changes, and who maximizes profits over an infinite horizon in continuous time. We show that there are two qualitatively very different regimes, determined by the discount rate and the intensities of demand curve switching, and the dependence of the optimal policy on these parameters is discontinuous. One regime is characterized by extreme experimentation and good tracking of the prevailing demand curve, the other by moderate experimentation and poor tracking. Moreover, in the latter regime the agent eventually becomes "trapped" into taking actions in a strict subset of the feasible set.

Kempf, Hubert
TI Establishing a Monetary Union. **AU** Cooper, Russell; Kempf, Hubert.

Kho, Bong-Chan
TI Do Foreign Investors Destabilize Stock Markets? The Korean Experience in 1997. **AU** Choe, Hyuk; Kho, Bong-Chan; Stulz, Rene M.

Kiernan, Kathleen
PD May 1998. **TI** The Divorced and Who Divorces? **AU** Kiernan, Kathleen; Mueller, Ganka. **AA** London School of Economics. **SR** STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/07; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 40. **PR** no charge. **JE** J12. **KW** Divorce. Longitudinal Study. Marriage. Marital Dissolution.
AB The Family Resources Survey was used to identify the characteristics of the divorced population and two longitudinal studies, the British Household Panel Survey (BHPS) and the National Child Development Study (NCDS) were used to address the question "who divorces". The BHPS allowed the examination of this issue for individuals and couples whereas the NCDS data allowed the examination of childhood and adolescence factors associated with partnership dissolution in adulthood. Unemployment, reliance on state benefits and disability featured as characteristics of the currently divorced and these factors, along with financial difficulties, were also found to be important precursors of divorce. There was evidence from both the BHPS and the NCDS of an association between emotional factors and subsequent partnership breakdown. In sum, people who embarked on partnerships at an early age, cohabitants, those who had experienced parental divorce, and those who were economically, somatically and emotionally vulnerable had higher risks of divorce.

TI Childhood Poverty, Early Motherhood and Adult Social Exclusion. **AU** Hobcraft, John; Kiernan, Kathleen.

Kim, John
TI Physician Fees and Procedure Intensity: The Case of Cesarean Delivery. **AU** Gruber, Jonathan; Kim, John; Mayzlin, Dina.

Kim, Jongwoo
TI Was There Really an Earlier Period of International Financial Integration Comparable to Today? **AU** Bordo, Michael D.; Eichengreen, Barry; Kim, Jongwoo.

Kim, Tae-Hwan
PD February 1999. **TI** James-Stein Type Estimators in Large Samples with Application to the Least Absolute Deviation Estimator. **AU** Kim, Tae-Hwan; White, Halbert. **AA** Kim: University of Nottingham. White: University of California, San Diego. **SR** University of California, San Diego, Department of Economics Working Paper: 99/04; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. **PG** 24. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** C13, C40. **KW** Shrinkage. Asymptotic Risk. Combination Estimator.
AB This paper explores the extension of James-Stein type estimators in a direction that enables them to preserve their superiority when the sample size goes to infinity. Instead of shrinking a base estimator towards a fixed point, the authors shrink it towards a data-dependent point, which makes it possible that the "prior" becomes more accurate as the sample size grows. They provide an analytic expression for the asymptotic risk of James-Stein type estimators shrunk towards a data- dependent point and prove that these have smaller asymptotic risk than the base estimator. Shrinking an estimator toward a data-dependent point turns out to be equivalent to combining two random variables using the James-Stein rule. The authors propose a general combination scheme which includes random combination (the James-Stein combination) and the usual nonrandom combination as special cases. As an example, the authors apply their method to combine the Least Absolute Deviations estimator and the Least Squares estimator. Finally, using stock return data the authors present some empirical evidence that the combination estimators have the potential to improve out-of-sample prediction in terms of both mean square error and mean absolute error.

Kirkley, James
PD July 1999. **TI** Capacity and Capacity Utilization in Fishing Industries. **AU** Kirkley, James; Squires, Dale. **AA** Kirkley: Virginia Institute of Marine Sciences. Squires: U.S. National Marine Fisheries Service. **SR** University of California, San Diego, Department of Economics Working Paper: 99/16; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. **PG** 28. **PR** $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. **JE** D24, Q22. **KW** Capacity. Capacity Utilization. Fisheries. Data Envelopment Analysis.
AB Excess capacity of fishing fleets is one of the most pressing problems facing the world's fisheries and the sustainable harvesting of resource stocks. Considerable confusion persists over the definition and measurement of capacity and capacity utilization in fishing. Fishing capacity and capacity utilization, rather than capital (or effort) utilization, provide the appropriate framework. This paper provides both technological-economic and economic definitions of capacity and excess capacity in fishing and

illustrates the technological-economic approach through a case study using Data Envelopment Analysis.

Klein, Michael W.

TI Risky Habits: On Risk Sharing, Habit Formation, and the Interpretation of International Consumption Correlations. AU Fuhrer, Jeffrey C.; Klein, Michael W.

Kleiner, Morris M.

TI The Last American Shoe Manufacturers: Changing the Method of Pay to Survive Foreign Competition. AU Freeman, Richard B.; Kleiner, Morris M.

Kleinman, Mark

PD August 1998. TI Include Me Out? The New Politics of Place and Poverty. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/11; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 19. PR no charge. JE F41, I32, J24, J71, R11. KW Social Exclusion. Regeneration. Moral Minimalism. Poverty. Human Capital.
AB London is being successfully regenerated at present, yet poverty and social exclusion are increasing. The paradox is explained in part by the openness of the London economy and the lack of basic skills of a substantial minority of the population. The Government's policies for tackling social exclusion are undermined by conflating the concept of social exclusion with the discredited terminology of the "urban underclass". To be effective, policy needs to be less economically conservative, and more focused on piecemeal reforms.

Klette, Tor Jakob

PD October 1998. TI Empirical Patterns of Firm Growth and R&D Investment: A Quality Ladder Model Interpretation. AU Klette, Tor Jakob; Griliches, Zvi. AA Klette: University of Oslo. Griliches: Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6753; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE D43, L11, O31, O49. KW Quality Ladder. Research and Development. Patent Races. Product Differentiation.
AB We present a model of endogenous firm growth with R&D investment and stochastic innovation as the engines of growth. The model for firm growth is a partial equilibrium model drawing on the quality ladder models in the macro growth literature, but also on the literature on patent races and the discrete choice models of product differentiation. We examine to what extent the assumptions and the empirical content of our model are consistent with the findings that have emerged from the empirical studies of growth, productivity, R&D and patenting at the firm level. The analysis shows that the model fits well with empirical patterns such as (i) a skewed size distribution of firms with persistent differences in firm sizes, (ii) firm growth independent of firm size, as stated in the so-called Gibrat's law, and (iii) R&D investment proportional to sales, as well as a number of other empirical patterns.

PD January 1999. TI Do Subsidies to Commercial R&D Reduce Market Failures -- Microeconomic Evaluation Studies.

AU Klette, Tor Jakob; Moen, Jarle; Griliches, Zvi. AA Klette: University of Oslo and Statistics Norway. Moen: Norwegian School of Economics and Business Administration. Griliches: Harvard University and National Bureau of Economic Research. SR Harvard Institute for Economic Research Discussion Paper: 1861; Harvard Institute of Economic Research, Department of Economics, 200 Littauer Center, Cambridge, MA 02138. Website: www.economics.harvard.edu/hier/index.html. PG 31. PR $3.00 per paper domestic (USA & Canada) and $4.00 per paper international. JE L10, O31, O32, O38, O40. KW Research and Development. Technology. Policy. Evaluation Studies. Microeconometrics.
AB A number of market failures have been associated with R&D investments and significant amounts of public money have been spent on programs to stimulate innovative activities. In this paper, we review some recent microeconometric studies evaluating effects of government sponsored commercial R&D. We pay particular attention to the conceptual problems involved. Neither the firms receiving support, nor those not applying, can be considered random draws. Furthermore, those not receiving support are often affected by the programs, and spillover effects are often a main justification for R&D subsidies. Constructing a valid control group under these circumstances is challenging, and we relate our discussion to recent advances in econometric methods for evaluation studies based on non-experimental data. We also discuss some analytical questions that need to be addressed in order to assess whether R&D support schemes can be justified. For instance, what are the implications of firms' R&D investments being complementary to each other and to what extent are potential R&D spillovers internalized in the market?.

Klinov, Ruth

TI Sect, Subsidy, and Sacrifice: An Economist's View of Ultra-Orthodox Jews. AU Berman, Eli; Klinov, Ruth.

Kopp, Raymond J.

PD January 1997. TI Cost-Benefit Analysis and Regulatory Reform: An Assessment of the Science and the Art. AU Kopp, Raymond J.; Krupnick, Alan J.; Toman, Michael. AA Resources for the Future. SR Resources for the Future Discussion Paper: 97/19; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 61. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE D61, L51, Q28. KW Cost Benefit. Cost-Effectiveness. Risk Management. Regulatory Reform. Environmental Policy.
AB The continuing efforts in the 104th Congress to legislate requirements for cost-benefit analysis (CBA) and the revised Office of Management and Budget guidelines for the conduct of such assessments during a regulatory rulemaking process highlight the need for a comprehensive examination of the role that CBA can play in agency decision-making. This paper summarizes the state of knowledge regarding CBA and offers suggestions for improvement in its use, especially in the context of environmental regulations.

Kortum, Samuel

TI European Technology Policy. AU Eaton, Jonathan; Gutierrez, Eva; Kortum, Samuel.

PD December 1998. TI Does Venture Capital Spur Innovation? AU Kortum, Samuel; Lerner, Josh.

AA Kortum: Boston University and National Bureau of Economic Research. Lerner: Harvard Business School and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6846; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 37. PR $5.00. JE G24, O31. KW Venture Capital. Innovation. Patents. Research and Development.

AB While policymakers often assume venture capital has a profound impact on innovation, that premise has not been evaluated systematically. We address this omission by examining the influence of venture capital on patented inventions in the United States across twenty industries over three decades. We address concerns about causality in several ways, including exploiting a 1979 policy shift that spurred venture capital fundraising. We find that the amount of venture capital activity in an industry significantly increases its rate of patenting. While the ratio of venture capital to R&D has averaged less than 3% in recent years, our estimates suggest that venture capital accounts for about 15% of industrial innovations. We address concerns that these results are an artifact of our use of patent counts by demonstrating similar patterns when other measures of innovation are used in a sample of 530 venture- backed and non-venture-backed firms.

Kotlikoff, Laurence J.

PD August 1998. TI The A-K Model -- Its Past, Present, and Future. AA Boston University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6684; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE B41, C63, E17, H55. KW Life-Cycle Model. Auerbach-Kotlikoff. Tax Reform. Social Security Privatization.
AB Almost two decades have passed since the development of the prototype of the Auerbach-Kotlikoff dynamic life-cycle simulation model. The model has been used to examine a host of policies, including tax reform, tax cuts, investment incentives, tax progressivity, expansion of social security, government spending, monetary policy, endogenous growth, the size of the informal sector, human capital accumulation, and educational policy. It has also been used to study demographic change, the timing of policy impacts, the efficiency gains from fiscal reforms, and the effects of fiscal policies on both the intra- and intergenerational distributions of economic welfare. Auerbach and Kotlikoff and their co-authors have done much of this research. The rest has been done by other economists in academia, government, and multilateral lending institutions, many of whom have developed their own versions of the model. This paper described the origins of the A-K Model, its current structure, the lessons learned using it, and some of the questions that remain to be addressed. It also considers two issues -- tax reform and social security privatization -- in illustrating the model's current capacities.

Kotsogiannis, Christos

PD December 1998. TI Optimal Federal Capital Income Taxation. AU Kotsogiannis, Christos; Makris, Miltos. AA Kotsogiannis: University of Southampton. Makris: University of Essex University of Bristol. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9820; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017

1BJ, England. Website: www.soton.ac.uk. PG 34. PR annual subscription 40 pounds ($80); individual copies on application. JE H02, H07. KW Optimal Taxation. Fiscal Federalism. Fiscal Externalities. Redistribution.
AB Intergovernmental grants are not available to all federations. In this paper optimal federal tax policies in a multileveled government framework are studied, when the federal authority has no access to intergovernmental grants, and the state governments implement the residence principle. A vertical fiscal externality exists. The federal government, using the available tax instruments, has a dual role; it corrects the inefficiencies that arise from the non-cooperative behaviour of the state governments and also redistributes income. It is shown that there may exist a conflict in the redistributional considerations of the federal government and the achievement of production efficiency between the federation and the rest of the world.

Krishna, Kala

PD April 1998. TI Allocating Multiple Units by Sealed-Bid Auctions. AU Krishna, Kala; Tranaes, Torben. AA Krishna: Pennsylvania State University and National Bureau of Economic Research; Tranaes: University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 98/05; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 31. PR no charge. JE D44, D82, D83. KW Multiple-Unit Auctions. First-Price Sealed-Bid. Revenue Equivalence. Discriminatory Auctions. Uniform Auctions.
AB This paper studies the allocation and rent distribution between buyers and the seller in multiple units sealed-bid auctions. We restrict attention to the complete information case. A simple diagrammatic exposition of equilibria in the first-price and uniform- price auctions is provided and their equilibria are compared to one another and to the second-price (or Vickrey) auction. We show that the truthful equilibrium in the first-price auction is revenue equivalent to the second-price auction. Both these auctions are discriminatory auctions. We also show that the revenue raised in the truthful equilibrium of the first-price auction is less than that raised in the truthful equilibrium of the uniform-price auction. The approach is also related to a number of themes found more broadly in economics such as the convergence to competition.

TI Firm Behavior and Market Access in a Free Trade Area with Rules of Origin. AU Ju, Jiandong; Krishna, Kala.

PD January 1999. TI Efficient Competition with Small Numbers -- With Applications to Privatisation and Mergers. AU Krishna, Kala; Tranaes, Torben. AA Krishna: Pennsylvania State University. Tranaes: University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 99/01; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 21. PR no charge. JE C07, D04, L05. KW Supply Function Competition. Multi-Unit Auctions. Efficiency. Deregulation. Electricity Generation. Privatization. Mergers.
AB This paper studies competition between a small number of suppliers and a single buyer, (or an auction with a small number of bidders and a single seller) when total demand (supply) is uncertain. It is well known that when a small number of suppliers compete in supply functions the service is

not provided efficiently. We show that production efficiency is obtained if suppliers compete in simple two-part bid functions. However, profits are not eliminated. Moreover, the buyers' (sellers') decision regarding how much to buy is not efficient. We also show that suppliers (bidders in an auction) always have an incentive to merge (form bidding rings) in this setting.

Krishnamurthy, Arvind
TI Emerging Market Crises: An Asset Markets Perspective.
AU Cabellero, Ricardo J.; Krishnamurthy, Arvind.

Krishnan, Pramila
TI Changes in Poverty in Rural Ethiopia 1989-1995: Measurement, Robustness Tests and Decomposition. AU Dercon, Stefan; Krishnan, Pramila.

PD April 1998. TI The Urban Labour Market During Structural Adjustment: Ethiopia 1990- 1997. AU Krishnan, Pramila; Selassie, Tesfaye Gebre; Dercon, Stefan. AA Krishnan: Centre for the Study of African Economies. Selassie: Addis Ababa University. Dercon: Katholicke Universiteit Leuven. SR Centre for the Study of African Economies Working Paper: 98/09; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 37. PR 3 pounds or $5.00. JE J23, J24, J31, O18, R23. KW Reform. Labor Markets. Wages. Human Capital. Ethiopia.
AB The paper examines the effects of reform and structural adjustment on the urban labor market in Ethiopia using a combination of cross-section and panel data based on surveys conducted both pre- and post-reform. During this period Ethiopia has seen impressive growth in GDP but little in the way of private investment. Meanwhile, the labor market has remained remarkably unresponsive to the pressures of reform despite the growing queues of the educated unemployed. While the public sector has contracted over the period, real wages have been re-adjusted to almost pre-reform levels; furthermore, real wages have grown in the private sector, while returns to education have remained largely unaffected.

Krizan, C. J.
TI Aggregate Productivity Growth: Lessons from Microeconomic Evidence. AU Foster, Lucia; Haltiwanger, John; Krizan, C. J.

Kroll, Yoram
PD March 1999. TI Choices in Egalitarian Distribution: Inequality Aversion versus Risk Aversion. AU Kroll, Yoram; Davidovitz, Leima. AA London School of Economics. SR STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 43; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 18. PR no charge. JE C91, D63, D71. KW Inequality. Income Distribution. Risk. Experiments.
AB Inequality aversion and risk aversion are widely assumed features of economic models. But a review of the literature revealed that inequality aversion and risk aversion are treated as separate variables. This paper presents exploratory research designed to separate inequality aversion from risk aversion. In a set of laboratory experiments, subjects chose between two alternatives with the same individual risk, but different levels of egalitarianism. Thus, the choice of the more egalitarian alternative with constant risk level implies a higher level of inequality aversion. The experiment was conducted among 211 eight-year- old children, 107 of whom live on Kibbutz and 104 in the city. We found no significant difference between kibbutz children and city children in inequality aversion.

Kroszner, Randall S.
PD July 1998. TI What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions. AU Kroszner, Randall S.; Strahan, Philip E. AA Kroszner: University of Chicago and National Bureau of Economic Research. Strahan: Federal Reserve Bank of New York. SR National Bureau of Economic Research Working Paper: 6637; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D78, G21, G28, L51. KW Deregulation. Banking. Regulation. Hazard Models.
AB This paper examines the key forces behind deregulation in order to assess the relative importance of alternative theories of regulatory entry and exit. The authors focus on bank branching deregulation across the states. The cross-sectional and time-series variation of branching deregulation allows for the development of a hazard model to explain the timing of deregulation across the states using proxies motivated by private-interest, public-interest, and political-institutional theories. While some of the authors' findings are consistent with both the private and public interest theories, the public interest approach cannot easily explain, for example, the finding that deregulation occurs later in states with relatively more small banks. The authors also find that the ex post consequences of deregulation for the different interest groups are consistent with the ex ante lobbying patterns the authors infer from the hazard model. Some political-institutional factors also play a role in the process of regulatory change.

Krupnick, Alan J.
PD December 1996. TI Public Support for Pollution Fee Policies for Motor Vehicles: Survey Results. AU Krupnick, Alan J.; Harrington, Winston; Alberini, Anna. AA Krupnick and Harrington: Resources for the Future. Alberini: University of Colorado. SR Resources for the Future Discussion Paper: 97/13; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 26. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE Q25, Q28, R41. KW Mobile Sources. Surveys. Emission Fees. Pollution. Air.
AB This paper reports on the results of a telephone survey conducted in Southern California during August and September 1996. The purpose of the survey was to inform respondents about a set of rather complex pricing policies designed to reduce motor vehicle emissions and to estimate respondent support for those policies. After receiving extensive information about these policies, respondents were polled on whether they would support any or all of these options. The pollution fee survey elicited support for a plan that levied a fee on vehicles in the region, depending on the vehicle's emissions per mile and on the miles driven. The sample was then split in two, with half the respondents being told that a portion of the revenues would be returned to the public in the form of

reductions in motor vehicle fees or sales tax reductions, and half told that these returns would be made in the form of coupons. Statistical analyses were performed on the data to explain the voting patterns observed. Generally, the levels of support were significantly affected by the design features of the plans as well as by a host of socio-demographic and perceptual variables.

TI Cost-Benefit Analysis and Regulatory Reform: An Assessment of the Science and the Art. AU Kopp, Raymond J.; Krupnick, Alan J.; Toman, Michael.

Kwon, Huck-ju

PD June 1999. TI Income Transfers to the Elderly in East Asia: Testing Asian Values. AA Sung Kyun Kwan University, Korea. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/27; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 23. PR no charge. JE H55, I31, I38, J14, J26. KW Public Pensions. Retirement Policies. East Asia. Living Standards. Family.
AB This article examines the role of family and the state in relation to the living standards of the elderly in East Asia. It tries to test whether familial arrangement according to Confucian ethics, which are still taken seriously in East Asia, secures the minimum standards of living for the elderly. This article, first, examines the social policy institutions for the elderly in Japan, South Korea and Taiwan. It argues that public policy in the region assumes the family as primarily responsible for elderly people's living standards. Secondly, this article analyzes private and public income transfers to elderly households, based on micro-data sets for South Korea and Taiwan. It argues that private transfers do make important contributions to the income of the elderly households, particularly poorer households, while public transfers do not make any significant impact. This suggests that Confucian ethics are still working. Private transfers, however, fail to secure the minimum standards of living for the elderly. The elderly households are far more prone to poverty. The findings of this paper support the case for state action to protect the living standards of the elderly in East Asia.

La Porta, Rafael
PD June 1998. TI Corporate Ownership Around the World. AU La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6625; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 31. PR $5.00. JE G32, G38. KW Corporate Governance. Ownership Structures. Shareholders. Principal- Agent.
AB We present data on ownership structures of large corporations in 27 wealthy economies, making an effort to identify ultimately controlling shareholders of these firms. We find that, except in economies with very good shareholder protection, relatively few of these firms are widely- held, in contrast to the Berle and Means image of ownership of the modern corporation. Rather, these firms are typically controlled by families or the State. Equity control by financial institutions or other widely-held corporations is less common. The controlling shareholders typically have the power over firms significantly in excess of their cash flow rights, primarily

through the use of pyramids and participation in management. The results suggest that the principal agency problem in large corporations around the world is that of restricting expropriation of minority shareholders by the controlling shareholders, rather than that of restricting empire building by professional managers unaccountable to shareholders.

PD September 1998. TI The Quality of Government. AU La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert. AA La Porta, Lopez-de-Silanes, and Shleifer: Harvard University and National Bureau of Economic Research. Vishny: University of Chicago and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6727; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H11, H41, N40, P51. KW Government Performance. Public Goods. Law Systems. Institutions.
AB We investigate empirically the determinants of the quality of governments in a large cross-section of countries. We assess government performance using measures of government intervention, public sector efficiency, public good provision, size of government, and political freedom. We find that countries that are poor, close to the equator, ethnolinguistically heterogeneous, use French or socialist laws, or have high proportions of Catholics or Muslims exhibit inferior government performance. We also find that the larger governments tend to be the better performing ones. The importance of historical factors in explaining the variation in government performance across countries sheds light on the economic, political, and cultural theories of institutions.

Lach, Saul
TI Measuring Temporary Labor Outsourcing in U.S. Manufacturing. AU Estevao, Marcello; Lach, Saul.

TI The Evolution of the Demand for Temporary Help Supply Employment in the United States. AU Estevao, Marcello; Lach, Saul.

Laffont, Jean-Jacques
TI A Theory of Supervision with Endogenous Transaction Costs. AU Faure-Grimaud, Antoine; Laffont, Jean-Jacques; Martimort, David.

Lakonishok, Josef
PD July 1998. TI Are Insiders' Trades Informative? AU Lakonishok, Josef; Lee, Inmoo. AA Lakonishok: University of Illinois, Urbana-Champaign and National Bureau of Economic Research. Lee: Case Western Reserve University. SR National Bureau of Economic Research Working Paper: 6656; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE G11, G12, G14. KW Insider Trading. Information. Contrarian Investing. Stock Returns.
AB This paper documents insider trading activities of all companies listed on the NYSE, Amex, and Nasdaq exchanges during the 1975-1995 period. Insider trading is common, and in more than half the sample firms, there is at least some insider activity in a given year. In general, very little market movement is observed when insiders trade and when they report their trades to the SEC. Insiders in aggregate are contrarian investors. However, they predict market movements better than

simple contrarian strategies. Insiders also seem to be able to predict cross-sectional stock returns. The result, however, is driven by insider's ability to predict returns in smaller firms. In addition, insider purchases are more informative than insider sales.

Lambson, Val E.
TI   On the Effects of Entry in Cournot Markets. AU   Amir, Rabah; Lambson, Val E.

Land, Hilary
PD   August 1997.   TI   The Emergence of Lone Motherhood as a Problem in Late Twentieth Century Britain. AU   Land, Hilary; Lewis, Jane. AA   Land: University of Bristol. Lewis: University of Oxford. SR   STICERD, (LSE) Welfare State Programme Discussion Paper: WSP/134; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   61. PR   no charge. JE   I38, J12, J13. KW   Lone Mothers. Social Policy. Marriage. Children. Welfare.
AB   This is an account of how and why in the late 1980s lone motherhood came to be widely perceived as a problem by the policy makers and politicians. The shame and stigma associated with unmarried motherhood and, conversely, the more benevolent attitude towards widows has a long history, but overall, lone mothers were only marginal in the social policy debates until the early 1970s. Then the breakdown of marriage was becoming a more common route into lone motherhood, growing numbers became dependent on means-tested benefits, there was concern about child poverty. The marriage system had changed and parenthood was becoming disassociated from marriage for a growing and significant minority. The policy response was to make improvements in benefits and access to housing, treating lone parents on a par with two parents. In the late 1980s, the policy makers became concerned when overall numbers grew and for the first time the majority became dependent on the benefit system. Changes in housing and employment markets as well as in family structures have all contributed to the growing visibility of lone mothers among claimants and the homeless.

Lavy, Victor
TI   Does Teacher Training Affect Pupil Learning? Evidence from Matched Comparisons in Jerusalem Public Schools. AU   Angrist, Joshua D.; Lavy, Victor.

Leamer, Edward E.
PD   June 1998.   TI   Efforts and Wages: A New Look at the Inter-Industry Wage Differentials. AU   Leamer, Edward E.; Thornberg, Christopher. AA   Leamer: University of California, Los Angeles and National Bureau of Economic Research. Thornberg: Clemson University. SR   National Bureau of Economic Research Working Paper: 6626; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   J31, J32, J41. KW   Wages. Effort. Labor Markets. Nonwage Benefits.
AB   We provide evidence that U.S. workers face a wage-effort offer curve with the high-wage high-effort jobs occurring in the capital intensive sectors. We find that real wage offers rose at every level of effort during the 1960's, a shift which is consistent with a decline in the rental cost of capital. During the

1970's, when relative prices of labor-intensive goods declined, the wage-effort offer curve twisted, offering lower pay for the low-paid jobs in the labor-intensive sectors but higher pay for the high-paid jobs in the capital-intensive sectors. In the 1980's, workers at every wage level began to work more hours for the same weekly wage. This we loosely attribute either to the increasing cost of non-wage benefits, especially health care, or to the introduction of new equipment. In studying the wage-effort offer curve, we control for the business cycle, for the rate of unionization, education, and rent sharing.

Lee, In Ho
TI   Learning-by-Doing and the Choice of Technology: The Role of Patience. AU   Karp, Larry; Lee, In Ho.

Lee, Inmoo
TI   Are Insiders' Trades Informative? AU   Lakonishok, Josef; Lee, Inmoo.

Lemieux, Thomas
PD   September 1998. TI   Education, Earnings, and the "Canadian G.I. Bill." AU   Lemieux, Thomas; Card, David. AA   Lemieux: Universite de Montreal and National Bureau of Economic Research. Card: University of California, Berkeley and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6718; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   33. PR $5.00. JE   I21, I28, J24. KW   Returns to Education. Veterans' Assistance. College Subsidies. Instrumental Variables.
AB   The experiences of Canadian World War II veterans are used to identify the effects of a large scale college subsidy program on educational attainment and earnings. Canada's extensive veteran's assistance program provided financial aid and institutional support for college attendance. Because of differences in military enlistment rates and education systems, however, a much lower fraction of Quebec men benefited from VRA (Veteran's Rehabilitation Act) benefits than men from other provinces. Inter-cohort patterns of education and earnings for English-speaking men from Ontario are analyzed, using French- speaking men from Quebec as a control group. 1971 and 1981 Census data is used to compare conventional (OLS) estimates of the return to schooling with instrumental variables (IV) estimates that use potential eligibility for VRA benefits as an exogenous determinant of schooling. The IV estimates are as big or bigger than the corresponding OLS estimates. An alternative identification strategy utilizes the hypothesis that veterans from disadvantaged family backgrounds were more likely to be affected by the VRA's incentives than veterans from wealthier families. Using the interaction of veteran status and family background as an instrument for schooling, the paper again finds rates of return to education as large or larger than the corresponding OLS estimates.

PD   September 1998. TI   Supply Side Hysterisis: The Case of the Canadian Unemployment Insurance System. AU   Lemieux, Thomas; MacLeod, W. Bentley. AA   Lemieux: University of Montreal and National Bureau of Economic Research. MacLeod: University of Southern California. SR   National Bureau of Economic Research Working Paper: 6732; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   29. PR $5.00. JE   I38, J22, J64,

J65. KW Unemployment Insurance. Benefits. Unemployment Increase. Labor Supply.

AB This paper represents results from a 1971 natural experiment carried out by the Canadian government on the unemployment insurance system. At that time, they dramatically increased the generosity of the system. We find that the propensity to collect UI increases with a first time exposure to the system. Hence as more individuals experience unemployment their lifetime use of the system increases. This supply side hysterisis effect may explain why unemployment has steadily increased over the 1972 - 1992 period, even though the generosity of unemployment insurance did not.

Lengwiler, Yvan

PD July 1999. TI Optimal Discretion. AU Lengwiler, Yvan; Orphanides, Athanasios. AA Swiss National Bank Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/42; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 35. PR no charge. JE C72, D82, E58. KW Rules. Discretion. Credibility. Dynamic Inconsistency. Disinflation. Inflation Targeting.

AB This paper investigates the desirability of adopting a rule in favor of discretionary monetary policy in a model exhibiting Kydland and Prescott's dynamic inconsistency problem. We deviate from earlier work by adopting assumptions regarding policymaker preferences and inflation dynamics that are compatible with empirically motivated models. In particular, we dispense with the fundamental incompatibility between price stability and full employment objectives and allow for stickiness in the determination of inflation. We show that if discretion provides a policy flexibility benefit, adoption of a rule remains optimal but only under certain circumstances. If the central bank's preference to contain inflation is fully credible, then a rule is optimal only when inflation exceeds an endogenously determined threshold. This setup gives rise to a discretionary policy zone for inflation. We also examine optimal policy when the central bank's inflation fighting determination is not fully credible. Then, adopting a rule becomes optimal even when inflation is lower. This result provides a reconciliation of the theory regarding the optimality of adopting a rule with the empirical observation that policymakers appear more willing to abandon discretion when facing either low credibility or high inflation but is less inclined to do so otherwise.

Lerner, Josh

TI The Determinants of Corporate Venture Capital Successes: Organizational Structure, Incentives, and Complimentarities. AU Gompers, Paul A.; Lerner, Josh.

TI Does Venture Capital Spur Innovation? AU Kortum, Samuel; Lerner, Josh.

TI Conflict of Interest in the Issuance of Public Securities: Evidence from Venture Capital. AU Gompers, Paul A.; Lerner, Josh.

Leunig, Tim

PD February 1997. TI New Answers to Old Questions: Transport Costs and the Slow Adoption of Ring Spinning in Lancashire. AA University of London. SR University of Oxford, Discussion Paper in Economic and Social History: 22; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 28. PR no charge. JE D20, L22, L67, N63, O33. KW Technological Choice. Transport Costs. Vertical Integration. Cotton. Economic History.

AB It has been argued that the additional cost of transporting ring yarn in the vertically and geographically specialized Lancashire cotton industry was sufficiently high to deter spinners from adopting rings. The absence of a transition to large-scale vertically integrated plants is seen as a form of entrepreneurial failure. In this paper, we use new evidence to show that the majority of yarn could have been woven within the district in which it was spun, and, further, that in such areas, the average distance between spinners and weavers was a matter of yards. Transport costs were no more important for these firms than for vertically integrated ones. This yields a testable hypothesis: vertically specialized firms located in these areas should have been as ready to adopt rings as integrated firms. We test this proposition and find it to be correct: co-location of independent, vertically specialized firms were as likely to adopt rings as were vertically integrated firms. As such the industry's failure to move to large-scale vertically integrated production cannot be characterized as a form of entrepreneurial failure.

Levine, Phillip B.

TI Extended Benefits and the Duration of UI Spells: Evidence from the New Jersey Extended Benefit Program. AU Card, David; Levine, Phillip B.

TI Discrimination in the Small Business Credit Market. AU Blanchflower, David G.; Levine, Phillip B.; Zimmerman, David J.

Levinson, Arik

TI The Simple Analytics of the Environmental Kuznets Curve. AU Andreoni, James; Levinson, Arik.

Levitt, Steven D.

TI The Impact of Race on Policing, Arrest Patterns, and Crime. AU Donohue, John J.; Levitt, Steven D.

Levy, Helen

TI Recent Trends in Employer-Sponsored Health Insurance Coverage: Are Bad Jobs Getting Worse? AU Farber, Henry S.; Levy, Helen.

Lewis, Frank D.

PD June 1997. TI Growth and the Standard of Living in a Pioneer Economy: Upper Canada, 1826 to 1851. AU Lewis, Frank D.; Urquhart, M. C. AA Queen's University. SR Queen's Institute for Economic Research Discussion Paper: 950; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 45. PR $3.21 Canada; $3.50 U.S. and Foreign. JE N31, N51, N71. KW Ontario. Upper Canada. Agriculture. Income. Standard of Living.

AB Building on the work of McCalla, McInnis and others we describe the early income of Upper Canada over the period 1826 to 1851. The Municipal Assessments, which report ownership of land, livestock and other property, allow us to

develop conjectural estimates of farm income; and various Provincial Accounts help us describe the pattern of trade as well as the development of the school system. Although we find little evidence of intensive growth in that per capita incomes stayed about the same over the period, there were remarkable increases in aggregate output and population.

Lewis, Jane
TI   The Emergence of Lone Motherhood as a Problem in Late Twentieth Century Britain. AU   Land, Hilary; Lewis, Jane.

Liang, J. Nellie
PD   November 1999.   TI   Share Repurchases and Employee Stock Options and Their Implications for S&P 500 Share Retirements and Expected Returns. AU   Liang, J. Nellie; Sharpe, Steven A. AA   Board of Governors of the Federal Reserve System. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/59; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG   19. PR   no charge. JE   G13, G35. KW   Share Repurchases. Stock Options. Expected Returns.
AB   We estimate the effects of share repurchases and employee stock option exercises on net share retirements for large S&P 500 companies. We find that, over the past five years, gross repurchases have reduced shares outstanding 2 percent annually; but, owing to the exercise of employee stock options, only about half of those shares were actually retired. Given the recent pace of employee stock option grants, and assuming that equities continue to be priced at about 30 times earnings, our analysis suggests that the pace of net share retirements will fall well below the pace of the last few years, unless corporations use nearly all their earnings to fund shareholder payouts. Moreover, over the long haul, assuming corporations need to retain 40 to 50 percent of their earnings to invest and grow at historical rates, the long-run average pace of net share retirements is likely to fall to 1/2 percent or less.

Lipman, Barton L.
PD   September 1997. TI   Switching Costs in Frequently Repeated Games. AU   Lipman, Barton L.; Wang, Ruqu. AA   Lipman: University of Western Ontario. Wang: Queen's University. SR   Queen's Institute for Economic Research Discussion Paper: 955; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG   24. PR $3.21 Canada; $3.50 U.S. and Foreign. JE   C72, C73. KW   Repeated Games. Switching Costs. Folk Theorems.
AB   We show that the standard results for finitely repeated games do not survive the combination of two simple variations on the usual model. In particular, we add a small cost of changing actions and consider the effect of increasing the frequency of repetitions within a fixed period of time. We show that this can yield multiple subgame perfect equilibria in games like the Prisoners' Dilemma which normally have a unique equilibrium. Also, it can yield uniqueness in games which normally have multiple equilibria. For example, in a two by two coordination game, if the Pareto dominant and risk dominant outcomes coincide, the unique subgame perfect equilibrium for small switching costs and frequent repetition is to repeat this outcome every period. Also, in a generic Battle of the Sexes game, there is a unique subgame perfect equilibrium for small switching costs.

Lippi, Marco
PD   April 1998.   TI   Aggregation of Simple Linear Dynamics: Exact Asymptotic Results. AU   Lippi, Marco; Zaffaroni, Paolo. AA   Lippi: Roma La Sapienza. Zaffaroni: Banca d'Italia.   SR   STICERD, (LSE) Econometrics Discussion Paper: EM/98/350; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   46. PR   no charge. JE   C43. KW   Aggregation. Idiosyncratic Shocks. Fluctuations. Long Memory. Nonstationarity.
AB   The paper deals with aggregation of AR(1) micro variables driven by a common and an idiosyncratic shock with random coefficients. We provide a rigorous analysis, based on results on sums of r.v.'s with a possibly infinite first moment, of the aggregate variance and spectral density, as the number of micro units tends to infinity. If the AR coefficients are not bounded away from unity, the aggregate process may exhibit infinite variance and long memory. Surprisingly, if the key parameter of the density function of the AR coefficients lies below a critical value (high density near unity), common and idiosyncratic components have the same importance.

Litchfield, Julie A.
TI   Education or Inflation: The Roles of Structural Factors and Macroeconomic Instability in Explaining Brazilian Inequality in the 1980s. AU   Ferreira, Francisco H. G.; Litchfield, Julie A.

Lockwood, Ben
TI   The Property-Rights Theory of the Firm with Endogenous Timing of Asset Purchase. AU   de Meza, David; Lockwood, Ben.

Loeb, Susanna
TI   Coding Geographic Areas Across Census Years: Creating Consistent Definitions of Metropolitan Areas. AU   Jaeger, David A.; Loeb, Susanna; Turner, Sarah E.; Bound, John.

Lofstrom, Magnus
TI   The Educational Attainment of Immigrants: Trends and Implications. AU   Betts, Julian R.; Lofstrom, Magnus.

Lopez-de-Silanes, Florencio
TI   Corporate Ownership Around the World. AU   La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

TI   The Quality of Government. AU   La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert.

Lovely, Mary E.
PD   July 1998. TI   Trade Flows and Wage Premiums: Does Who or What Matter? AU   Lovely, Mary E.; Richardson, J. David. AA   Lovely: Syracuse University. Richardson: Syracuse University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6668; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   F14,

J31. KW Trade. Wages. Wage Premiums. Intraindustry trade. AB The relationship between trade, wages, and the rewards to skill for U.S. workers during the period 1981-92 is investigated. U.S. trade flows with three groups of trading partners -- industrial countries, newly industrial countries, and primary producers -are measured and we estimate the correlation of these trade flows with types of wage premiums, using conditioning methods that separate pure wage premiums from the return to education industry by industry. We find that greater U.S. trade with newly industrializing countries is associated with increased rewards to skill and reduced rewards to pure labor, consistent with heightened wage inequality and distributional conflict. The opposite is usually true of greater trade with traditional industrial countries. Our interpretation of these results rests on two models. First a model of North-North intraindustry trade in differentiated, skill-intensive intermediate goods ("horizontal" exchange) and North-South intraindustry trade in intermediates for finished manufactures ("vertical" exchange). The second is a simple model of industry wage premiums that are rewards for loyalty, firm- specific knowledge, or (dis)amenities, in which we posit different premiums for skilled and less-skilled workers whose labor markets are segmented from one another.

Lu, Maozu

PD May 1998. TI Parallel Exchange Market as a Transition Mechanism for Foreign Exchange Reform: China's Experiment. AU Lu, Maozu; Zhang, Zhichao. AA Lu: University of Southampton. Zhang: Oxford University. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9807; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. PG 40. PR annual subscription 40 pounds ($80); individual copies on application. JE C33, F31. KW Co-Integration. Exehange Rate Reform. Transition. AB In the process of China's foreign exchange reform, the so-called swap market was a key element. Despite the problems it caused, notably those associated with a dual exchange rate, the paper argues that the swap market proved to be a useful transition mechanism for China's foreign exchange liberalization. It is shown that the swap market caused exchange controls to wither and introduced market forces into incentive structure. Furthermore, statistical evidence has been found that the Chinese official exchange rate and the swap rate are cointegrated and there existed long- and short-run causal relationship in the sense of Granger in the direction from the swap to the official rate. It is evident from these findings that the swap market facilitated the reform of the mechanism of China's exchange rate by its services of information extraction and of introducing market forces into China's exchange rate decisions.

PD May 1998. TI Exchange Rate Reform and Its Inflationary Consequences: An Empirical Analysis for China. AU Lu, Maozu; Zhang, Zhichao. AA Lu: University of Southampton. Zhang: Oxford University. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9808; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. PG 39. PR annual subscription 40 pounds ($80); individual copies on application. JE C33, F31. KW Cointegration. Exchange Rate Reform. Inflation.

AB In examining China's exchange rate policy in the reforming years, the paper finds empirical evidence of its long-run inflationary consequences, but the effects appear to be not sizable. In the short-run, while changes in the devaluation rate are positively correlated with the increase in the growth rate of inflation, the inflation inertia is also modest. The moderate inflationary cost of devaluation provides some explanation of the smooth transition of exchange rate policy regime in China and the authorities' ability to put more weight on external competitiveness.

Ludvigson, Sydney

TI Elasticities of Substitution in Real Business Cycle Models with Home Production. AU Campbell, John Y.; Ludvigson, Sydney.

Lumsdaine, Robin L.

TI Dating the Integration of World Markets. AU Bekaert, Geert; Harvey, Campbell R.; Lumsdaine, Robin L.

Lupton, Ruth

TI Poverty, Social Exclusion and Neighbourhood: Studying the Area Bases of Social Exclusion. AU Glennerster, Howard; Lupton, Ruth; Noden, Philip; Power, Anne.

Luttmer, Erzo F. P.

TI Network Effects and Welfare Cultures. AU Bertrand, Marianne; Luttmer, Erzo F. P.; Mullainathan, Sendhil.

MacKinnon, James G.

TI Bootstrap Tests: How Many Bootstraps? AU Davidson, Russell; MacKinnon, James G.

TI Bootstrap Tests of Nonnested Linear Regression Models. AU Davidson, Russell; MacKinnon, James G.

Mackinnon, John

PD June 1998. TI Can Robust Pro-Female Policies be Identified When the True Model of the Household is Unknown? AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/16; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 23. PR 3 pounds or $5.00. JE D10, H31, J16, O12. KW Gender. Policy. Africa. Women. Households. AB This paper seeks to identify parameter changes which are robust in the sense that they benefit women relative to men in a wide range of household models. The models considered are unitary, Nash-bargaining and non-cooperative with and without cash transfers. Reductions in the relative price of 'female' consumer goods prices are robust; increases in relative wages are highly non-robust. Increases in the relative returns to domestic activities and transfers of financial, physical, and human assets to women are weakly robust in that they are unlikely to hurt women and benefit them in some cases though they make no difference in others.

MacLeod, W. Bentley

TI Supply Side Hysterisis: The Case of the Canadian Unemployment Insurance System. AU Lemieux, Thomas; MacLeod, W. Bentley.

MaCurdy, Thomas E.
TI   Medical Care at the End of Life: Diseases, Treatment Patterns, and Costs. AU   Garber, Alan M.; MaCurdy, Thomas E.; McClellan, Mark.

Madsen, Erik Strojer
TI   Market Structure, Publicly and Privately Financed R&D Spending. Empirical Evidence for Denmark. AU   Dilling-Hansen, Mogens; Eriksson, Tor; Madsen, Erik Strojer; Smith, Valdemar.

TI   Market Structure, Publicly and Privately Financed R&D Spending. Empirical Evidence for Denmark. AU   Dilling-Hansen, Mogens; Eriksson, Tor; Madsen, Erik Strojer; Smith, Valdemar.

Maggi, Giovanni
PD   August 1998. TI   Import Penetration and the Politics of Trade Protection. AU   Maggi, Giovanni; Rodriguez-Clare, Andres. AA   Maggi: Princeton University and National Bureau of Economic Research. Rodriguez-Clare: University of Chicago. SR   National Bureau of Economic Research Working Paper: 6711; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   D72, F13. KW   Trade Protection. Import Penetration. Trade Taxes. Quotas.
AB   In this paper we reconsider a key empirical prediction generated by an important class of political-economy models of trade policy, namely that trade protection should be higher in sectors characterized by lower import penetration (we call this the "standard" prediction). The existing empirical evidence offers little support for this prediction. In this paper we argue that the standard prediction depends critically on the assumptions that trade taxes are the only policy instruments and that the government has access to non-distortionary taxation. We analyze a model in which the government can use quotas and VER's in addition to trade taxes and raising public funds may be costly. Under a simple sufficient condition, our model predicts that the protection level increases with import penetration, both in sectors that are protected with tariffs and in sectors that are protected with quantitative restrictions.

TI   Diversity and Trade. AU   Grossman, Gene M.; Maggi, Giovanni.

Mahoney, Paul G.
PD   November 1998. TI   Trust and Opportunism in Close Corporations. AA   University of Virginia. SR   National Bureau of Economic Research Working Paper: 6819; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   21. PR $5.00. JE   C70, G32, G35, G38, K22. KW   Corporate Control. Majority Shareholders. Trust. Reputation.
AB   The majority shareholder in a closely held corporation may use its control of the corporate machinery to appropriate wealth from the minority, and it is difficult for the majority to make a binding commitment not to do so. This paper models the interaction between the majority and minority shareholders as a trust game in which the majority is constrained by the possibility of non-legal sanctions, including family or social disapproval and loss of reputation. The paper applies the analysis to the longstanding debate over appropriate exit rules for close corporation shareholders. Where the parties are well-informed and rational and judicial valuations are unbiased, giving the minority the unconditional right to be cashed out should reduce majority opportunism without producing opportunistic behavior by the minority. The paper suggests that the apparent failure of close corporation shareholders to bargain for such a right reflects the courts' success in using dissolution and fiduciary duty actions to deter majority misbehavior.

Mairesse, Jacques
TI   Research, Innovation, and Productivity: An Econometric Analysis at the Firm Level. AU   Crepon, Bruno; Duguet, Emmanuel; Mairesse, Jacques.

Makris, Miltos
TI   Optimal Federal Capital Income Taxation. AU   Kotsogiannis, Christos; Makris, Miltos.

Malcomson, James M.
TI   Government Purchasing of Health Services. AU   Chalkley, Martin; Malcomson, James M.

Manganelli, Simone
TI   CAViaR: Conditional Autoregressive Value at Risk by Regression Quantiles. AU   Engle, Robert F.; Manganelli, Simone.

Mansfield, Carol
TI   Buying Time: Real and Hypothetical Offers. AU   Smith, V. Kerry; Mansfield, Carol.

Marchand, Maurice
TI   Consequences of Overlapping Tax Bases for Redistribution and Public Spending in a Federation. AU   Boadway, Robin; Marchand, Maurice; Vigneault, Marianne.

Margo, Robert A.
PD   July 1998. TI   Labor Market Integration Before the Civil War. AA   Vanderbilt University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6643; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   31. PR $5.00. JE   J31, N31, R23. KW   Labor Markets. Wages. Regional Economics. Economic History. Migration.
AB   This paper uses newly collected archival evidence to examine various aspects of the geographic performance of American labor markets before the Civil War. Much of the paper addresses the evolution of regional differences in real wages, of interest to economic historians because they speak to the formation of a "national labor market." In the North, real wages followed a pattern of convergence: wages were highest initially on the frontier -- the Midwest -- but tended to decline relative to real wages in settled regions -- the Northeast -- as labor migrated to the frontier. In the South, regional wage gaps were generally smaller than the North, but real wages in the South fell significantly below Northern levels beginning in the 1830's. In addition to regional differences, the author also examines wage convergence at the level of local labor markets, proxied by counties, using manuscript census data for 1850 and 1860.

Marin, A.

TI   Stability of Estimates of the Compensation for Danger.
AU   Arabsheibani, G. R.; Marin, A.

Marinucci, D.

PD   July 1998. TI   Weak Convergence of Multivariate Fractional Processes. AU   Marinucci, D.; Robinson, Peter M. AA   London School of Economics. SR   STICERD, (LSE) Econometrics Discussion Paper: EM/98/352; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk.   PG   28.   PR   no charge.   JE   C32. KW   Nonstationarity. Fractional Integration. Central Limit Theorem. Smoothed Processes. Brownian Motion.
AB   Weak convergence to a form of fractional Brownian motion is established for a wide class of nonstationary fractionally integrated processes. Instrumental for the main argument is a result of some independent interest on approximations for partial sums of stationary linear vector sequences. A functional central limit theorem for smoothed processes is analyzed under more general assumptions.

PD   July 1998. TI   Band Spectrum Regression for Cointegrated Time Series with Long Memory Innovations. AA   London School of Economics. SR   STICERD, (LSE) Econometrics Discussion Paper: EM/98/353; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk.   PG   25.   PR   no charge.   JE   C32. KW   Long-Range Dependence. Band Spectrum Regression. Cointegration. Long Memory. Time Series.
AB   Band spectrum regression is considered for cointegrated time series with long memory innovations. The estimates we advocate are shown to be consistent when cointegrating relationships among stationary variables are investigated, while OLS are inconsistent due to correlation between the regressor and the cointegrating residuals; in the presence of unit roots, these estimates share the same asymptotic distribution as OLS. As a corollary of the main result, we provide a functional central limit theorem for quadratic forms in nonstationary fractionally integrated processes.

PD   July 1998. TI   Alternative Forms of Fractional Brownian Motion. AU   Marinucci, D.; Robinson, Peter M. AA   London School of Economics. SR   STICERD, (LSE) Econometrics Discussion Paper: EM/98/354; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk.   PG   21.   PR   no charge.   JE   C32. KW   Fractional Brownian Motion. Nonstationary Time Series. Long-Range Dependence.
AB   It is pointed out that two contradictory definitions of fractional Brownian motion are well established, one prevailing in the probabilistic literature, the other in the econometric literature. Each is associated with a different definition of nonstationary fractional time series. These various definitions have occasionally led to some confusion. The paper discusses the definitions and attempts a clarification.

Markowitz, Sara

PD   June 1998. TI   The Effects of Alcohol Regulation on Physical Child Abuse. AU   Markowitz, Sara; Grossman, Michael. AA   Markowitz: University Heights and National Bureau of Economic Research. Grossman: City University, New York and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6629; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.   PG   not available.   PR $5.00.   JE   H31, I12, I18, J13, J31.   KW   Alcohol. Violence. Child Abuse. Excise Taxes. Regulation.
AB   This paper examines the effects of alcohol regulation on physical child abuse. Given the established relationship between alcohol consumption and violence, the principal hypothesis to be tested is that an increase in the price of alcohol will lead to a reduction in the incidence of violence. The authors also examine the effects of measures of the ease of obtaining alcohol, illegal drug prices, and the socio-demographic characteristics of the parent on the incidence of child abuse. Data on violence come from the 1976 and 1985 Physical Violence in American Families surveys. The authors estimate a reduced form model where violence is affected by the state excise tax rate on beer and other regulatory variables, and a structural model where violence is determined partly by consumption. Results indicate that increases in the beer tax may decrease the incidence of violence committed by females but not by males.

Markusen, James R.

TI   Estimating the Knowledge-Capital Model of the Multinational Enterprise. AU   Carr, David L.; Markusen, James R.; Maskus, Keith E.

TI   Understanding the Home Market Effect and the Gravity Equation: The Role of Differentiating Goods. AU   Feenstra, Robert C.; Markusen, James R.; Rose, Andrew K.

Martimort, David

TI   A Theory of Supervision with Endogenous Transaction Costs. AU   Faure-Grimaud, Antoine; Laffont, Jean-Jacques; Martimort, David.

Martin, Stephen

PD   September 1998. TI   Strategic and Welfare Implications of Bundling. AA   Martin: University of Copenhagen. SR   Centre for Industrial Economics Discussion Paper: 98/14; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk.   PG   7.   PR   no charge. JE   L12, L13, L41.   KW   Bundling. Tying.
AB   A standard oligopoly model of bundling shows that bundling by a firm with a monopoly over one product has a strategic effect because it changes the substitution relationships between the goods among which consumers choose. Bundling in appropriate proportions is privately profitable, reduces rivals' profits and overall welfare, and may drive rivals from the market.

PD   January 1999. TI   The Nature of Innovation Market Failure and the Design of Public Support for Private Innovation.   AU   Martin, Stephen; Scott, John T. AA   Martin: University of Copenhagen. Scott: Darthmouth College.   SR   Centre for Industrial Economics Discussion Paper: 99/02; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk.   PG   28.   PR   no charge. JE   O31; O38.   KW   Innovation. R&D Policy.
AB   We relate the sources of innovation market failure to the

dominant mode of sectoral innovation and outline mechanisms for public support of innovation that target specific sources of innovation market failure.

Mash, Richard
PD   April 1997. TI   Reversible Reforms With Irreversible Capital: The Investment Response to Imperfectly Credible Trade Liberalisation. AA   University of Oxford and Saint Anthony's College. SR   Centre for the Study of African Economies Working Paper: 97/06; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG   29. PR   3 pounds or $5.00. JE   E22, F13, F41. KW   Trade Liberalization. Investment. Capital.
AB   The paper considers the irreversible investment response to trade liberalization when agents perceive there to be a positive probability that the liberalization may be reversed. It is shown that even with full credibility the aggregate investment response may be weak since investment will collapse in the un-favored sector as a result of the change in domestic relative prices. Limited credibility reduces the investment response in the favored sector and hence reduces aggregate investment. The effect is particularly strong if investment involves delivery lags before new capital becomes productive. The paper also demonstrates a new solution method for irreversible investment problems of this type.

Maskin, Eric
PD   June 1997. TI   Incentives, Scale Economies, and Organizational Form. AU   Maskin, Eric.; Qian, Yingyi; Xu, Chenggang. AA   Maskin: Harvard University. Qian: Stanford University. Xu: London School of Economics. SR   STICERD, (LSE) Theoretical Economics Discussion Paper: TE/97/331; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   42. PR   no charge. JE   D23, D80, H11, L20, P51. KW   Organizational Form. Scale Economies. Incentives. Yardstick Competition. China.
AB   We model organization as the command-and-communication network of managers erected on top of technology (which is modeled as a collection of plants). In our framework, the role of a manager is to deal with shocks that affect the plants that he oversees directly or indirectly. Organizational form is then an instrument for (a) economizing on managerial costs, and (b) providing managerial incentives. We show that two particular organizational forms, the M-form (multi-divisional form) and the U-form (unitary form), are the optimal structures when shocks are sufficiently "big". We argue however that, under certain empirical assumptions, the M-form is likely to be strictly preferable once incentives are taken into account. We conclude by showing that the empirical hypotheses on which this comparison rests are satisfied for Chinese data.

PD   December   1998.   TI   Implementation   and Renegotiation.   AU   Maskin,   Eric;   Moore,   John. AA   Maskin: Harvard University. Moore: London School of Economics and University of St. Andrews. SR   STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/366; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   48. PR   no

charge. JE   D71, D78. KW   Social   Choice   Rules. Implementation. Renegotiation.
AB   The paper characterizes the choice rules that can be implemented when agents are unable to commit themselves not to renegotiate the mechanism.

PD   February   1999.   TI   Implementation   and Renegotiation.   AU   Maskin,   Eric;   Moore,   John. AA   Maskin: Harvard University. Moore: London School of Economics and University of St. Andrews. SR   Harvard Institute for Economic Research Discussion Paper: 1863; Harvard Institute of Economic Research, Department of Economics, 200 Littauer Center, Cambridge, MA 02138. Website: www.economics.harvard.edu/hier/index.html. PG   41. PR $3.00 per paper domestic (USA & Canada) and $4.00 per paper international. JE   C72, C73, D71, D81, L14.   KW   Renegotiation.   Choice   Rules.   Implementation Theory. Mechanism Design.
AB   See the abstract for Maskin, Eric; Moore, John. December   1998.   "Implementation   and   Renegotiation". STICERD, (LSE) Theoretical Economics Discussion Paper: TE/98/366; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk.

Maskus, Keith E.
TI   Estimating the Knowledge-Capital Model of the Multinational Enterprise. AU   Carr, David L.; Markusen, James R.; Maskus, Keith E.

Mason, Robin
TI   Multiproduct   Competition   Between   Congestible Networks. AU   Gibbens, Richard; Mason, Robin; Steinberg, Richard.

PD   August 1999. TI   The Effects of Uncertainty on Optimal Consumption. AU   Mason, Robin; Wright, Stephen. AA   Mason: University   of   Southampton.   Wright: CambridgeUniversity.   SR   University   of   Southampton, Discussion Paper in Economics and Econometrics: 9907; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk.   PG   34.   PR   annual subscription 40 pounds ($80); individual copies on application. JE   D11,   D91,   E21.   KW   Optimal   Consumption. Uncertainty. Precautionary Motive.
AB   When marginal utility is convex and there is pure labor income uncertainty, certain results are well-known. Asset return uncertainty is often assumed to have qualitatively similar effects; see e.g. Skinner (1988). We show that this assumption is not correct. Asset return uncertainty gives rise to an additional term in the Euler equation, which by introducing a role for current cash-in-hand, may work in the opposite direction to the precautionary motive, leading to ambiguity in the slope of the expected consumption time profile. We present a linearized version of the Euler equation, and an associated closed form solution, in order to provide intuition for these results. Numerical analysis indicates that the approximation is reasonable for empirically plausible estimates of the variances of the underlying disturbances.

PD   August 1999. TI   Cost Raising Strategies in a Symmetric,   Dynamic   Duopoly.   AA   University   of Southampton. SR   University of Southampton, Discussion Paper in Economics and Econometrics: 9908; Discussion Paper

Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. PG 26. PR annual subscription 40 pounds ($80); individual copies on application. JE C73, D43, L13. KW Cost Raising. Dynamic Games. Conjectural Variations.

AB This paper provides a characterization of the set of dynamic models in which symmetric duopolists have incentives to raise their common cost. The dynamic analysis has two advantages over existing static models. First, it avoids conceptual weaknesses, allowing conjectures to be derived endogenously rather than imposed. Secondly, it extends the conditions (restrictive in static models) under which symmetric cost raising is profitable. The model is illustrated by standard examples from industrial organization (quantity and price adjustment, and learning-by-doing).

Mateos, Xavier

PD December 1998. TI Longer Lives, Fertility, and Accumulation. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9822; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. PG 31. PR annual subscription 40 pounds ($80); individual copies on application. JE J11, J13, O11. KW Altruism. Capital Accumulation. Demographic Transition. Mortality.

AB This paper investigates the implications of an exogenous decline in mortality rates for capital accumulation and fertility in a neoclassical economy with dynastic preferences. The analysis shows that drops in mortality can explain the transition from a regime with high levels of fertility and low output per capita to a situation with low fertility and larger output per capita. The differential impact of mortality declines on different age-groups is shown to be very important in driving this result. A positive effect on per-capita output arises only if the reductions in mortality have a larger relative impact at young ages. The dynamic adjustment is consistent with the non-monotonic path of fertility over time observed over the demographic transition.

Matsuura, Kazuyoshi

PD March 1999. TI Institutional Restructuring in the Japanese Economy, 1985-1996. AU Matsuura, Kazuyoshi; Pollitt, Michael; Takada, Ryoji; Tanaka, Satoru. AA Matsura: Matsuyama University, Japan. Pollitt: University of Cambridge. Takada: University of Marketing and Distribution Sciences, Japan. Tanaka: Kobe City University of Foreign Studies, Japan. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP115; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 32. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE E65, G21, L22, L40, P17. KW Main Bank System. Corporate Relationships. Industrial Policy. Competition Policy. Japanese Economy.

AB This paper examines the effect of economic turbulence since 1985 on three of the institutional foundations of post-war Japanese industrial success. These are the Japanese 'main bank' system whereby a main bank is involved in a special type of long-term relationship with client firms, the tradition of close inter-corporate relationships between main manufacturing firms and their suppliers, and the nature of Japanese industrial policy and the roles of the Ministry of International Trade and Industry (MITI) and the Japan Fair Trade Commission (JFTC). In each case, evidence suggests that these institutional foundations of the post-war Japanese economy have been fundamentally weakened over the period.

Maydew, Edward L.

TI Coveting Thy Neighbor's Manufacturing: The Dilemma of State Income Apportionment. AU Goolsbee, Austan; Maydew, Edward L.

Mayzlin, Dina

TI Physician Fees and Procedure Intensity: The Case of Cesarean Delivery. AU Gruber, Jonathan; Kim, John; Mayzlin, Dina.

McCallum, Bennett T.

PD August 1998. TI Nominal Income Targeting in an Open-Economy Optimizing Model. AU McCallum, Bennett T.; Nelson, Edward. AA McCallum: Carnegie Melon University and National Bureau of Economic Research. Nelson: Bank of England. SR National Bureau of Economic Research Working Paper: 6675; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E37, E52, F41. KW Nominal Income targeting. Monetary Policy Rules. Habit Formation.

AB This paper presents stochastic simulation results pertaining to the performance of nominal income targeting, here represented as a monetary policy rule that sets quarterly values of an interest rate instrument in response to deviations on existing studies of nominal income growth from a specified target rate. It attempts to improve on existing studies by conducting analysis in a macroeconomic model that is designed to respect both neoclassical theory and empirical regularities. Accordingly, the basic theoretical framework is one in which individual economic agents are depicted as solving dynamic optimization problems with rational expectations, but in an environment such that prices respond only gradually to changes in conditions. The adjustment specification used is the P-bar model, which satisfies the strict natural rate hypothesis. Two improvements over previous work by the authors are that consumption choices reflect habit formation, which lends some inertia to the system, while the modeled economy is open to international flows of goods and securities. Both of these features have major effects on the system's properties. Quantitatively, the model is calibrated to post-Bretton Woods U.S. quarterly data. The results suggest that nominal income targeting deserves serious consideration as a monetary policy strategy.

McClellan, Mark

TI Price and Productivity in Managed Care Insurance. AU Cutler, David M.; McClellan, Mark; Newhouse, Joseph P.

TI Medical Care at the End of Life: Diseases, Treatment Patterns, and Costs. AU Garber, Alan M.; MaCurdy, Thomas E.; McClellan, Mark.

McGuire, Thomas G.
TI Measuring Adverse Selection in Managed Health Care. **AU** Frank, Richard G.; Glazer, Jacob; McGuire, Thomas G.

TI Parity for Mental Health and Substance Abuse Care Under Managed Care. **AU** Frank, Richard G.; McGuire, Thomas G.

McKitrick, Ross
TI Comparing Capital Mobility Across Provincial and National Borders. **AU** Helliwell, John F.; McKitrick, Ross.

McLanahan, Sara
TI Fathers Under Fire: The Revolution in Child Support Enforcement in the USA. **AU** Garfinkel, Irwin; McLanahan, Sara; Meyer, Daniel; Seltzer, Judith.

Mehra, Rajnish
TI Junior Can't Borrow: A New Perspective on the Equity Premium Puzzle. **AU** Constantinides, George M.; Donaldson, John B.; Mehra, Rajnish.

Mellinger, Andrew D.
TI Geography and Economic Development. **AU** Gallup, John Luke; Sachs, Jeffrey D.; Mellinger, Andrew D.

Meredith, Guy
PD November 1998. **TI** Long-Horizon Uncovered Interest Rate Parity. **AU** Meredith, Guy; Chinn, Menzie D. **AA** Meredith: International Monetary Fund. Chinn: University of California, Santa Cruz and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6797; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E43, F21, F31, F41. **KW** Exchange Rates. Interest Rates. Uncovered Interest Parity. International Finance.
AB Uncovered interest parity (UIP) has been almost universally rejected in studies of exchange rate movements, although there is little consensus on why it fails. In contrast to previous studies, which have used relatively short-horizon data, we test UIP using interest rates on longer-maturity bonds for the G-7 countries. These long-horizon regressions yield much more support for UIP -- all the coefficients on interest differentials are of the correct sign, and almost all are closer to the UIP value of unity than to the zero coefficient implied by the random walk hypothesis. We then use a small macroeconomic model to explain the differences between the short- and long-horizon results. Regressions run on data generated by stochastic simulations replicate the important regularities in the actual data, including the sharp differences between short- and long-horizon parameters. In the short run, the failure of UIP results from risk premium shocks in the face of endogenous monetary policy. In the long run, in contrast, exchange rate movements are driven by the "fundamentals," leading to a relationship between interest rates and exchange rates that is more consistent with UIP.

Metrick, Andrew
PD July 1998. **TI** Performance Evaluation with Transactions Data: The Stock Selection of Investment Newsletters. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6648; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 35. **PR** $5.00. **JE** G12, G14, G20. **KW** Asset Pricing. Information. Performance Evaluation. Stock Returns.
AB This paper analyzes the equity-portfolio recommendations made by investment newsletters. The data set spans 17 years and includes the complete recommendations for 153 different newsletters. Overall, there is no significant evidence of superior stock-picking ability for this sample of newsletters. Some individual letters do have superior performance records, but this does not occur more often than would be expected by chance, and these records are never more extreme than would be expected for the sample size. In addition, a strategy of buying past winners does not earn positive abnormal returns. The comprehensive and bias-free transactions database also allows for insights into several popular models of performance evaluation. The transactions-based approach of Daniel, Grinblatt, Titman and Wermers (1997) yields a median improvement in precision of 10 percent over the 4-factor model of Carhart (1997a). This compares with a median improvement of less than 1 percent for the 4-factor model over the CAPM.

TI Institutional Investors and Equity Prices. **AU** Gompers, Paul A.; Metrick, Andrew.

Meyer, Bruce D.
TI Using a Natural Experiment to Estimate the Effects of the Unemployment Insurance Payroll Tax on Wages, Employment, Claims, and Denials. **AU** Anderson, Patricia M.; Meyer, Bruce D.

Meyer, Daniel
TI Fathers Under Fire: The Revolution in Child Support Enforcement in the USA. **AU** Garfinkel, Irwin; McLanahan, Sara; Meyer, Daniel; Seltzer, Judith.

Milesi-Ferretti, Gian Maria
PD June 1998. **TI** Current Account Reversals and Currency Crises: Empirical Regularities. **AU** Milesi-Ferretti, Gian Maria; Razin, Assaf. **AA** Milesi-Ferretti: International Monetary Fund. Razin: Tel Aviv University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6620; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 31. **PR** $5.00. **JE** E44, F31, F32, F34, F41. **KW** Current Account. Exchange Rates. Currency Crises. Growth.
AB This paper studies sharp reductions in current account deficits and large exchange rate deprecations in low- and middle-income countries. It examines which factors help predict the occurrence of a reversal or a currency crisis, and how these events affect macroeconomic performance. It finds that both domestic factors, such as the low reserves, and external factors, such as unfavorable terms of trade and high interest rates in industrial countries, trigger reversals and currency crises. The two types of events are, however, distinct; indeed, current account imbalances are not sharply reduced in the years following a currency crisis. Economic performance around these events is also quite different. An exchange rate crash is associated with a fall in output growth and a recovery thereafter, while for reversal events there is no systematic evidence of a growth slowdown.

Mishkin, Frederic S.

PD July 1998. TI Financial Consolidation: Dangers and Opportunities. AA Columbia University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6655; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE G21, G28, G34. KW Banking. Financial Consolidation. Deposit Insurance. Regulation. Moral Hazard.

AB This paper argues that although financial consolidation creates some dangers because it is leading to larger institutions who might expose the U.S. financial system to increased systemic risk, these dangers can be handled by vigilant supervision and a government safety net with an appropriate amount of constructive ambiguity. Financial consolidation also opens up opportunities to dramatically reduce the scope of deposit insurance and limit it to narrow bank accounts, thus substantially reducing the moral hazard created by the government safety net. Reducing the scope of deposit insurance, however, does not eliminate the need for a government safety net. Moving to a world in which we have larger, nationwide, diversified financial institutions and in which deposit insurance plays a very limited role, should improve the efficiency of the financial system. However, the job of financial regulators and supervisors will continue to be highly challenging in the future.

Missoulis, Nikos

PD May 1999. TI Optimal Education in an Altruistic Framework. The Role of the Age Structure of Population. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9904; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 32. PR annual subscription 40 pounds ($80); individual copies on application. JE I29, J13, J14, O15. KW Age Structure of Population. Education. Human Capital. Fertility.

AB The age structure of its population affects an economy in two ways. On the one hand the accumulation of human capital, that is education, implies the sacrifice of current labor, the size of which depends on that of the cohorts in education. Further, since ageing affects ability to work and acquire new skills the stock of these abilities depends on the age structure of the population. In this paper a representative extended family maximizes an intertemporal utility function by allocating the time of its members between (current) labor and schooling (future labor). It is shown that though a lower fertility and consequently a lower proportion of the young leads to higher optimal education, this is not always sufficient to counterbalance the negative effects of the aged labor force on per capita output.

Mitchell, Olivia S.

TI Would a Privatized Social Security System Really Pay a Higher Rate of Return? AU Geanakoplos, John; Mitchell, Olivia S.; Zeldes, Stephen P.

TI Social Security Money's Worth. AU Geanakoplos, John; Mitchell, Olivia S.; Zeldes, Stephen P.

Moen, Jarle

TI Do Subsidies to Commercial R&D Reduce Market Failures -- Microeconomic Evaluation Studies. AU Klette, Tor Jakob; Moen, Jarle; Griliches, Zvi.

Moffitt, Robert A.

PD June 1998. TI Taxation and the Labor Supply: Decisions of the Affluent. AU Moffitt, Robert A.; Wilhelm, Mark. AA Moffitt: John Hopkins University and National Bureau of Economic Research. Wilhelm: Pennsylvania State University. SR National Bureau of Economic Research Working Paper: 6621; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 51. PR $5.00. JE H23, H24, H31, J22. KW Labor Supply. Tax Reform. Instrumental Variables. Wages.

AB We examine the effect of the 1996 Tax Reform Act on the labor supply of affluent men. The Act reduced marginal tax rates for the affluent more than for other taxpayers. Using instrumental-variables methods with a variety of identifying variables, we find essentially no responsiveness of the hours of work of high-income men to the tax reduction. However, we do find hourly wage rates of such men to have increased over the period.

Mollgaard, H. Peter

PD July 1998. TI Temporary Partnerships as an Information Transmission Mechanism: Foreign Investment in Emerging Markets. AU Mollgaard, H. Peter; Overgaard, Per Baltzer. AA Mollgaard: Copenhagen Business School. Overgaard: University of Aarhus. SR Centre for Industrial Economics Discussion Paper: 98/13; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 25. PR no charge. JE D80, F20, L14, O12. KW Investment. Complementary Assets. Partnerships. Joint Ventures and Licensing. Costly Signaling.

AB Asymmetric information and fear of acquiring a "lemon" may explain the paucity of foreign investment in emerging market economies. If investors are uncertain about the profitability of investments, intrinsically inefficient, temporary partnerships or joint ventures may serve as mechanisms through which information is transmitted. Temporary partnerships with joint investments by the domestic firm and the foreign investor, together with a buy-out option to the investor, can be used to separate good and bad investment prospects in equilibrium. However, non-revealing equilibria may exist. Implications for foreign direct investment are traced and briefly related to the experience of transition economies.

Monteiro, Paulo Klinger

PD February 1999. TI We Sold a Million Copies: The Role of Advertising Past Sales. AU Monteiro, Paulo Klinger; Moraga-Gonzalez, Jose Luis. AA Monteiro: IMPA, Brasil. Moraga-Gonzalez: Tinbergen Institute Rotterdam. SR Centre for Industrial Economics Discussion Paper: 99/03; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 23. PR no charge. JE D82, L15, M37. KW Two-Sided Quality Uncertainty. Past-Sales Advertising. Herding Behavior.

AB We model a two period monopoly market with two-sided quality uncertainty. In first period, seller gathers information about consumers' tastes upon observing its sales. In second period, seller may or may not deliver the information. If

monopolist must commit either to reveal or conceal past-sales before observing them, committing to reveal is the dominant strategy whenever advertising cost is low, buyers are many and their private information is accurate. When seller can postpone advertising decision and gains experience, past- sales revelation occurs partially. In equilibrium, delivery of sales-data occurs to induce some buyers' herding behavior. We carry out the analysis for two different informational scenarios.

Moore, John
TI   Cooperatives vs. Outside Ownership. AU   Hart, Oliver; Moore, John.

TI   Foundations of Incomplete Contracts.   AU. Hart, Oliver; Moore, John.

TI   Foundations of Incomplete Contracts.   AU   Hart, Oliver; Moore, John..

TI   Implementation and Renegotiation. AU   Maskin, Eric; Moore, John.

TI   Implementation and Renegotiation. AU   Maskin, Eric; Moore, John.

Moraga-Gonzalez, Jose Luis
PD   October   1998.   TI   The   Adverse   Effects   of Environmental Policy in Green Markets. AU   Moraga-Gonzalez, Jose Luis; Padron-Fumero, Noemi. AA   Moraga-Gonzalez: University   of   Copenhagen.   Padron-Fumero:University Pompeu Fabra. SR   Centre for Industrial Economics Discussion Paper: 98/11; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG   24. PR   no charge. JE   L52, Q28. KW   Emission Standards. Subsidies. Product Charges. Vertical Differentiation.
AB   We model green markets in which purchasers, either firms or consumers, have higher willingness-to-pay for less polluting goods. The effectiveness of pollution reduction policies is examined in a duopoly setting. We show that duopolists' strategic behaviour may increase pollution levels. Maximum emission standards, commonly used in green markets, improve the environmental features of products. Nonetheless, overall pollution levels will rise because government regulation also affects market shares and boosts firms' sales. Consequently, social welfare may be reduced. We also explore the effects of technological subsidies and product charges, including differentiation of charges.

TI   We Sold a Million Copies: The Role of Advertising Past Sales. AU   Monteiro, Paulo Klinger; Moraga-Gonzalez, Jose Luis.

Morck, Randall K.
PD   November 1998.   TI   Inherited Wealth, Corporate Control and Economic Growth: The Canadian Disease. AU   Morck, Randall K.; Strangeland, David A.; Yeung, Bernard. AA   Morck: University of Alberta. Strangeland: University of Manitoba. Yeung: University of Michigan. SR   National Bureau of Economic Research Working Paper: 6814; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   D72, G32, O31, O32, O40. KW   Inherited Wealth. Growth. Rent-Seeking. Research and Development. Corporate Control.
AB   Countries in which billionaire heirs' wealth is large

relative to GDP grow more slowly, show signs of more political rent-seeking, and spend less on innovation than do other countries at similar levels of development. The authors argue that this is consistent with wealthy entrenched families' having objectives other than creating public shareholder value. Also, the control pyramids through which they are entrenched give wealthy families preferential access to capital and enhanced lobbying power. Entrenched families also have vested interest in preserving the value of existing capital. To investigate these arguments, the authors use firm-level Canadian data. Heir-controlled Canadian firms show low industry-adjusted financial performance, labor capital ratios, and R&D spending relative to other firms of the same ages and sizes. The authors argue that concentrated, inherited corporate control impedes growth. Finally, heir-controlled Canadian firms' share prices fell relative to those of comparable firms on the news that the Canada-U.S. free trade agreement would be ratified. A key provision of that treaty is capital market openness. Under the treaty, heir- controlled Canadian firms' labor capital ratios rose, while the incidence of heir-control fell.

Morin, Norman J.
TI   Is Hysteresis Important for U.S. Unemployment? AU   Roberts, John M.; Morin, Norman J.

Morton, Fiona M. Scott
PD   October 1998. TI   Love or Money? The Effects of Owner Motivation in the California Wine Industry. AU   Morton, Fiona M. Scott; Podolny, Joel M. AA   Morton: University of Chicago and National Bureau of Economic Research. Podolny: Stanford University. SR   National Bureau of Economic Research Working Paper: 6743; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   28. PR $5.00. JE   D21, L15, L21, L66. KW   Wine Industry. Utility Maximization. Profit Maximization. Market Behavior.
AB   Many industries are characterized by heterogeneous objectives on the part of firm owners. Owners of private firms, in particular, are likely to maximize utility, rather than profits. This paper models and measures motivations of owners in a particular industry, the California wine industry. In both a formal model and an empirical analysis, the authors examine the implications of these motivations for market behavior. They find evidence that owners with strong non-financial motivations choose higher prices for their wines, controlling for quality. The authors also find that utility-maximizers are more likely to locate at the higher end of the quality spectrum, whereas profit-maximizers are more likely to locate at the lower end. The paper explores how the presence of a significant number of utility maximizers within an industry affects the competitive interactions within that industry. The paper concludes that some winery owners 'consume' features of their product of business as a substitute for profits and, in the process, provide softer price competition for for-profits. Additionally, in aggregate, their preference for quality can prevent entry into the high-quality segment on the part of profit-maximizing firms.

Moselle, Boaz
PD   September 1997. TI   A Model of a Predatory State. AU   Moselle, Boaz; Polak, Ben. AA   Moselle: Northwestern University. Polak: Yale University. SR   STICERD, (LSE) Theoretical   Economics   Discussion   Paper: TE/97/337; STICERD, Room 415, London School of Economics and

Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 48. PR no charge. JE D30, H11, H40, N40, P51. KW Anarchy. Organized Crime. Public Goods. Protection. Corruption.

AB We provide a model of a primitive state whose rulers extort taxes for their own end. This 'predatory' state can result in lower levels of both output and popular welfare than either organized banditry or anarchy. The predatory state may provide public goods, such as protection or irrigation, and hence may superficially resemble a contractual state. But, the ability to provide such goods can actually reduce popular welfare after allowing for tax changes. We compare the revenues raised by taxation with those from banditry to get an idea when primitive states are likely to emerge. We then consider interactions between bandits and the state. 'Corrupt' side-deals are bad for output and popular welfare, but good for revenue. Even in the absence of such collusion, the existence of a 'mafia' and of the state can be good for each other. Competition between organized crime and the state, however, typically reduces popular welfare and pushes the volume of banditry close to its anarchy level. Finally, we extend the basic model to allow the populace to form expectations of tax set by a long-lived king. Our relatively pessimistic conclusions about predatory states extend to this dynamic setting.

Mueller, Dennis C.

PD December 1998. TI Rates of Return on Investment: A Cross-National Comparison. AU Mueller, Dennis C.; Yurtoglu, B. Burcin. AA University of Vienna, Austria. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP108; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 16. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D21, E22, G31, L21. KW Investment Returns. International Comparison.

AB This study presents estimates of the ratios of returns on investment to costs of capital over the period 1985-1996 for companies from around the world, using Mueller and Reardon's technique. It confirms the existence of significant differences between better-performing 'Anglo- Saxon' and poorer-performing 'Germanic' companies, while US companies performed much better than in earlier decades. Not surprisingly, perhaps, Asian companies performed best of all.

PD December 1998. TI The Causes of Mergers: Tests Based on the Gains to Acquiring Firms' Shareholders and the Size of Premia. AU Mueller, Dennis C.; Sirower, Mark. AA Mueller: University of Vienna, Austria. Sirower: New York University. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP109; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 31. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE G34. KW Mergers. Acquisitions. Shareholder Returns. Managerial Discretion.

AB This paper investigates the issue of whether mergers increase the value of merging firms, by testing four hypotheses about why mergers occur in terms of the distribution of gains and losses from 168 mergers between large companies between 1978 and 1990. Considerable support is found for the managerial discretion and hubris hypotheses, but little or no support for the hypothesis that mergers create synergies that benefit shareholders of both the firms involved.

Mueller, Ganka

TI The Divorced and Who Divorces? AU Kiernan, Kathleen; Mueller, Ganka.

Mullainathan, Sendhil

TI Is There Discretion in Wage Setting? A Test Using Takeover Legislation. AU Bertrand, Marianne; Mullainathan, Sendhil.

TI Executive Compensation and Incentives: The Impact of Takeover Legislation. AU Bertrand, Marianne; Mullainathan, Sendhil.

TI Network Effects and Welfare Cultures. AU Bertrand, Marianne; Luttmer, Erzo F. P.; Mullainathan, Sendhil.

Muller, Christophe

PD February 1998. TI The Measurement of Dynamic Poverty With Geographical and Intertemporal Price Variability: Evidence From Rwanda. AA Centre for the Study of African Economies. SR Centre for the Study of African Economies Working Paper: 98/06; Centre for the Study of African Economies, University of Oxford, St. Cross Building, Manor Road, Oxford, OX1 3UL, England. Website: http://www.csae.ox.ac.uk/. PG 42. PR 3 pounds or $5.00. JE D31, I32, O15. KW Poverty. Income Distribution. Price Variability. Living Standards. Rwanda.

AB It is not known if a substantial share of welfare or poverty indicators may be the consequence of price differences rather than of differences in living standards across households and seasons. With exogenous poverty lines, the authors show how the directions of effects of accounting for price variability can be theoretically established for popular poverty indices. With endogenous poverty lines, using data from Rwanda, the authors show that the composition of the population of the poor can be notably modified by accounting for price variability. The change in aggregate living standards due to price correction is moderate although significant in every quarter, in contrast with the change in poverty which can be considerable. The correction yields generally a larger transient seasonal share of poverty. In terms of impact of the price correction on the assessment of poverty, the poverty line or the quarter are generally more influential than the formula of the poverty indicator. Though, poverty indicators giving a high importance to the severity of poverty are more likely to lead to a strong effect of prices. These results support the necessity in poverty measurement of an accurate correction for geographical and seasonal price effects.

Mulligan, Casey B.

TI Deadweight Costs and the Size of Government. AU Becker, Gary S.; Mulligan, Casey B.

Murphy, Kevin M.

PD July 1998. TI Wages, Skills and Technology in the United States and Canada. AU Murphy, Kevin M.; Riddell, Craig W.; Romer, Paul M. AA Murphy: University of Chicago and National Bureau of Economic Research. Riddell: University of British Columbia. Romer: Stanford University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6638; National

Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** $5.00. **JE** E24, J23, J31, O33. **KW** Wages. Education. Skill. Technological Change. Labor Demand.

AB During the 1980's and 1990's, the ratio of earnings of university graduates to high school graduates increased sharply in the U.S. but fell slightly in Canada. Katz and Murphy (1992) found that for the U.S. a simple supply-demand model fit the pattern of variation in the premium over time. The authors find that the same model and parameter estimates explain the variation between the U.S. and Canada. In both instances, the relative demand for more-educated labor shifts out at the same, consistent rate. Both over time and between countries, the variation in rate of growth of relative wages can be explained by variation in the relative supply of more-educated workers. Many economists suspect that technological change is causing the steady increases in the relative demand for more-educated labor. If so, these data provide independent evidence on the spatial and temporal variation in the pattern of technological change.

Nachum, Lilach

PD December 1998. **TI** Economic Geography and Patterns of International Business Activity. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP114; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. **PG** 32. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** F21, F23, L23, L80, R12. **KW** Economic Geography. Foreign Direct Investment. Financial Services. Professional Services. Agglomeration Economies.

AB This paper examines the relevance of concepts drawn from economic geography to understanding the location decisions of financial and professional service transnational corporations. After identifying important differences between international business and economic geography theories in the explanations they propose for patterns of economic activity, it develops and tests a simple model of the spatial distribution of financial and professional service transnationals in the USA. The findings suggest that ideas from economic geography, notably agglomeration economies, possess powerful explanatory power for patterns of inward FDI in these sectors.

PD March 1999. **TI** A Marshallian Approach to the Eclectic Paradigm of Foreign Investment: The Clustering of Film TNCs in Central London. **AU** Nachum, Lilach; Keeble, David. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP119; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. **PG** 32. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** F23, L14, L82, R12, R30. **KW** Transnational Corporations. Industrial Districts. Film Industry. Soho. Eclectic Paradigm.

AB Using the eclectic paradigm as a theoretical framework, this study explores how geographically-localized agglomeration economies may affect the ownership advantages of transnational corporations, influence their choice of modality to serve foreign markets and form part of the location advantages of a given locality. It shows how the clustering of film, TV and video production and post-production firms in the Soho area of central London has afforded considerable benefits to foreign TNCs locating here. However, these benefits vary considerably by the type of investment involved (distribution, financing or production), and influence the ownership advantages of the TNCs to varying degrees.

PD March 1999. **TI** Measuring the Productivity of Professional Services: A Case Study of Swedish Management Consulting Firms. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP120; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. **PG** 30. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** C81, D24, L84. **KW** Professional Services. Management Consulting. Productivity Measures. Data Envelopment.

AB Existing productivity measures are inadequate for measuring the productivity of professional services, which employ intangible and specialized factors of production. This paper develops a more adequate measure of productivity in these industries, which is tested against different performance indicators of a sample of Swedish management consulting firms. The findings illustrate the inadequacy of manufacturing-based measurement procedures and suggest that a measure which acknowledges the unique characteristics of professional services correlates better with firm performance. The study concludes that much more research is needed on this important issue.

PD June 1999. **TI** FDI, the Location Advantages of Countries and the Competitiveness of TNCs: US FDI in Professional Service Industries. **AA** University of Cambridge. **SR** University of Cambridge, ESRC Centre for Business Research Working Paper: WP128; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. **PG** 15. **PR** $10.00 (5 pounds); checks payable to University of Cambridge. **JE** F21, F23, L84. **KW** Foreign Direct Investment. Transnational Corporations. Professional Services. Location Advantages. Ownership Advantages.

AB This paper seeks to examine the impact of the foreign activities of firms on their international competitiveness. It addresses questions such as: To what extent and under what conditions can firms compensate for deteriorating location advantages in their home country and maintain their lead in an industry through investment in foreign countries? Under what conditions can firms reap the benefits of a locationally advantageous foreign country? These questions are examined in relation to selected US professional service industries. The findings show that FDI weakens the link between the location advantages of home countries and the ownership advantages of firms. However, this impact is very moderate, and is exercised through the indirect impact of FDI on the advantages of firms and countries. The ownership advantages which firms develop in their home countries are the most critical determinant of their competitiveness.

Naga, Ramses H. Abul

PD July 1999. **TI** Estimating the Intergenerational Correlation of Incomes: An Errors in Variables Framework. **AA** University of Lausanne. **SR** STICERD, (LSE)

Distributional Analysis Research Programme Discussion Paper: 44; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 17. PR no charge. JE C51, D31, D91, J62. KW Intergenerational Mobility. Errors in Variables. Permanent Income.

AB The estimation of the intergenerational correlation of incomes is usually carried out by proxying permanent incomes using suitable indicators of economic status, and by treating the resulting measurement error problem using averaging or instrumenting procedures. Here we take the permanent income of the parents' family to be unobserved, but we assume that its determinants are known to the researcher. A two-stage procedure as well as a MIMIC type covariance estimator applied to a US sample of parents and children entail estimates of the order of 0.61 to 0.64 for the coefficient of intergenerational income transmission. OLS estimates this parameters at 0.5. The variance ratio of permanent to total income is also estimated to be in the range of 0.77 to 0.8, implying a correction factor of 1.25 to 1.3 for OLS estimates.

Nagaoka, Sadao

PD September 1998. TI International Trade Aspects of Competition Policy. AA Institute of Innovation Research, Hitotsubashi University. SR National Bureau of Economic Research Working Paper: 6720; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE F12, F14, K21, L40. KW Competition Policy. Market Access. Japan. Cartels.

AB Recently competition policy has become an important trade policy issue, since many policy makers now see competition policy as an important instrument to secure "market access" to foreign markets. This paper analyzes this issue both from a theoretical point of view and from the review of the recent development of the Japanese competition policy. While voluntary trade cartels have a strongly negative international spillover, export cartels or international cartels do not constrain "market access," and export restraints were often used to ameliorate trade frictions. Moreover, domestic cartels often have a positive international spillover on the export from foreign countries. Thus, the recent focus on competition policy from "market access" concerns is misleading. The Japanese government has substantially strengthened its competition policy in the 1990's, especially in terms of drastic reduction of cartels exempted from the application of Antimonopoly Law and in strengthening its enforcement against cartels. While these changes of competition policy would be highly beneficial to the Japanese economy, it is not clear whether such policy changes could have a substantial impact on "market access.".

Naik, Vasant

TI Optimal Investment, Growth Options and Security Returns. AU Berk, Jonathan; Green, Richard C.; Naik, Vasant.

TI Valuation and Return Dynamics of New Ventures. AU Berk, Jonathan B.; Green, Richard C.; Naik, Vasant.

Namazie, Ceema

PD July 1998. TI Happiness in Transition: The Case of Kyrgyzstan. AU Namazie, Ceema; Sanfrey, Peter. AA London School of Economics. SR STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper:

40; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 28. PR no charge. JE D10, D63, I31, O53, P20. KW Happiness. Kyrgyzstan. Transition. Welfare. Quality of Life.

AB We analyze self-reported measures of satisfaction with life in a transition country, Kyrgyzstan, using 1993 household survey data. We test whether higher levels of satisfaction are associated with greater economic well-being. This hypothesis is strongly supported by the data. Unhappiness is prevalent among older people, the unemployed, and those who are divorced. There appears to be little correlation between happiness and either gender or education level. We find some evidence that income relativities, as measured by perceived position on the wealth ladder, also have a strong effect on life satisfaction.

Neal, Derek

PD July 1998. TI The Complexity of Job Mobility Among Young Men. AA University of Wisconsin and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6662; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J24, J41. KW Search Models. Matching.

AB The model of job search involves both employer matches and career matches and incorporates an asymmetry in the search technology. Workers may change employers without changing careers, but cannot search over possible lines of work while working for one employer. The optimal policy implies a two-stage search strategy in which workers search over types of work first. After finding a good match with a particular line of work, they then concentrate on finding an employer. The patterns of job changes observed in the NLSY provide considerable support for the two-stage search policy implied by the model. Among male workers who are changing jobs, those who have previously changed employers while working in their current career are much less likely to change careers during the current job change. This result holds even among workers with similar levels of career-specific work experience. Further, the link between experience and the complexity of job changes operates almost entirely through the two-stage mechanism identified in the model. Among those who are in the first stage (no previous intra- careers moves) there is little relationship between experience and the complexity of job changes.

Nelson, Edward

TI Nominal Income Targeting in an Open-Economy Optimizing Model. AU McCallum, Bennett T.; Nelson, Edward.

Nesmith, Travis D.

TI Tests for Non-Linear Dynamics in Systems of Non-Stationary Economic Time Series: The Case of Short-Term U.S. Interest Rates. AU Jones, Barry E.; Nesmith, Travis D.

Neumark, David

PD July 1998. TI Minimum Wages and Training Revisited. AU Neumark, David; Wascher, William. AA Neumark: Michigan State University and National Bureau of Economic Research. Wascher: Board of Governors of the Federal Reserve System. SR National Bureau of

AB Theory predicts that minimum wages will reduce employer-provided on- the-job training designed to improve worker's skills on the current job, but may increase the amount of training that workers obtain to qualify for a job. We estimate the effects of minimum wages on the amount of both types of training received by young workers by exploiting cross- state variation in minimum wage increases. The evidence provides considerable support for the hypothesis that higher minimum wages reduce training (especially formal training) aimed at improving skills on the current job. At the same time, there is little or no evidence that minimum wages increase training undertaken to qualify for or obtain jobs. Consequently, it appears that, overall, minimum wages substantially reduce training received by young workers.

AB The elderly are one of the exceptional groups in American society with access to a significant cash safety net, a means-tested program called Supplemental Security Income (SSI). Little attention has been paid to the pre-eligibility-age labor market disincentives created by such a program. In particular, asset and income limits might induce individuals nearing the eligibility age to work less. There is little if any hard evidence on such incentive effects. We exploit variation in states' supplementation of the federal SSI benefit to estimate the effects of the SSI program on pre-retirement labor supply, using data from the 1984, 1990 and 1991 panels of the Survey of Income and Program Participation. We find some evidence that generous SSI benefits reduce the pre-retirement labor supply (and earnings) of men who are likely to participate in SSI after retirement as they near the eligibility age, especially that of men who have reached the age of eligibility for early Social Security benefits, which may be used to offset their reduced labor income.

Newey, Whitney

Newhouse, Joseph P.

Nicholas, Tom

AB This paper compares the value of landed and non-landed wealth held by a group of nineteenth century British businessmen. Landed wealth is estimated from the data in John Bateman's Great Landowners of Britain and Ireland. Non-landed wealth is documented in probate records. Quantitative evidence shows that businessmen who owned land in the late nineteenth century did not retain a large proportion of their wealth in landed assets. In that sense they were rich because of the personal wealth and not because they were landowners.

Nishiyama, Y.

AB A valid Edgeworth expansion is established for the limit distribution of density-weighted semiparametric averaged derivative estimates of single index models. The leading term that corrects the normal limit varies in magnitude, depending on the choice of bandwidth and kernel order. In general this term has order larger than the $(n$ raised to the $(-1/2))$ that prevails in standard parametric problems, but the authors find circumstances in which it is $O(n$ raised to the $(-1/2))$, thereby extending the achievement of an $(n$ raised to the $(-1/2))$Berry-Essen bound in Robinson (1995). A valid empirical Edgeworth expansion is also established. We also provide theoretical and empirical Edgeworth expansions for a studentized statistic, where the correction terms are different from those for the unstudentized case. We report a Monte Carlo study for finite sample performance.

AB We establish valid theoretical and empirical Edgeworth expansions for density-weighted averaged derivative estimates of semiparametric index models.

Nocke, Volker

Structure. Patent Protection.

AB This paper analyzes a dynamic game of investment in R&D or advertising, where current investments change future market conditions. It investigates whether underinvestment can be supported in equilibrium by the threat of escalation in investment outlays. When there are no spillovers, or there is full patent protection, underinvestment equilibria are shown to exist even though, by deviating, a firm can get a persistent strategic advantage. When there are strong spillovers and weak patent protection, underinvestment equilibria fail to exist. This implies that weaker patent protection can actually lead to more investment in equilibrium. Furthermore, potential entry is introduced into the model so as to address issues of market structure. It is shown that underinvestment equilibria can be stable with respect to further entry, independently of market size and entry costs. Finally, the "nonfragmentation" result of static stage games is proved to hold in this dynamic game.

PD September 1999. TI Cartel Stability under Capacity Constraints: The Traditional View Restored. AA London School of Economics. SR STICERD, (LSE) Economics of Industry Group Discussion Paper: EI/23; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 31. PR no charge. JE D24, D43, L13. KW Collusion. Excess Capacity. Business Cycles. Cartel Stability. Industrial Organization.

AB The existence of a negative relationship between cartel stability and the level of excess capacity in an industry has for a long time been the dominant view in the traditional IO literature. Recent supergame- theoretic contributions (e.g. Brock and Scheinkman 1985) appear to show that this view is ill-founded. Focusing on the issue of enforcement of cartel rules ("incentive constraints"), however, this literature completely ignores firms' "participation constraints". Reverting the focus of attention, the present paper restores the traditional view: large cartels will not be sustainable in periods of high excess capacity (low demand). In contrast to the supergame-theoretic literature, it predicts a negative relationship between excess capacity and the collusive price.

Noden, Philip

TI Poverty, Social Exclusion and Neighbourhood: Studying the Area Bases of Social Exclusion. AU Glennerster, Howard; Lupton, Ruth; Noden, Philip; Power, Anne.

Norberg, Karen

PD October 1998. TI The Effects of Daycare Reconsidered. AA Boston University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6769; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J13, J22, J23. KW Child Care. Children. Health. Daycare. Employment.

AB Do children of employed mothers differ from other children, even before mother's (re)entry to the labor force? Preexisting differences among children may be an alternative explanation for many apparent daycare outcome effects. Data from the 1994 wave of the National Longitudinal Survey of Youth were available for 6603 singleton infants followed from birth. Mothers of children with intrauterine growth retardation, birth defects, or extended hospitalization at birth began working significantly later after the birth of the child, and the mothers of infants with higher development scores and more difficult temperament, and mothers of healthy premature infants, began working significantly earlier. The associations with newborn health persisted when the comparisons were made among siblings. After controlling for both observed and unobserved differences between families, a mother was only 50% as likely to have been employed at all in the first five years after the birth of a high risk infant. About 20% of low-income newborns in the sample were classified as "high risk"; newborn health problems may therefore have resulted in a 10% lower labor force participation rate among low-income mothers of children under five.

O'brien, R. J. O.

TI Exact Properties of the Maximum Likelihood Estimator in Exponential Regression Models: A Differential Geometric Approach. AU Hillier, Grant; O'brien, R. J. O.

O'Connell, Paul G. J.

TI The Portfolio Flows of International Investors AU Froot, Kenneth A.; O'Connell, Paul G. J.; Seasholes, Mark S.

O'Connell, Stephen A.

TI Aid, Taxation and Development: Analytical Perspectives on Aid Effectiveness in Sub-Saharan Africa. AU Adam, Christopher S.; O'Connell, Stephen A.

Obstfeld, Maurice

PD September 1997. TI Open-Economy Macroeconomics: Developments in Theory and Policy. AA Obstfeld: University of California, Berkeley, National Bureau of Economic Research and Centre for Economic Research. SR Queen's Institute for Economic Research Discussion Paper: 958; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG 25. PR $3.21 Canada; $3.50 U.S. and Foreign. JE F31, F33. KW Exchange Rates. EMU.

AB This paper surveys recent research in open-economy macroeconomics, using questions raised by European economic and monetary unification to guide the topics discussed. A striking empirical regularity is the tendency for changes in the nominal exchange rate regime systematically to affect the variability of nominal and real exchange rates alike. This regularity (which disappears in high-inflation conditions) can be explained by sticky-price theories or by models of asset-market liquidity effects. But plausible liquidity models have difficulty generating enough persistence (in output and real exchange rates, in particular) to match the data. Thus the macroeconomic costs of giving up the exchange-rate realignment option, emphasized in Mundell's optimum currency area concept, seem empirically relevant. The paper discusses other possible costs of currency unification associated with a reduced number of asset markets. On the benefit side, our theories of the efficiences due to a common currency remain unsatisfactory, despite recent advances. A key motivation for the choice of a common currency over a fixed exchange rate between national currencies is the fear of speculative attack. The paper concludes by showing how self-fulfilling currency crises can occur, and describes recent progress in narrowing the range of multiple equilibria in adjustable-peg regimes.

PD August 1998. **TI** EMU: Ready, or Not? **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6682; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F02, F33, F41. **KW** European Monetary Union. Currency Union. Exchange Parities.

AB This paper focuses on two specific hazard areas in the transition from Stage Two to Stage Three of European economic and monetary union (EMU), as well as some key problems of Stage Three that EMU's monetary and fiscal structures appear ill-prepared to handle. The transitional hazards are of considerable theoretical as well as policy interest: the best way to coordinate monetary stances and lock exchange parties for a smooth switch from eleven national currencies to a single joint currency. The possibility of nationally asymmetric real shocks is the third problem, which is reviewed in the context of Ireland's recent experience. The weaknesses in the structure of Stage Three, including the provision of lender of last resort facilities in the euro zone and the framework for supervising financial institutions are discussed. The deficit and debt limits embodied in the excessive deficits procedure of the Maastrich treaty and the subsequent Stability and Growth Pact have been justified by the threat high debts might pose to the stability of the euro zone's financial markets. Past and prospective fiscal adjustments of the EMU 11 are considered, and it is suggested that these might pose future difficulties for macroeconomic policy and growth.

PD August 1998. **TI** Risk and Exchange Rates. **AU** Obstfeld, Maurice; Rogoff, Kenneth. **AA** Obstfeld: University of California, Berkeley and National Bureau of Economic Research. Rogoff: Princeton University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6694; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 45. **PR** $5.00. **JE** F31, F41. **KW** Exchange Rate Regimes. Open Macroeconomics.

AB This paper develops an explicitly stochastic "new open economy macroeconomics" model, which can potentially be used to explore the qualitative and quantitative welfare differences between alternative exchange rate regimes. A crucial feature is that we do not simplify by assuming certainty equivalence for producer price setting behavior. Our framework also provides a sticky-price alternative to Lucas's (1982) exchange rate risk premium model. We show that the "level risk premium" in the exchange rate is potentially quite large and may be an important missing fundamental in empirical exchange rate equations. As a byproduct, our analysis also suggests an intriguing possible explanation of the forward premium puzzle.

Offer, Avner

PD December 1996. **TI** The American Automobile Frenzy of the 1950s. **AA** Nuffield College, Oxford. **SR** University of Oxford, Discussion Paper in Economic and Social History: 11; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 46. **PR** no charge. **JE** L13, L62, N34, N62, N64. **KW** Automobiles. Imperfect Competition. Oligopoly. Product Cycles. Economic History.

AB A pronounced cycle of car sales in the 1950s is explained in terms of styling competition and consumer preferences. An oligopolistic industry concentrated on non-price competition, appealing to perceived consumer demand for styling and status, with an accelerated product cycle. Demand was shifting from higher price-and-status models, to the feature-loaded high end of 'low-price' models. This suggests a consumer preference for sensual gratification rather than status. But feature competition was constrained by physical limitations of car size and power, which created a competitive impasse. It also opened up a gap at the bottom of market, which was occupied by imports. Consumer feature fatigue was expressed in a buyers' strike in 1958, but Detroit responded nimbly with the new compacts in 1959. There is also evidence that rapid depreciation of new cars, explained by Akerlof in terms of a 'market for lemons', is also found in used cars sold by dealers, and is likely to represent the value of dealer distribution and warranty services.

PD November 1998. **TI** Epidemics of Abundance: Overeating and Slimming in the USA and Britain Since the 1950s. **AA** Oxford University. **SR** University of Oxford, Discussion Paper in Economic and Social History: 25; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 39. **PR** no charge. **JE** D12, I12, I31, N10. **KW** Consumer Behavior. Self-Control. Myopic Choice. Food. Health.

AB Body weight has risen in defiance of health and appearance norms. The social epidemics of overeating and slimming were driven by market forces and the psychology of eating: restrained eating is easily disinhibited by stress. For men, the rise in body weight was associated with the decline of family eating and exposure to greater food variety. For women, the 'cult of slimming' was associated with mating competition, driven initially by adverse sex ratios. Food abundance made a mockery of the rational consumer. Paradoxically, the costs of abundance fell more heavily on the poor, who have had less access to the resources of self-control.

Ogawa, Eiji

TI How did the Dollar Peg Fail in Asia? **AU** Ito, Takatoshi; Ogawa, Eiji; Sasaki, Yuri Nagataki.

Ok, Efe A.

TI Social Mobility and the Demand for Redistribution: The POUM Hypothesis. **AU** Benabou, Roland; Ok, Efe A.

Orphanides, Athanasios

TI Optimal Discretion. **AU** Lengwiler, Yvan; Orphanides, Athanasios.

PD August 1999. **TI** Errors in the Measurement of the Output Gap and the Design of Monetary Policy. **AU** Orphanides, Athanasios; Porter, Richard D.; Reifschneider, David; Tetlow, Robert; Finan, Frederico. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/45; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. **PG** 39. **PR** no charge. **JE** E52, E58. **KW** Interest Rate Rules. Policy Evaluation. Output Gap Measurement.

AB We exploit data on historical revisions to real-time estimates of the output gap to examine the implications of measurement error for the design of monetary policy, using the

Federal Reserve's model of the U.S. economy, FRB/US. Measurement error brings about a substantial deterioration in economic performance, although the problem can be mitigated somewhat by reducing the coefficient on the output gap in policy rules. We also show that it is usually optimal to place some weight on the level of the output gap in the conduct of policy, but under extreme conditions it may be preferable to focus on output growth.

Oster, Sharon M.

TI Tools or Toys? The Impact of High Technology on Scholarly Productivity. AU Hamermesh, Daniel S.; Oster, Sharon M.

Otoo, Maria Ward

PD November 1999. TI Consumer Sentiment and the Stock Market. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/60; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 19. PR no charge. JE D12, G20. KW Consumer Sentiment. Stock Market. Michigan Survey.
AB This paper examines the relationship between movements in consumer sentiment and stock prices. At the aggregate level, the two share a strong contemporaneous relationship an increase in equity values boosts sentiment. However, I also sought to examine the nature of the relationship between the two. Does an increase in stock prices raise aggregate sentiment because people are wealthier or because they use movements in stock prices as an indicator of future economic activity and potential labor income growth? Using individual observations from the Michigan survey I found results more consistent with the view that people use movements in equity prices as a leading indicator. Although the findings do not rule out a traditional wealth effect, they do raise some questions about the causal role of wealth in aggregate spending.

Overgaard, Per Baltzer

TI Signaling and Rent Extraction via Contract Proposals in Franchising. AU Albaek, Svend; Overgaard, Per Baltzer.

TI Will the High-Quality Producer Please Stand Up? - A Model of Duopoly Signaling. AU Hertzendorf, Mark N.; Overgaard, Per Baltzer.

TI Temporary Partnerships as an Information Transmission Mechanism: Foreign Investment in Emerging Markets. AU Mollgaard, H. Peter; Overgaard, Per Baltzer.

Paddags, Norbert

PD February 1997. TI The German Railways -- The Economic and Political Feasibility of Fiscal Reforms During the Inflation of the Early 1920s. AA Free University of Berlin. SR University of Oxford, Discussion Paper in Economic and Social History: 13; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 42. PR no charge. JE E62, L92, L98, N14, N74. KW German Inflation. Railway Industry. Budget Deficits. Policy Reform. Economic History.
AB The importance of fiscal policy for the inflationary process in Germany in the early 1920s has been long recognized, and at the same time the room for reform has been viewed as very limited. This paper will address this question anew by way of counterfactual analysis. Taking the railways -- which contributed significantly to the Reich budget deficit -- as an example, various areas of possible reform will be discussed on the basis of contemporary sources, including parliamentary debates. It will be argued that although the traditional opinion about the limits of political reform are confirmed, the economic room for maneuver was significantly greater than is often assumed.

Padron-Fumero, Noemi

TI The Adverse Effects of Environmental Policy in Green Markets. AU Moraga-Gonzalez, Jose Luis; Padron-Fumero, Noemi.

Pagano, Ugo

TI Post-War Institutional Shocks: The Divergence of Italian and Japanese Corporate Governance Models. AU Barca, Fabrizio; Iwai, Katsuhito; Pagano, Ugo; Trento, Sandro.

PD March 1999. TI The Origin of Organizational Species. AA University of Siena, Italy. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP118; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 32. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D20, L10, L22, L23. KW Organizational Species. Natural Selection. Managerial Capitalism. Organization of Production.
AB This paper argues that some of the issues examined by Darwin and modern biologists concerning natural selection in the case of speciation may be of relevance to the competitive selection of organizational species in capitalist economic development. In biology the laws of structure and change that characterize the selection among species are very different from those that characterize the selection of the member of the same species. These ideas are applied to understanding the "Second Industrial Revolution" and the development of the new species of "managerial capitalism" in the United States and Germany, in contrast to Britain, whose firms and entrepreneurs failed to keep pace with organizational change.

Pande, Rohini

TI Read My Lips: The Political Economy of Information Transmission. AU Besley, Timothy J.; Pande, Rohini.

Paolera, Gerardo della

PD October 1998. TI Economic Recovery from the Argentine Green Depression: Institutions, Expectations, and the Change of Macroeconomic Regime. AU Paolera, Gerardo della; Taylor, Alan M. AA Paolera: Universidad Torcuato Di Tella. Taylor: Northwestern University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6767; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 34. PR $5.00. JE E42, E52, E63, E65, N16. KW Great Depression. Macroeconomic Policy. Monetary Policy. Regime Changes. Expectations.
AB This work explores how Argentina overcame the Great Depression and asks whether active macroeconomic interventions made any contribution to the recovery. In

particular, the authors study Argentine macroeconomic policy as it deviated from gold-standard orthodoxy after the final suspension of convertibility in 1929. As elsewhere, fiscal policy in Argentina was conservative, and had little power to smooth output. Monetary policy became heterodox after 1929. The first and most important stage of institutional change took place with the switch from a metallic monetary regime to a fiduciary regime in 1931. However, the actual injections of liquidity were small, and were not enough to fully offset the incipient monetary contractions: the "Keynes" effect was weak or negative. Rather, recovery derived from changes in beliefs and expectations surrounding the shift in the monetary and exchange-rate regime, and the delinking of gold flows and the money base: the "Mundell" effect was dominant. Notably, this change of regime predated a later, and supposedly more significant, stage of institutional reform, namely the creation of the central bank in 1935. Still, the extent of intervention was weak, and insufficient to fully offset external shocks to prices and money.

Papatheodorou, Christos

PD   August 1997. TI   Poverty and Family Background in Greece: The Role of Father's Occupation and Education. AA   London School of Economics and National Centre for Social Research, Greece. SR   STICERD, (LSE) Welfare State Programme Discussion Paper: WSP/133; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   34. PR   no charge. JE   D31, I31, I32, J24, J62. KW   Poverty. Inequality. Family Background. Loglinear Analysis. Education.

AB   This paper examines the hypothesis that the family background in Greece, is a significant factor in determining the offspring's socio- economic status as well as the probability of falling below the poverty line. The use of a measure of poverty instead of income (or consumption) was based on the assumption that poverty is not affected, to the same extent as income, by individual preferences between monetary and non-monetary rewards. Therefore it could be considered as a sharper indicator than income which might show higher mobility. The analysis is based on the micro-data of a survey carried out in 1988 by the Greek National Centre for Social Research. Although simple cross-tabulations show the influence of the particular parental characteristics on respondents' attributes, Loglinear Analysis was used in order to uncover the potentially complex relationship among all the variables employed in this study. The results suggest that people are facing unequal opportunities for education and unequal probabilities of falling below the poverty line because of family background.

PD   July 1998. TI   not available. AA   London School of Economics. SR   STICERD, (LSE) Distributional Analysis Research Programme Discussion Paper: 39; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG   26. PR   no charge. JE   D31, D63, H26, I30. KW   Inequality. Income Distribution. Decomposition Analysis. Taxation. Development.
AB   This paper employs a decomposition analysis of inequality analysis of inequality of income sources to understand and explain particular aspects of income inequality in Greece. The results suggest that entrepreneurial income is the most significant contributor to the overall inequality in

Greece. It is also shown that there is a weak re- distributive impact of taxes and social security contributions and this is mainly attributed to tax evasion particularly in entrepreneurial income. The reduction of the inequality of entrepreneurial income appears to be the most effective way of reducing total inequality. Overall this analysis allows us to find links between the functional and personal income distribution. Therefore, our ability to evaluate and predict the potential implications of particular growth policies to inequality, poverty and, consequently, to social development, is significantly improved.

Parry, Ian W. H.

PD   December 1996. TI   When Can Carbon Abatement Policies Increase Welfare? The Fundamental Role of Distorted Factor Markets. AU   Parry, Ian W. H.; Williams, Robertson C., III..; Goulder, Lawrence H. AA   Parry: Resources for the Future. Robertson and Goulder: Stanford University. SR   Resources for the Future Discussion Paper: 97/18; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG   39. PR   Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE   D62, H21, H23, L51, Q25. KW   Carbon Taxes. Carbon Quotas. Tax Distortions. Welfare Effects. Efficiency.

AB   This paper employs analytical and numerical general equilibrium models to assess the efficiency impacts of two policies to reduce U.S. carbon emissions -- a carbon tax and a carbon quota -- taking into account the interactions between these policies and pre-existing tax distortions in factor markets. The authors show that tax interactions significantly raise the costs of both policies relative to what they would be in a first-best setting. In addition, they show that these interactions put the carbon quota at a significant efficiency disadvantage relative to the carbon tax. This disadvantage reflects the inability of the quota policy to generate revenue that can be used to reduce pre-existing distortionary taxes. Indeed, second-best considerations severely limit the potential of a carbon quota to generate overall efficiency gains. The analysis suggests that any carbon abatement by way of a non-auctioned quota will not be efficiency-improving. In contrast, the authors estimate that a revenue- neutral carbon tax can be efficiency-improving so long as marginal environmental benefits are positive.

Payne, A. Abigail

TI   School Finance Reform, the Distribution of School Spending, and the Distribution of SAT Scores. AU   Card, David; Payne, A. Abigail.

Peck-Foreman, James

PD   May 1996. TI   "Technological Lock-In" and the Power Source for the Motor Car. AA   St. Antony's College, Oxford. SR   University of Oxford, Discussion Paper in Economic and Social History: 07; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG   23. PR   no charge. JE   L62, N61, N63, O33. KW   Automobiles. Technology. Path Dependence. Lock-In. Economic History.
AB   Three principal types of engine competed to power the early motor car. Had some minor condition been different, perhaps today's road vehicles would not be powered by internal combustion engines. That is an implication of the "lock-in" hypothesis. However, the choice of product technology

depended not on chance but at first on differential relative endowment of natural resources and capital. Abundant oil deposits and water encouraged the American development of lower first cost steam engines, which used more fuel and less capital. Electricity also was cheaper in the United States than in Europe, outside Germany. Since European endowments were not as auspicious for steamers or electrics at the turn of the century, European entrepreneurs focused on the internal combustion engine. By 1904, US motor firms were adopting European product and technology and abandoning steam. By the end of the First World War, they had also given up electricity.

Persson, Mats
TI   Tax Arbitrage and Labor Supply. AU   Agell, Jonas; Persson, Mats.

Persson, Torsten
PD   December 1998. TI   The Size and Scope of Government: Comparative Politics with Rational Politicians. AU   Persson, Torsten; Tabellini, Guido. AA   Persson: Stockholm University and National Bureau of Economic Research. Tabellini: Bocconi University. SR   National Bureau of Economic Research Working Paper: 6848; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   33. PR $5.00. JE   D72, E60, H11, H40, P51. KW   Political Processes. Comparative Politics. Government Size. Public Goods. Rent.
AB   We try to demonstrate how economists may engage in research on comparative politics, relating the size and composition of government spending to the political system. A Downsian model of electoral competition and forward-looking voting indicates that majoritarian -- as opposed to proportional -- elections increase competition between parties by focusing it into some key marginal districts. This leads to less public goods, less rents for politicians, more redistribution and larger government. A model of legislative bargaining and backward-looking voting indicates that presidential -- as opposed to parliamentary -- regimes increase competition between both politicians and voters. This leads to less public goods, less rents for politicians, less redistribution, and smaller government. We confront these predictions with cross-country data from around 1990, controlling for economic and social determinants of government spending. We find strong and robust support for the prediction that the size of government is smaller under presidential regimes, and weaker support for the prediction that majoritarian elections are associated with less public goods.

Pesaran, M. Hashem
PD   September 1999. TI   Model Instability and Choice of Observation Window. AU   Pesaran, M. Hashem; Timmermann, Allan. AA   Pesaran: University of Cambridge. Timmermann: University of California, San Diego. SR   University of California, San Diego, Department of Economics Working Paper: 99/19; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. PG   35. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE   C22, C53, G10. KW   Parameter Instability. Forecasting. Expanding Windows. Rolling Windows. Reversed Cusum.

AB   Recent evidence suggests that many economic time series are subject to structural breaks. In the presence of breaks, including historical data prior to the most recent break to estimate a forecasting model will lead to prediction errors that are biased but also may have a smaller variance. This paper examines the trade-off between the bias and variance of forecast errors and proposes a new set of reversed Cusum procedures to determine the window size that minimizes mean squared forecast error. This window size varies over time and depends on the size of the break, the distance to the break and the squared correlation coefficient between predicted and realized values. The forecasting performances of several procedures for determination of window size are compared in a simulation experiment and in a recursive prediction exercise using data on US stock returns. We find evidence that out-of-sample forecasting performance can be improved by explicitly accounting for breaks and adopting the proposed method for optimally determining the window size.

Pesendorfer, Martin
PD   October 1998. TI   Horizontal Mergers in the Paper Industry. AA   Yale University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6751; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   25. PR $5.00. JE   D61, G31, G34, L73. KW   Horizontal Mergers. Acquisitions. Investment Decisions. Welfare Effects.
AB   This paper examines mergers and acquisitions in the US paper and paperboard industry. This industry experienced a wave of horizontal mergers during the mid 1980s. We study implications of mergers on consumers, rival firms, and welfare. The analysis is based on a model of investment decisions. We compare the equilibrium investment decisions prior to and after the merger wave. The evidence indicates that the efficiency of the majority of acquiring firms increases following an acquisition. Based on the parameter estimates, we calculate merger welfare effects. We find that total welfare increased by 583.5 million dollars as a result of the mergers.

Pesenti, Paolo
TI   Paper Tigers? A Model of the Asian Crisis. AU   Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel.

TI   What Caused the Asian Currency and Financial Crisis? Part I: A Macroeconomic Overview. AU   Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel.

TI   What Caused the Asian Currency and Financial Crisis? Part II: The Policy Debate. AU   Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel.

Picone, Gabriel A.
TI   Hospital Ownership and Cost and Quality of Care: Is There a Dime's Worth of Difference? AU   Sloan, Frank A.; Picone, Gabriel A.; Taylor, Donald H., Jr..; Chou, Shin-Yi.

Pischke, Jorn-Steffen
TI   Beyond Becker: Training in Imperfect Labor Markets. AU   Acemoglu, Daron; Pischke, Jorn-Steffen.

Pizer, William A.
PD   December 1996. TI   Optimal Choice of Policy Instrument and Stringency Under Uncertainty: The Case of

Climate Change. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 97/17; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 31. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** C15, D81, Q28. **KW** Uncertainty. Climate Change. Taxes. Quantity Controls. Environmental Policy.

AB The relevance of uncertainty in the climate change policy debate is without doubt. Surprisingly, there have been few attempts to examine the direct policy consequences of including uncertainty in an integrated climate-economy framework. This paper presents results concerning optimal policy stringency and instrument choice when economic and climate parameters assume distributions rather than single values. Uncertainty is found to raise the optimal level of emission reductions relative to an optimization based on one set of central parameter estimates. Much of this effect can be related to economic rather than climate uncertainty. Uncertainty also leads to a preference for taxes over quantity controls. Previous studies of uncertainty in the climate change context have used a small number of states to measure the value of earlier information, learning and adaptation. This paper attempts to refocus attention on the more basic question of whether, in the absence of new information and learning, the inclusion of uncertainty yields significantly different policy conclusions. For policymakers confronting the problem of climate change today, this is a more relevant question.

Podolny, Joel M.
TI Love or Money? The Effects of Owner Motivation in the California Wine Industry. **AU** Morton, Fiona M. Scott; Podolny, Joel M.

Polak, Ben
TI A Model of a Predatory State. **AU** Moselle, Boaz; Polak, Ben.

TI Weakening the Sure-Thing Principle: Decomposable Choice Under Uncertainty. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

PD November 1997. **TI** Epistemic Conditions for Bayesian Nash Equilibrium, and Common Knowledge of Rationality. **AA** Yale University. **SR** STICERD, (LSE) Theoretical Economics Discussion Paper: TE/97/341; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 30. **PR** no charge. **JE** C72. **KW** Bayesian Nash Equilibrium. Incomplete Information. Common Knowledge. Rationality. Epistemic Conditions.

AB We show that, in games of complete information, the Aumann- Brandenburger (1995) sufficient conditions for Nash equilibrium in beliefs also imply common knowledge of rationality. We then consider beliefs held in games of incomplete information, especially beliefs the players hold, conditioning on other players' types, about other players' actions. We provide sufficient conditions for such beliefs to form a Bayesian Nash equilibrium, a solution concept more suited to such settings. Whether or not these new conditions imply common knowledge of rationality depends on which formal definition of a Bayesian game is used. Our equilibria do not concern beliefs held in some constructed ex ante or

extended game, but rather the beliefs held by players of the original incomplete information game about other players' actual preferences, actions and beliefs.

Pollitt, Michael
TI Institutional Restructuring in the Japanese Economy, 1985-1996. **AU** Matsuura, Kazuyoshi; Pollitt, Michael; Takada, Ryoji; Tanaka, Satoru.

TI Putting Values into Action in Business: A Study of the Development of an "Integrity" Value at SmithKline Beecham. **AU** Jones, Ian; Pollitt, Michael.

Polycarp, Musinguzi
PD August 1998. **TI** Structural Adjustment and Poverty: A Study of Rural Uganda. **AU** Polycarp, Musinguzi; Smith, Peter. **AA** Polycarp:Bank of Uganda. Smith: University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9813; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. **PG** 22. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** I32, O18, O19, O55. **KW** Uganda. Sub-Saharan Africa. Poverty. Structural Adjustment. Rural Development.

AB Market-based structural adjustment programmes have been much criticised as a blueprint for economic and human development. In Uganda, the first phase of the Economic Recovery Programme (launched in 1987) has brought progress, in that macroeconomic stability and rapid economic growth have been realised. However, has this success been shared by the whole population? This paper examines evidence from a survey conducted by the Bank of Uganda in 1997, which reveals continuing poverty in the rural areas. Results from the survey are used to explore possible market-based processes by which the rural population could be more effectively integrated into national markets.

Porter, Richard D.
TI Errors in the Measurement of the Output Gap and the Design of Monetary Policy. **AU** Orphanides, Athanasios; Porter, Richard D.; Reifschneider, David; Tetlow, Robert; Finan, Frederico.

Portugal, Pedro
TI What Hides Behind an Unemployment Rate: Comparing Portuguese and U.S. Unemployment. **AU** Blanchard, Olivier; Portugal, Pedro.

Poterba, James M.
PD June 1998. **TI** Capital Gains Tax Rules, Tax Loss Trading and Turn-of-the-Year Returns. **AU** Poterba, James M.; Weisbenner, Scott J. **AA** Poterba: Massachusetts Institute of Technology and National Bureau of Economic Research. Weisbenner: Massachusetts Institute of Technology. **SR** National Bureau of Economic Research Working Paper: 6616; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G11, G12, H24. **KW** Capital Gains Taxes. Taxation. Stock Returns. Tax Loss Trading.

AB This paper investigates the effect of specific features of the U.S. capital gains tax on turn-of-the-year stock returns. It

focuses on two tax changes. The first, enacted in 1969, reduced the fraction of long- term losses that were deductible from Adjusted Gross Income from 100 to 50 percent. The second, part of the Tax Reform Act of 1976, raised the required holding period for long-term gains and losses from six months to one year. This paper describes how each of these tax changes should have affected incentives for year-end capital loss realization and the potential magnitude of the turn-of-the-year effect in stock returns. The authors present evidence that is consistent with the hypothesis that detailed provisions of the capital gains tax affect the link between past capital losses and turn-of-the-year stock returns. These findings provide support for the role of tax-loss trading in contributing to turn-of-the-year return patterns.

PD July 1998. TI Fiscal Institutions and Public Sector Labor Markets. AU Poterba, James M.; Rueben, Kim S. AA Poterba: Massachuttes Institute of Technology and National Bureau of Economic Research. Rueben: Public Policy Institute of California. SR National Bureau of Economic Research Working Paper: 6659; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H73, J31, J33, J45. KW Wages. Labor Markets. Public Sector. State Government. Local Government.
AB This paper investigates how state and local fiscal institutions affect the pattern of relative wages between state and local government employees and their private sector counterparts. It focuses on changes in relative wages during the 1979-1986 period. Empirical analysis of data from the Current Population Survey suggests that in places with limitations on local property taxes, and to a lesser extent state-level tax and expenditure caps, public sector wages grew more slowly than the wages paid to comparable workers in the private sector. The differential movement of public sector and private sector wages is particularly pronounced for college-educated women who work in the local public sector. Many of these employees are public school teachers. There is some evidence that the impact of fiscal limits is most pronounced in the years immediately following their adoption, and that the effect of these limits weakens over time.

PD October 1998. TI Population Age Structure and Asset Returns: An Empirical Investigation. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6774; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 25. PR $5.00. JE G12, J11, J14, N32. KW Age Structure. Demography. Asset Returns. Baby Boom. Elderly.
AB This paper investigates the association between population age structure and the returns on stocks and bonds. The paper is motivated by the claim that the aging of the "Baby Boom" cohort in the United States is a key factor in explaining the recent rise in asset values. It also addresses the associated claim that asset prices will decline when this large cohort reaches retirement age and begins to reduce its asset holdings. This paper begins by considering household age-asset accumulation profiles. Data from the Survey of Consumer Finances suggest that while cross-sectional age-wealth profiles peak for households in their early 60s, cohort data on the asset ownership of the same households show a much less pronounced peak. Wealthy households with substantial asset holdings appear to decumulate slowly, if at all, after retirement.

The paper then considers the historical relationship between demographic structure and real returns on Treasury bills, long-term government bonds, and corporate stock. The results do not suggest any robust relationship between demographic structure and asset returns. The paper concludes by discussing factors such as international capital flows and forward-looking behavior on the part of market participants.

PD December 1998. TI Estate and Gift Taxes and Incentives for Inter Vivos Giving in the United States. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6842; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H24, H31, J14. KW Estate Taxes. Gift Taxes. Intergenerational Transfer. Inter Vivos. Tax Incentives.
AB This paper describes the current estate and gift tax rules that apply to intergenerational transfers in the United States. It summarizes the incentives for inter vivos giving as a strategy for reducing estate tax liability. It shows that the current level of intergenerational transfers is much lower than the level that would be implied by simple models of dynastic utility maximization. Moreover, it demonstrates that even among elderly households with net worth in excess of $2.5 million, roughly four times the net worth at which the estate tax takes effect, only about forty-five percent take advantage of the opportunity for tax- free inter vivos giving. Cross-sectional regressions using the 1995 Survey of Consumer Finances suggest that transfers rise with household net worth, possibly reflecting the impact of progressive estate taxes. In addition, households with a preponderance of their net worth in illiquid forms are less likely to make transfers than their equally wealthy counterparts with more liquid wealth. Households with substantial unrealized capital gains, for whom the benefits of capital asset basis step-up at death are greatest, are less likely to make large inter vivos transfers than similarly wealthy households with higher basis assets.

Powell, Mark R.

PD October 1996. TI The 1991 Lead/Copper Drinking Water Rule & the 1995 Decision Not to Revise the Arsenic Drinking Water Rule: Two Case Studies in EPA's Use of Science. AA Resources for the Future. SR Resources for the Future Discussion Paper: 97/05; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 64. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE L51, Q25, Q28. KW Lead. Arsenic. Drinking Water. EPA. Regulation.
AB This paper discusses EPA's acquisition and use of science in two decisions under the Safe Drinking Water Act: the 1991 revision of the lead drinking water regulations and the 1995 decision to pursue additional research instead of revising the arsenic in drinking water standard. In the first case, a committed band of policy entrepreneurs within EPA mobilized and supplemented scientific information which had accumulated in the agency's air program to force lead in drinking water up the agency's regulatory agenda. In the minds of senior EPA decision makers, there was adequate science to justify making the lead in drinking water regulation more stringent. In the case of arsenic in drinking water, not only the scientific uncertainties in estimating the health risks but also the regulatory compliance costs, the distribution of those costs,

and the presumed public health impacts of delay were important in the decision to pursue additional research on the health risks of arsenic. Both cases illustrate impediments to the generation of scientific data needed for regulatory decision-making and the potential for scientific information to be distorted in or omitted from the regulatory decision-making process.

PD October 1996. **TI** The 1983-84 Suspensions of EDB under FIFRA and the 1989 Asbestos Ban and Phaseout Rule Under TSCA: Two Case Studies in EPA's Use of Science. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 97/06; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 36. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** L51, Q24, Q25, Q28. **KW** FIFRA. Asbestos. TSCA. EPA. Regulation.
AB This paper discusses EPA's acquisition and use of science in a decision under the Federal Insecticide, Fungicide, and Rodenticide Act (FIFRA): the 1983-84 suspensions of ethylene dibromide (EDB); and in a decision under the Toxic Substances Control Act (TSCA): the 1989 Asbestos Ban and Phaseout Rule. By requiring EPA to balance out the risks and benefits of the commercial use of toxic substances, both statutes place considerable analytical burdens on the agency, though TSCA places a more substantial burden on EPA for acquiring science and demonstrating unreasonable risks. In the case of EDB, data produced outside EPA over which the agency had no control incited a public alarm, and for certain reasons EPA had no credibility to portray the health risks of EDB in an objective manner. In the case of asbestos, the reviewing court substituted its own science policy judgment for that of politically accountable decision-makers of the more expert administrative agency. Both cases illustrate the need for and difficulty of generating and considering scientific information regarding tradeoffs among risks in environmental regulatory decision-making.

PD October 1996. **TI** The 1987 Revision of the NAAQS for Particulate Matter and the 1993 Decision Not to Revise the NAAQS for the Ozone: Two Case Studies in EPA's Use of Science. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 97/07; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 36. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** L51, Q25, Q28. **KW** NAAQS. Particulate Matter. Ozone. Air Quality. Regulation.
AB This paper discusses EPA's acquisition and use of science in two decisions regarding National Ambient Air Quality Standards: the 1987 Revision of the NAAQS for Particulate Matter and the 1993 Decision Not To Revise the NAAQS for Ozone. The ozone case study illustrates that an elaborate and lengthy NAAQS review process is required to make science available for consideration by EPA decision-makers and that policy disagreements within Clean Air Science Advisory Committee provide the Administrator with a justification to not revise the NAAQS on the basis of "scientific uncertainty." Both cases provide examples of non-agency scientists operating in multiple, overlapping roles inside and outside the regulatory decision-making process. The NAAQS case studies also underscore that the Clean Air Act is based on the false scientific premise that a threshold level exists below which health effects from ubiquitous air pollutants will not be observed. As a consequence of this mistaken legislative

presumption, new scientific developments inevitably point toward ever more stringent ambient standards and preordain -- in principle -- the outcome of periodic reviews of the scientific basis of air quality regulation.

PD October 1996. **TI** Control of Dioxins from the Pulp and Paper Industry Under the Clean Water Act and Lead in Soil in Superfund Mining Sites: Two case Studies in EPA's Use of Science. **AA** Resources for the Future. **SR** Resources for the Future Discussion Paper: 97/08; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. **PG** 44. **PR** Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. **JE** L51, Q24, Q25, Q28. **KW** Dioxins. Water. Lead. Superfund. Regulation.
AB This paper discusses EPA's acquisition and use of science in addressing dioxins from the pulp and paper industry under the Clean Water Act and lead in soil at large Superfund mining sites. The common thread between both cases is the challenge posed by administering national pollution control programs while considering site-by-site variability in factors that influence environmental risks. The dioxin case study illustrates EPA's use of science to evaluate the cost- effectiveness of nominally technology-based water pollution controls. The Superfund case study illuminates the challenges and opportunities posed by developing and using rigorous site-specific scientific information. It appears that EPA cannot generalize across sites where similar mining activities occurred or even draw any general distinctions between different types of mining sites, as had been presumed. This case illustrates that selection of the most appropriate animal model for toxicological studies involves tradeoffs between cost, experimental power and control, fidelity to human physiology, and the value of information for decisionmaking. Determination of the "optimal" animal model may depend on which evaluative criterion is being used.

Power, Anne
TI Poverty, Social Exclusion and Neighbourhood: Studying the Area Bases of Social Exclusion. **AU** Glennerster, Howard; Lupton, Ruth; Noden, Philip; Power, Anne.

PD December 1999. **TI** Neighbourhood Management. **AU** Power, Anne; Bergin, Emmet. **AA** London School of Economics. **SR** STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/31; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. **PG** 90. **PR** no charge. **JE** H70, I31, I38, R13, R50. **KW** Social Housing. Neighborhoods. Area Regeneration. Urban Economics.
AB The way we run urban neighborhoods in Britain is a key to reversing social exclusion, crime and poor performance on almost every front in our cities. This study for the Social Exclusion Unit of seven models of neighborhood management analyzes the reason for its key position in the national strategy for neighborhood renewal. We explore the need for it, its function and remit. It hinges on three core ideas: someone in charge at neighborhood level to ensure reasonable conditions and coordinate the many inputs already flowing into neighborhoods; the practical relevance of the core idea across almost any area; the immediate and longer-term impacts on conditions of a clearly focused, truly local neighborhood management service. To work well, there must be a dedicated

budget, a senior manager in control locally, immediate security and environmental targets, resident involvement. The costs are relatively modest but must be properly funded; the benefits are indispensable as the experiments show and continental experience underlines.

Powers, Elizabeth
TI   Welfare for the Elderly: The Effects of SSI on Pre-Retirement Labor Supply. AU   Neumark, David; Powers, Elizabeth.

Pratten, Stephen
PD   June1999. TI   Competitiveness Policy and Economic Organisation: The Case of the British Film Industry. AU   Pratten, Stephen; Deakin, Simon. AA   Pratten: King's College, London. Deakin: University of Cambridge. SR   University of Cambridge, ESRC Centre for Business Research Working Paper: WP127; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG   50. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE   L22, L32, L33, L52, L82. KW   British Film Industry. Competitiveness Policy. Media Industry. Industrial Policy. Firm Organization.
AB   The British film industry has long been characterized as highly volatile, chronically unstable and liable to recurrent crises. The traditional policy response until the 1980s involved support through a mixture of quotas, fiscal support and industry levies. During the 1980s, this policy stance was reversed as deregulation and the exposure of the industry to market forces were seen as the key to enhancing its economic performance. More recently, the film industry has been characterized as possessing inherent but unrealized potential which it is the role of government, albeit operating in tandem with the market, to unlock. The aim of this paper is to examine more precisely the nature of this emerging 'competitiveness policy'. The authors explore the relationship between competitiveness and organizational form and consider the potential of various kinds of policy intervention to transform the prospects of a sector such as film in the face of the weight of its historical development.

Prescott, Edward C.
TI   Malthus to Solow. AU   Hansen, Gary D.; Prescott, Edward C.

Prokop, Jacek
PD   September 1997. TI   Strategic Buybacks of Sovereign Debt. AU   Prokop, Jacek; Wang, Ruqu. AA   Prokop: Northwestern University. Wang: Queen's University. SR   Queen's Institute for Economic Research Discussion Paper: 957; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. PG   23. PR $3.21 Canada; $3.50 U.S. and Foreign. JE   F34. KW   Secret Buybacks. International Debt. Secondary Markets. AB   We consider a transaction costs model of sovereign debt buybacks. We show that both secret and publicly known buybacks are profitable for the debtor country. Furthermore, the government of the debtor country would like to spend all of its initial endowment to buy back its debt as soon as possible. When the initial endowment of the government is publicly known, the equilibrium outcome of the secret buyback model is the same as in the public buyback model. However, the equilibrium outcomes are different when the initial endowment is private information of the government. Under reasonable conditions, the secondary market price under publicly observable buybacks is lower than the price under secret buybacks. Therefore the government prefers the former over the latter when the initial endowment is not commonly known.

Propper, Carol
TI   An Economic Model of Household Income Dynamics, with an Application to Poverty Dynamics Among American Women. AU   Burgess, Simon M.; Propper, Carol.

Qian, Yingyi
TI   Incentives, Scale Economies, and Organizational Form. AU   Maskin, Eric.; Qian, Yingyi; Xu, Chenggang.

Queralt, Magaly
TI   Unintended Consequences? Welfare Reform and the Working Poor. AU   Witte, Ann Dryden; Queralt, Magaly; Chipty, Tasneem; Griesinger, Harriet.

Raddatz, Claudio E.
TI   Taxes and Income Distribution in Chile: Some Unpleasant Redistributive Arithmetic. AU   Engel, Eduardo M. R. A.; Galetovic, Alexander; Raddatz, Claudio E.

Radelet, Steven
PD   August 1998. TI   The Onset of the East Asian Financial Crisis. AU   Radelet, Steven; Sachs, Jeffrey D. AA   Radelet: Harvard Institute for International Development. Sachs: Harvard Institute for International Development and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6680; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   55. PR $5.00. JE   F32, F36, F49. KW   Financial Crisis. Financial Panic. Asian Crisis.
AB   This paper provides an early diagnosis of the financial crisis in Asia, focusing on the empirical record in the lead-up to the crisis. The main goal is to emphasize the role of financial panic as an essential element of the Asian crisis. At the core of the crisis were large-scale foreign capital inflows into financial systems that became vulnerable to panic. The paper finds that while there were significant underlying problems and weak fundamentals besetting the Asian economies at both a macroeconomic and a microeconomic level, the imbalances were not severe enough to warrant a financial crisis of the magnitude that took place in the latter half of 1997. A combination of panic on the part of the international investment community, policy mistakes at the onset of the crisis by Asian governments, and poorly designed international rescue programs turned the withdrawal of foreign capital into a full-fledged financial panic, and deepened the crisis more than was either necessary or inevitable.

Rady, Sven
TI   Optimal Experimentation in a Changing Environment. AU   Keller, Godfrey; Rady, Sven.

Rake, Katherine

AB This paper analyzes the Government's proposals contained in A New Contract for Welfare: Partnership in Pensions. It examines the position of low paid workers and the potential of the proposals to protect individuals from a means-tested old age. The paper identifies that the Green Paper's proposals add up to reinventing a new two-stage basic pension but at proposed levels that could extend means-testing to low paid workers. The paper then models the Green Paper's proposals on lifetime incomes of a hypothetical, low-income individual and their partner. Two key features of the proposed basic pension package are argued as problematic. First, the level of payment, and second lifetime participation rules that prevent comprehensive coverage or tightropes and tripwires respectively. The paper identifies potential incentive problems, and problems of sustainability. The authors make several suggestions about changes to the proposals that could meet their concerns.

AB The government's pensions Green Paper -- A new contract for welfare: partnership in pensions -- proposes fundamental changes in the UK's retirement income system. Members of CASE and of the Department of Social Policy at LSE have looked at the likely implications of the reforms for pensioner poverty, income security in old age, economic growth, the National Insurance system, tax relief, and women. Agulnik's analysis of the re-distributive effects of the State Second Pension (SSP) shows that it will result in much better benefits for low earners than would have been the case under SERPS. However, financing this improved provision through National Insurance Contributions will mean that the burden of paying for the new scheme will be heaviest for those close to the upper earnings limit. Barr questions the macroeconomic advantages of increasing the amount of funded pension provision via Stakeholder pensions. Falkington and Rake argue that the Government's proposals have failed to incorporate fully the needs of women. Women will be under-represented amongst Stakeholder pensioners. Agulnik then looks at the proposed tax relief rules for Stakeholder pensions.

Ramey, Garey

AB We propose a theory of contracting in long-term relationships, emphasizing the role of social institutions in conditioning players' joint selection of equilibria. Players adopt a social conditioning system in order to place boundaries on their recurrent negotiation and thereby sustain a desirable joint selection of equilibrium. Social conventions have value because players cannot freely reinterpret the labels attached to histories, in contrast to labels that the players might assign internally. We present examples of social conventions that are useful for sustaining cooperative interaction. Our model combines an explicit bargaining technology with a renegotiation concept, coherent equilibrium, that builds on internal consistency. Coherent equilibria exist in general and, for an important class of games, induce unique outcomes.

AB This paper analyzes the role of third party intermediaries, such as courts and arbitrators, in contract enforcement. In our model, intermediaries compel contracted transfers and resolve disputes when requested to do so by the contracting agents. When the verifiability of information is limited, successful enforcement requires that dispute resolution costs be sufficiently great. Optimal enforcement systems economize on dispute resolution and information costs, and may involve establishment of specific systems tailored to particular groups. We show further that the "holdup problem" may be resolved via an appropriately designed dispute resolution system.

Ramey, Valerie A.

MA 02138. Website: www.nber.org. PG 38. PR $5.00. JE D24, D40, D83, E22. KW Capital. Specialized Capital. Resale Markets. Sectoral Mobility. Market Thinness.

AB This paper studies the efficiency with which physical capital can be reallocated across sectors. It presents a model of a firm selling specialized capital in a thin resale market. The model predicts that the selling price depends not only on the sectoral specificity of capital, but also on the thinness of the market and the discount factor of the firm. It then provides empirical evidence on the sectoral mobility of capital based on equipment-level data from aerospace industry auctions. These data track the flow of used capital across industries, as well as the discounts at which the capital sells. The results suggest substantial sectoral specificity of capital. Capital that flowed out of the sector sold for only one-third of its estimated replacement cost.

Ranguelova, Elena

TI Individual Risk and Intergenerational Risk Sharing in an Investment- Based Social Security Program. AU Feldstein, Martin; Ranguelova, Elena.

Rauch, James E.

PD June 1998. TI Overcoming Informational Barriers to International Resource Allocation: Prices and Group Ties. AU Rauch, James E.; Casella, Alessandra. AA Rauch: University of California, San Diego and National Bureau of Economic Research. Casella: Columbia University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6628; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 34. PR $5.00. JE D82, F13, F15, F23, F41. KW Trade. Incomplete Information. Economic Integration. Price Differentials. Information Sharing.

AB Incomplete information in the international market creates difficulty in matching agents with productive opportunities and interferes with the ability of prices to allocate scarce resources across countries. Resource-price differentials may not be eliminated and domestic resource supplies may have excessive influence on domestic resource prices. Information-sharing networks among internationally dispersed ethnic minorities or business groups can improve the allocation of resources, though at the same time they may hurt those excluded from the preferential information channels. However, when ties are denser between countries with small resource price differences than between countries with large resources price differences, such networks can worsen the allocation of resources and reduce the value of world output.

PD March 1999. TI Starting Small in an Unfamiliar Environment. AU Rauch, James E.; Watson, Joel. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 96/28R; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 26. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE D20, F10, F23, L14, O19. KW Investment. Matching. Search. Uncertainty. International Business.

AB Motivated by a characteristic way in which firms in developed countries make their decisions regarding cooperation with potential partners from less developed countries, we design a simple model of a DC firm's search for an LDC partner/supplier and the subsequent relationship between the two parties. Matched firms can "start small" with a trial order or pilot project of variable size in order to gain information about the ability of the LDC firm to successfully carry out a large project. We derive results relating whether and how the parties start small to the characteristics of the large project and to the matching environment. Among other results, we show how risk and search cost are associated with the propensity to start small and we establish a connection between starting small and the expected longevity of successful partnerships. We also address methods of contract enforcement and demonstrate the relationship between starting small and monitoring.

PD March 1999. TI Bureaucratic Structure and Bureaucratic Performance in Less Developed Countries. AU Rauch, James E.; Evans, Peter B. AA Rauch: University of California, San Diego. Evans: University of California, Berkeley. SR University of California, San Diego, Department of Economics Working Paper: 99/06; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 19. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE D73, O10. KW Bureaucracy. Economic Development. Corruption.

AB Recent cross-country empirical analysis has found that privately produced ratings of the performance of the central government bureaucracy in areas such as corruption and red tape are significant predictors of economic performance. We argue that several relatively simple, easily identifiable structural features constitute the key ingredients of effective state bureaucracies and should help to predict these ratings: competitive salaries, internal promotion and career stability, and meritocratic recruitment. We collect a new data set on these features for bureaucracies of 35 less developed countries. Controlling for country income, level of education, and ethnolinguistic diversity, we find that our measures of bureaucratic structure are statistically significant determinants of ratings supplied by two of three country risk agencies. Meritocratic recruitment is the most important structural feature for improving bureaucratic performance, followed by internal promotion and career stability. The importance of competitive salaries could not be clearly established.

Razin, Assaf

TI Current Account Reversals and Currency Crises: Empirical Regularities. AU Milesi-Ferretti, Gian Maria; Razin, Assaf.

PD September 1998. TI Tax Burden and Migration: A Political Economy Theory and Evidence. AU Razin, Assaf; Sadka, Efraim; Swagel, Phillip. AA Razin: Tel Aviv University and National Bureau of Economic Research. Sadka: Tel Aviv University. Swagel: International Monetary Fund. SR National Bureau of Economic Research Working Paper: 6734; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 20. PR $5.00. JE H23, H24, J31, J61. KW Tax Policy. Redistribution. Migration. Human Capital.

AB The extent of taxation and redistribution policy is generally determined as a political-economy equilibrium by a balance between those who gain from higher taxes/transfers and those who lose. In a stylized model of migration and human capital formation, we show -- somewhat against the conventional wisdom -- that low-skill immigration may lead to a lower tax burden and less redistribution than would be the case with no immigration, even though migrants (naturally) join the pro-tax/transfer coalition. Data on 11 European countries over the period 1974 to 1992 are consistent with the implications of the theory: a higher share of immigrants in the population leads to a lower tax rate on labor income, even after controlling for the generosity and size of the welfare state demographics, and the international exposure of the economy. As predicted by the theory, it is the increased share of low education immigrants that leads to the smaller tax burden.

PD November 1998. TI Migration and Pension. AU Razin, Assaf; Sadka, Efraim. AA Razin: Tel Aviv University and National Bureau of Economic Research. Sadka: Tel Aviv University. SR National Bureau of Economic Research Working Paper: 6778; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 16. PR $5.00. JE F22, H20, H55, J10, J61. KW Public Pensions. Migration. Demographics. Welfare.

AB Migration has important implications for the financial soundness of the pension system, which is an important pillar of the welfare state. While it is common sense to expect that young migrants, even if low- skilled, can help society pay the benefits of the currently elderly, it may nevertheless be reasonable to argue that these migrants would adversely affect current young since, after all, the migrants are net beneficiaries of the welfare state. In contrast to the adverse effects of low skilled migration in a static model, we show that in a Samuelsonian overlapping generations model migration is a Pareto- improving measure. All the existing income (low and high) and age (young and old) groups living at the time of the migrant's arrival would be better off.

Reagan, Patricia
TI Distance to Hospital and Children's Access to Care: Is Being Closer Better, and for Whom? AU Currie, Janet; Reagan, Patricia.

Rebelo, Sergio
TI On the Dynamics of Trade Reform. AU Albuquerque, Rui; Rebelo, Sergio.

TI Prospective Deficits and the Asian Currency Crisis. AU Burnside, Craig; Eichenbaum, Martin; Rebelo, Sergio.

Regev, Haim
TI The Effects of Capital Subsidization on Israeli Industry. AU Bregman, Arie; Fuss, Melvyn; Regev, Haim.

Reifschneider, David
PD August 1999. TI Three Lessons for Monetary Policy In a Low Inflation Era. AU Reifschneider, David; Williams, John C. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/44; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website:

www.bog.frb.fed.us/pubs/feds/. PG 45. PR no charge. JE E52, F41. KW Monetary Policy. Macroeconomic Models. Liquidity Trap.

AB The zero lower bound on nominal interest rates constrains the central bank's ability to stimulate the economy during downturns. We use the FRB/US model to quantify the effects of the bound on macroeconomic stabilization and to explore how policy can be designed to minimize these effects. During particularly severe contractions, open-market operations alone may be insufficient to restore equilibrium; some other stimulus is needed. Abstracting from such rare events, if policy follows the Taylor rule and targets a zero inflation rate, there is a significant increase in the variability of output but not inflation. However, a simple modification to the Taylor rule yields a dramatic reduction in the detrimental effects of the zero bound.

TI Errors in the Measurement of the Output Gap and the Design of Monetary Policy. AU Orphanides, Athanasios; Porter, Richard D.; Reifschneider, David; Tetlow, Robert; Finan, Frederico.

TI Errors in the Measurement of the Output Gap and the Design of Monetary Policy. AU Orphanides, Athanasios; Porter, Richard D.; Reifschneider, David; Tetlow, Robert; Finan, Frederico.

Restoy, Fernando
PD June 1998. TI Approximate Equilibrium Asset Prices. AU Restoy, Fernando; Weil, Philippe. AA Restoy: Blanco de Espana. Weil: European Center for Advanced Research in Economics and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6611; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E21, G1·1, G12. KW Asset Pricing. Consumption. Risk Aversion. Interest Rates. CAPM.

AB This paper reconsiders the determination of asset returns in a model with Kreps-Porteus generalized isoelastic preferences where returns appear governed, on the basis of Euler equations, by a combination of the two most common measures of risk -- covariance with the market return and covariance with consumption. To go beyond Euler equations and to take into account the links that the consumers' optimal behavior establishes, through a budget constraint, between market returns and consumption, the authors derive an approximate consumption function. Arguing that total consumer wealth is unobservable, the authors use this consumption function to · reconstruct from observed consumption data i) the wealth that supports the agents' consumption as an optimal income, and ii) the rate of return on the consumers' wealth portfolio. This procedure enables the authors to derive formulas that (approximately) price all assets as a function of their payoffs and of consumption.

Richardson, J. David
TI Trade Flows and Wage Premiums: Does Who or What Matter? AU Lovely, Mary E.; Richardson, J. David.

Riddell, Craig W.
TI Wages, Skills and Technology in the United States and Canada. AU Murphy, Kevin M.; Riddell, Craig W.; Romer, Paul M.

Riker, David

PD January 1999. TI Educational Attainment as a Determinant of International Trade Flows. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/01; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 25. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE F11, F19, F41, I20, J24. KW Trade. Human Capital. Gravity Model. Education.

AB International differences in educational attainment rates affect the volume of trade through several channels. According to the factor proportions model of trade, the ratio of highly educated workers to less educated workers in each country determines the national product mix. In this model, the volume of bilateral trade is decreasing in the similarity of the countries' factor proportions. On the other hand, educational attainment may shift the relative demands of consumers toward education-intensive goods. In this case, countries with similar ratios of highly educated consumers to less educated consumers have a relatively larger volume of trade. These relative supply and relative demand effects of education are not mutually exclusive. However, they are likely to offset each other in an empirical analysis of the effect of educational attainment on international trade. In this study, we attempt to disentangle the two effects. We provide evidence that both effects are empirically relevant by utilizing gender-specific measures of educational attainment and labor force participation.

Ristuccia, Cristiano A.

PD March 1997. TI 1935 Sanctions Against Italy: Would Coal and Crude Oil Have Made a Difference? AA Oxford University. SR University of Oxford, Discussion Paper in Economic and Social History: 14; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 46. PR no charge. JE F13, F42, N14, N74. KW Italy. Sanctions. Hydrocarbon Fuels. League of Nations. Economic History.

AB This article assesses the hypothesis that in 1935-1936 the implementation of sanctions on the export of coal and oil products to Italy by the League of Nations would have forced Italy to abandon her imperialistic war against Ethiopia. In particular, the article focuses on the claim that Britain and France, the League's leaders, could have halted the Italian invasion of Ethiopia by means of coal and oil sanctions, and without the help of the United States, or recourse to stronger means such as a military blockade. An analysis of the data on coal consumption in the industrial census of 1937-1938 shows that the Italian industry would have survived a League embargo on coal, provided that Germany continued her supply to Italy. The counterfactual proves that the effect of an oil embargo was entirely dependent on the attitude of the United States towards the League's action. Given that this attitude was by no means clear, a solitary attempt at such an embargo by the League would have failed.

Rivkin, Steven G.

TI Does Special Education Raise Academic Achievement for Students with Disabilities? AU Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

TI Teachers, Schools, and Academic Achievement.
AU Hanushek, Eric A.; Kain, John F.; Rivkin, Steven G.

Roberts, John M.

TI What's Happened to the Phillips Curve? AU Brayton, Flint; Roberts, John M.; Williams, John C.

PD October 1999. TI Is Hysteresis Important for U.S. Unemployment? AU Roberts, John M.; Morin, Norman J. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/56; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 44. PR no charge. JE E32, J64. KW Hysteresis. Unemployment. Phillips Curve. Unit Roots.

AB We look for evidence of "hysteresis" in the U.S. unemployment rate -- that is, that current labor market outcomes affect the future equilibrium level of the unemployment rate. We first examine using a variety of econometric tests for unit roots whether the unemployment rate tends to come back to a long-run average over time. On balance, our results suggest that the unemployment rate tends to return to a long-run value, ruling out the possibility of permanent hysteresis. We look for evidence of temporary hysteresis by examining whether lagged unemployment enters a standard Phillips-curve model of U.S. inflation. We find week evidence in support of temporary hysteresis, but the effect is not large, suggesting that hysteresis is not very important for U.S. unemployment.

Robinson, Peter M.

TI Adaptive Semiparametric Estimation of the Memory Parameter. AU Giraitis, Liudas; Robinson, Peter M.; Samarov, Alexander.

TI Weak Convergence of Multivariate Fractional Processes. AU Marinucci, D.; Robinson, Peter M.

TI Alternative Forms of Fractional Brownian Motion. AU Marinucci, D.; Robinson, Peter M.

PD August 1998. TI Long and Short Memory Conditional Heteroscedasticity in Estimating the Memory Parameter of Levels. AU Robinson, Peter M.; Henry, M. AA London School of Economics. SR STICERD, (LSE) Econometrics Discussion Paper: EM/98/357; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 40. PR no charge. JE C13, C14, C15, C22, G15. KW Long Memory. Heteroskedasticity. Semiparametric Estimation. Time Series. Financial Markets.

AB Semiparametric estimates of long memory seem useful in the analysis of long financial time series because they are consistent under much broader conditions than parametric estimates. However, recent large sample theory for semiparametric estimates forbids conditional heteroskedasticity. We show that a leading semiparametric climate, the Gaussian or local Whittle one, can be consistent and have the same limiting distribution under conditional heteroskedasticity as under conditional homoskedasticity assumed by Robinson (1995a). Indeed, noting that long memory has been observed in the squares of financial time series, we allow, under regularity conditions, for conditional heteroskedasticity of the general form introduced by Robinson (1991) which may include long memory behavior for the

squares, such as the fractional noise and autoregressive fractionally integrated moving average form, as well as standard short memory ARCH and GARCH specifications.

TI Semiparametric Inference in Seasonal and Cyclical Long Memory Processes. AU Arteche, Josu; Robinson, Peter M.

TI Seasonal and Cyclical Long Memory. AU Arteche, Josu; Robinson, Peter M.

TI Variance-Type Estimation of Long Memory. AU Giraitis, Liudas; Robinson, Peter M.; Surgailis, Donatas.

TI Edgeworth Expansions for Semiparametric Averaged Derivatives. AU Nishiyama, Y.; Robinson, Peter M.

TI Studentization in Edgeworth Expansions for Estimates of Semiparametric Index Models. AU Nishiyama, Y.; Robinson, Peter M.

Robson, Paul
TI The Market for External Business Advice Services in Britain. AU Bennett, Robert; Robson, Paul.

Rodriguez-Clare, Andres
TI Import Penetration and the Politics of Trade Protection. AU Maggi, Giovanni; Rodriguez-Clare, Andres.

Rogoff, Kenneth
TI Risk and Exchange Rates. AU Obstfeld, Maurice; Rogoff, Kenneth.

Romer, Christina D.
PD November 1998. TI Monetary Policy and the Well-Being of the Poor. AU Romer, Christina D.; Romer, David H. AA University of California, Berkeley and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6793; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 38. PR $5.00. JE D63, E52, I31, I32. KW Monetary Policy. Poverty. Inequality. Inflation.
AB This paper investigates monetary policy's influence on poverty and inequality in both the short run and the long run. We find that the short-run and long-run relationships go in opposite directions. The time-series evidence from the United States shows that a cyclical boom created by expansionary monetary policy is associated with improved conditions for the poor in the short run. The cross-section evidence from a large sample of countries, however, shows that low inflation and stable aggregate demand growth are associated with improved well-being of the poor in the long run. Both the short-run and long-run relationships are quantitatively large, statistically significant, and robust. But because the cyclical effects of monetary policy are inherently temporary, we conclude that monetary policy that aims at low inflation and stable aggregate demand is the most likely to permanently improve conditions for the poor.

Romer, David H.
TI Monetary Policy and the Well-Being of the Poor. AU Romer, Christina D.; Romer, David H.

Romer, Paul M.
TI Wages, Skills and Technology in the United States and

Canada. AU Murphy, Kevin M.; Riddell, Craig W.; Romer, Paul M.

Rose, Andrew K.
TI Understanding the Home Market Effect and the Gravity Equation: The Role of Differentiating Goods. AU Feenstra, Robert C.; Markusen, James R.; Rose, Andrew K.

TI Contagion and Trade: Why are Currency Crises Regional? AU Glick, Reuven; Rose, Andrew K.

Rosen, Harvey S.
TI Sales Tax and Prices: An Empirical Analysis. AU Besley, Timothy J.; Rosen, Harvey S.

Rosenzweig, Mark R.
TI The Changing Skill of New Immigration to the United States: Recent Trends and Their Determinants. AU Jasso, Guillermina; Rosenzweig, Mark R.; Smith, James P.

Rotemberg, Julio J.
PD June 1998. TI Interest-Rate Rules in an Estimated Sticky Price Model. AU Rotemberg, Julio J.; Woodford, Michael. AA Rotemberg: Havard Business School and National Bureau of Economic Research. Woodford: Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6618; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 53. PR $5.00. JE E31, E43, E52. KW Monetary Policy. Interest Rates. Inflation. Federal Funds Rate.
AB This paper evaluates alternative rules by which the Fed may set interest rates using the small model of the U.S. economy estimated in Rotemberg and Woodford (1997). Our main substantive finding is that low and stable inflation together with stable interest rates can be achieved by letting the funds rate respond positively to inflation while also responding, with a coefficient bigger than one, to the lagged funds rate itself. A rule in which the interest rate is set in this extremely simple way does almost as well as a more complicated rule which is optimal in our setting, in the sense of maximizing expected utility to the representative household. Furthermore, when the funds rate responds to inflation only with a delay, due to delay in the availability of inflation data, performance under the rule is only slightly reduced.

Roubini, Nouriel
TI Paper Tigers? A Model of the Asian Crisis. AU Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel.

TI What Caused the Asian Currency and Financial Crisis? Part I: A Macroeconomic Overview. AU Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel.

TI What Caused the Asian Currency and Financial Crisis? Part II: The Policy Debate. AU Corsetti, Giancarlo; Pesenti, Paolo; Roubini, Nouriel.

Rowland, Patrick F.
PD September 1998. TI Multinationals and the Gains from International Diversification. AU Rowland, Patrick F.; Tesar, Linda L. AA Rowland: Fordham University. Tesar: University of Michigan and National Bureau of Economic

Research. SR National Bureau of Economic Research Working Paper: 6733; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 20. PR $5.00. JE F23, G11, G12, G15. KW Home Bias. Diversification of Investment. Multinational Firms. Spanning Tests.

AB One possible explanation for home bias is that investors may obtain indirect international diversification benefits by investing in multinational firms rather than by investing directly in foreign markets. This paper employs mean-variance spanning tests to examine the diversification potential of multinational firms and foreign market indices for investors domiciled in Canada, France, Germany, Italy, Japan, the United Kingdom and the United States. We find that in most countries and most time periods, the portfolio of domestic stocks spans the risk and return opportunities of a portfolio that includes domestic and multinational stocks. However, there is weak evidence that U.S. multinationals provided global diversification benefits in the full 1984-92 sample and in the post-1987 subsample. We also find that the addition of foreign market indices to a domestic portfolio - inclusive of multinationals - provides diversification benefits. The economic importance of the shift of the portfolio frontier - measured as the utility gain from diversification - varies considerably from market to market and often reflects the benefits of large short positions in certain markets.

Rowthorn, Robert

PD December 1998. TI Marriage and Trust: Some Lessons from Business Organisation. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP113; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 44. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE D10, K19, J12. KW Trust. Marriage. Divorce. Opportunism. Law.

AB Using ideas from studies of business relationships, this paper examines the role of marriage as an institution for providing couples with the confidence to make long-term investments in their relationship. No-fault divorce has weakened the notion of marriage as a contract, thereby reducing the security offered by marriage and promoting opportunism by men. Current legal reforms will improve the economic position of divorced wives, inter alia encouraging opportunism by women. The paper argues that a return to fault-based divorce represents the only way to achieve parity between men and women and deter opportunism by either sex.

Rueben, Kim S.

TI Fiscal Institutions and Public Sector Labor Markets. AU Poterba, James M.; Rueben, Kim S.

Sachdev, Sanjiv

PD December 1998. TI The Labour Market, the Minimum Wage and the Low Pay Commission Report. AU Sachdev, Sanjiv; Wilkinson, Frank. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP110; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 41. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE J23, J31, J38. KW Minimum Wage. Low Pay Commission. Labor Markets.

AB This paper reviews the arguments surrounding the proposed adoption in the UK of a minimum wage, and assesses the 1998 Low Pay Commission's Report on this, and its potential impact in terms of business response. It argues that the growth of low pay since the 1970s has involved significant costs through labor market instability, challenges the orthodox labor market view that low pay reflects low skill, and argues that the Commission's Report is unduly cautious and omits consideration of the vital question of how a minimum wage might be uprated.

Sachs, Jeffrey D.

TI The Onset of the East Asian Financial Crisis. AU Radelet, Steven; Sachs, Jeffrey D.

TI Geography and Economic Development. AU Gallup, John Luke; Sachs, Jeffrey D.; Mellinger, Andrew D.

Sack, Brian

PD July 1999. TI Interest-Rate Smoothing and Optimal Monetary Policy: A Review of Recent Empirical Evidence. AU Sack, Brian; Wieland, Volker. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/39; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 33. PR no charge. JE E52, E58. KW Interest-Rate Smoothing. Monetary Policy Rules.

AB The Federal Reserve and other central banks tend to change short- term interest rates in sequences of small steps in the same direction and reverse the direction of interest rate movements only infrequently. These characteristics, often referred to as interest-rate smoothing, have led to criticism that policy responds too little and too late to macroeconomic developments, suggesting to some observers that the Federal Reserve has an objective of minimizing interest-rate volatility. This paper, however, argues that the observed degree of interest-rate smoothing may well represent optimal behavior on the part of central banks whose only objectives are to stabilize output and inflation. We summarize recent research on three different explanations of interest-rate smoothing: forward-looking behavior by market participants, measurement error associated with key macroeconomic variables, and uncertainty regarding relevant structural parameters.

Sadka, Efraim

TI Tax Burden and Migration: A Political Economy Theory and Evidence. AU Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

TI Migration and Pension. AU Razin, Assaf; Sadka, Efraim.

Samarov, Alexander

TI Adaptive Semiparametric Estimation of the Memory Parameter. AU Giraitis, Liudas; Robinson, Peter M.; Samarov, Alexander.

Samwick, Andrew A.

TI The Other Side of the Tradeoff: The Impact of Risk on

Executive Compensation. AU Aggarwal, Rajesh; Samwick, Andrew A.

PD July 1998. TI Tax Reform and Target Saving. AA Samwick: Dartmouth College and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6640; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D91, E21, H24, H31, J32. KW Consumption Taxation. Saving. Pension Plans. Tax Reform.

AB If the United States switched to a broad-based consumption tax, then all forms of saving would enjoy the tax-preferred status reserved primarily for retirement saving vehicles under the current income tax system. Because pensions have other unique characteristics besides their tax advantage, current results on the effect of pensions on saving may provide an unreliable guide to the saving response to fundamental tax reform. The net effect of reform on saving depends critically on household motives for saving. This paper documents the considerable variation in the reasons why households save and presents a buffer stock model of saving that allows for both life cycle and target saving. To the extent that specific targets that are not currently tax-favored motivate the saving of households in their pre-retirement years, fundamental tax reform that results in the elimination of current pension plans will reduce saving.

PD July 1998. TI How Will Defined Contribution Pension Plans Affect Retirement Income? AU Samwick, Andrew A.; Skinner, Jonathan. AA Dartmouth College and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6645; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE D31, G23, J14, J26, J32. KW Pension Plans. Defined Contributions. Retirement. Social Security. Saving.

AB How has the emergence of defined contribution pension plans, such as 401(k)s, affected the financial security of future retirees? We consider this question using a detailed survey of pension formulas in the Survey of Consumer Finances. Our simulations show that average and median pension benefits are higher under defined contribution plans than for defined benefit plans. Defined benefits plans are slightly better at providing minimum benefits, but for plausible values of risk aversion, a defined contribution plan drawn randomly from those available in 1995 is still preferred to a defined benefit plan drawn randomly from those available in 1983. This result is robust to different assumptions regarding the spending of defined contribution balances between jobs, equity rates of return, and the date of retirement. In short, we suggest that defined contribution plans can strengthen the financial security of retirees.

Sanfrey, Peter

TI Happiness in Transition: The Case of Kyrgyzstan. AU Namazie, Ceema; Sanfrey, Peter.

Sappington, David E. M.

TI Setting the X Factor in Price Cap Regulation Plans. AU Bernstein, Jeffrey I.; Sappington, David E. M.

Sasaki, Yuri Nagataki

TI How did the Dollar Peg Fail in Asia? AU Ito, Takatoshi; Ogawa, Eiji; Sasaki, Yuri Nagataki.

TI Impacts of the Basle Capital Standard on Japanese Banks' Behavior. AU Ito, Takatoshi; Sasaki, Yuri Nagataki.

Sato, Motohiro

TI Information Acquisition and Government Intervention in Credit Markets. AU Boadway, Robin; Sato, Motohiro.

Schafgans, Marcia

PD January 2000. TI On Intercept Estimation in the Sample Selection Model. AU Schafgans, Marcia; Zinde-Walsh, Victoria. AA Schafgans: London School of Economics. Zinde-Walsh: McGill University. SR STICERD, (LSE) Econometrics Discussion Paper: EM/00/380; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 32. PR no charge. JE C14, C34, C35. KW Asymptotic Normality. Sample Selection Models. Semiparametric Estimation.

AB We provide a proof of the consistency and asymptotic normality of the estimator suggested by Heckman (1990) for the intercept of a semiparametrically estimated sample selection model. The estimator is based on "identification at infinity" which leads to a non-standard convergence rate. Andrews and Schafgans (1998) derived asymptotic results for a smoothed version of the estimator. We examine the optimal bandwidth selection for the estimators and derive asymptotic MSE rates under a wide class of distributional assumptions. We also provide some comparisons of the estimators and practical guidelines.

Scheibl, Fiona

PD September 1998. TI Would More "Family-Friendly" Working Arrangements Benefit Business and Families? AU Scheibl, Fiona; Dex, Shirley. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP106; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 27. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE J13, J16, J32, J38, J50. KW Family Friendly. Working Arrangements. Flexible Working. Part-Time Employment.

AB This paper considers the extent of flexible, so-called family- friendly, working practices and evidence from published literature to address the question of whether Britain needs more of these arrangements. A review is carried out to see whether problems exist for the workforce which such policies could help to resolve, whether employers perceive problems in offering such arrangements, and whether such problems could be overcome. It concludes that more family-friendly arrangements would be welcomed by employees, that employers do perceive problems in designing flexible working arrangements, but that there are also ways of overcoming many of these problems to work towards new relationships of trust and commitment between workers and employers.

Schellekens, Philip

TI Utility Functions for Central Bankers -- The Not So Drastic Quadratic. AU Chadha, Jagjit S.; Schellekens, Philip.

Schluter, Christian

PD June 1998. TI Income Dynamics in Germany, the USA and the UK: Evidence from Panel Data. AA University of Bristol and London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/08; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 54. PR no charge. JE D31, D63, I32. KW Income Dynamics. Mobility. Kernel Density Estimates. Stochastic Kernels. Transition Matrices.

AB This paper is about the distributional dynamics of net household income in Germany, the US and the UK. We reject the common wisdom that Germany is a country in stasis: stable cross-sectional distributions are deceptive, concealing substantial movements beneath the surface. The US and the UK underwent a process of income polarization. For the study of mobility, stochastic kernels are used because standard approaches based on mobility indices and transition matrices, which group persons into income classes of arbitrary size, lead to misleading conclusions. The measures attribute greater mobility to Germany than to the US, but this ranking is entirely driven by the substantially greater mobility of the German poor. In order to determine whether income changes are transitory or permanent, a law of motion for income is estimated.

TI Measuring Income Mobility with Dirty Data. AU Cowell, Frank A.; Schluter, Christian.

Schoenbaum, Michael

TI The Dynamic Effects of Health on the Labor Force Transitions of Older Workers. AU Bound, John; Schoenbaum, Michael; Stinebrickner, Todd R.; Waidmann, Timothy.

Schultz, Christian

PD March 1999. TI Export Cartels and Domestic Markets. AA Schultz: University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 99/04; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 24. PR no charge. JE L13, L40. KW Export Cartels. Tacit Collusion. Multimarket Contact.

AB This paper considers the effect of monopoly-promoting export cartels on domestic production. It is argued that export cartels facilitate tacit collusion by monitoring defections more efficiently. This slackens the incentive · constraint of tacit collusion. Optimizing firms competing both in the domestic and export markets will often use the increased possibility for collusion in both markets. A condition is given under which this is the case.

Schwartz, Anna J.

TI Under What Circumstances, Past and Present, Have International Rescues of Countries in Financial Distress Been Successful? AU Bordo, Michael D.; Schwartz, Anna J.

Scott, John T.

TI The Nature of Innovation Market Failure and the Design of Public Support for Private Innovation. AU Martin, Stephen; Scott, John T.

Seasholes, Mark S.

TI The Portfolio Flows of International Investors AU Froot, Kenneth A.; O'Connell, Paul G. J.; Seasholes, Mark S.

Segal, Uzi

PD June 1999. TI Tit for Tat: Foundations of Preferences for Reciprocity in Strategic Settings. AU Segal, Uzi; Sobel, Joel. AA Segal: University of Western Ontario. Sobel: University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/10; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 22. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C70, D70. KW Reciprocity. Game Theory. Fairness. Representation Theorems.

AB This paper assumes that in addition to the conventional (selfish) preferences over outcomes, players in a strategic environment have preferences over strategies. In the context of two-player games, it provides conditions under which a player's preferences over strategies can be represented as a weighted average of the individual's selfish payoffs and the selfish payoffs of the opponent. The weight one player places on the opponent's selfish utility depends on the opponent's behavior. In this way, the framework is rich enough to describe the behavior of individuals who repay kindness with kindness and meanness with meanness. The paper assumes that each player has an ordering over his opponent's strategies that describes the niceness of these strategies. It introduces a condition that insures that the weight on opponent's utility increases if and only if the opponent chooses a nicer strategy.

Selassie, Tesfaye Gebre

TI The Urban Labour Market During Structural Adjustment: Ethiopia 1990- 1997. AU Krishnan, Pramila; Selassie, Tesfaye Gebre; Dercon, Stefan.

Seltzer, Judith

TI Fathers Under Fire: The Revolution in Child Support Enforcement in the USA. AU Garfinkel, Irwin; McLanahan, Sara; Meyer, Daniel; Seltzer, Judith.

Sen, Arunava

TI Extensive Form Implementation in Incomplete Information Environments. AU Bergin, James; Sen, Arunava.

Shapiro, Matthew D.

TI Displaced Captial. AU Ramey, Valerie A.; Shapiro, Matthew D.

Sharpe, Steven A.

TI Share Repurchases and Employee Stock Options and Their Implications for S&P 500 Share Retirements and Expected Returns. AU Liang, J. Nellie; Sharpe, Steven A.

Shea, John

PD June 1998. TI What Do Technology Shocks Do? AA University of Maryland and National Bureau of Economic Research. SR National Bureau of Economic

Research Working Paper: 6632; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D24, E32, O33. **KW** Business Cycles. Technology Shocks. Total Factor Productivity.

AB The real business cycle literature has largely ignored the empirical question of what role technology shocks actually play in business cycles. The observed procyclicality of total factor productivity (TFP) does not prove that technology shocks are important to business cycles, since demand shocks could generate pro-cyclical TFP for several reasons. The author addresses the role of technology by investigating the dynamic interactions of inputs, TFP and two observable indicators of technology shocks: R&D spending and patent applications. Using annual panel data on 19 U.S. manufacturing industries from 1959-1991, the author finds that favorable R&D or patent shocks tend to increase inputs in the short run, but to decrease inputs in the long run. Favorable technology shocks do not significantly increase measured TFP at any horizon, except for a subset of industries dominated by process innovations, suggesting that available price data do not capture productivity improvements due to product innovations.

Sheehan, Dennis P.

TI Constraints on Large-Block Shareholders.
AU Holderness, Clifford G.; Sheehan, Dennis P.

Shi, Shouyong

PD December 1997. **TI** Search for a Monetary Propagation Mechanism. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 966; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 31. **PR** $3.21 Canada; $3.50 U.S. and foreign. **JE** E30, E40. **KW** Search. Monetary Propagation. Inventory. Hump Shape.

AB This paper examines a monetary propagation mechanism in an economy where exchanges in goods and labor markets involve costly search. It is shown that an increase in the money growth rate increases steady state employment and output when the money growth rate is low but reduces steady state and output when the money growth rate is already high. The model produces persistent, hump-shaped responses in employment and output to money growth shocks even when the shocks have no persistence. The model also generates desirable features on job vacancy, sales, inventory, and the velocity of money. All these features emerge here in an economy with perfectly flexible prices and wages.

PD December 1997. **TI** Tariffs, Unemployment, and the Current Account: An Intertemporal Equilibrium Model. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 967; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 27. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** F30, F40, J64. **KW** Tariffs. Unemployment. Search. Vacancy. Terms of Trade.

AB This paper integrates labor market search into an intertemporal equilibrium model to analyze the dynamic macroeconomic effects of a tariff. The model captures the intuitive argument in the earlier literature that a permanent increase in the tariff improves the country's terms of trade, which tends to reduce the product wage and stimulates labor

demand. However, the tariff also increases the price of the consumption goods bundle and reduces the marginal utility of wealth measured by imports. This consumption bundle effect raises the reservation wage and the product wage. When the consumption smoothing motive is realistically strong, the consumption bundle effect dominates the product wage effect and so tariffs reduce employment in both the short run and the long run.

PD June 1998. **TI** Search, Inflation, and Capital Accumulation. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 971; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 41. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** E44, E50. **KW** Search. Inflation. Capital. Extensive Effects.

AB This paper constructs a model to integrate the search monetary theory into a neoclassical growth model. With divisible goods and money, the model is used to examine the relationship between money growth and capital accumulation. The framework uncovers a distinct extensive effect that an increase in the money growth rate increases the frequency of successful trades by increasing the number of agents in the market. This positive extensive effect on the number of trades can dominate the conventional negative intensive effects of money growth on individuals' labor input and real money balance, in which case increasing the money growth rate increases aggregate capital and output.

PD June 1998. **TI** Product Market and the Size-Wage Differential. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 972; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 32. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** J31, L11. **KW** Size-Wage Differential. Price/Wage Posting. Size Distribution of Plants.

AB This paper constructs a model to show that plants differing in size pay different wages to homogeneous workers. A large plant can use its large capacity to satisfy buyers in the product market more readily and so can charge a higher price than a small plant can. As a result, a large plant has higher sales revenue per worker. To capture this large revenue, large plants post high wages to recruit. The size-wage differential is shown to survive the labor market competition and entry by new plants. Entry and recruiting generate a stationary distribution of plants in the industry that interacts with the size-wage differential. With numerical examples it is shown that an increase in the demand for the industry's product reduces the size-revenue differential and shifts the size distribution in the industry towards small plants. The overall effect is such that the size-wage differential increases when the product demand is initially low and falls when the product demand is already high.

Shiller, Robert J.

PD July 1998. **TI** Social Security and Institutions for Intergenerational, Intragenerational, and International Risk Sharing. **AA** Yale University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6641; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00.

JE H55. KW Social Security. Risk Sharing. Public Pensions. Elderly.
AB Social security system old age insurance systems are devices for the sharing of income risks of elderly people with others. Risks can be shared intergenerationally (with the young of the same country), intragenerationally (with other elderly of the same country), or internationally (with foreigners). Barriers to individuals themselves sharing their risks intergenerationally, intragenerationally, or internationally are described. Optimal design of government-sponsored social security systems is considered in light of these barriers. Alternative benefits and contributions formulas for pay-as-you-go social security systems are defined and compared with existing and proposed formulas in terms of their ability to fulfill the government's role in promoting risk sharing. Benefits for each retired person may be tied to that person's lifetime income without causing (as with the U.S. benefits formula today) aggregate benefits for all elderly today to be tied to their past aggregate income.

Shimer, Robert
TI Efficient Unemployment Insurance. AU Acemoglu, Daron; Shimer, Robert.

Shleifer, Andrei
TI Corporate Ownership Around the World. AU La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

PD July 1998. TI State versus Private Ownership. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6665; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE H11, P30, P40. KW Private ownership. Public ownership. Incentives. Ownership structure.
AB Private ownership should generally be preferred to public ownership when the incentives to innovate and to contain costs must be strong. In essence, this is the case for capitalism over socialism, explaining the "dynamic vitality" of free enterprise. The great economists of the 1930's and 1940's failed to see the dangers of socialism in part because they focused on the role of prices under socialism and capitalism and ignored the enormous importance of ownership as the source of capitalist incentives to innovate. Moreover, any of the concerns that private firms fail to address "social goals" can be addressed through government contracting and regulation without resort to government ownership. The case for private provision only becomes stronger when competition between suppliers, reputational mechanisms, and the possibility of provision by private not-for-profit firms, as well as political patronage and corruption, are brought into play.

TI The Quality of Government. AU La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert.

TI The Quality of Government. AU La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert.

TI Not-For-Profit Entrepreneurs. AU Glaeser, Edward L.; Shleifer, Andrei.

Sieg, Holger
TI Estimating Equilibrium Models of Local Jurisdictions. AU Epple, Dennis; Sieg, Holger.

Simpson, Patricia
TI Continuing Progress? Trends in Occupational Segregation in the United States over the 1970's and 1980's. AU Blau, Francine D.; Simpson, Patricia; Anderson, Deborah.

Sin, Chor-Yiu
TI Modelling the Absolute Returns of Different Stock Indices: Exploring the Forecastability of an Alternative Measure of Risk. AU Granger, Clive W. J.; Sin, Chor-Yiu.

Sinha, Dipendra
PD April 1999. TI Export Instability, Investment and Economic Growth in Asian Countries: A Time Series Analysis. AA Yale University and Macquarie University, Australia. SR Yale Economic Growth Center Discussion Paper: 799; Economic Growth Center, Publications Office, Yale University, P.O. Box 208269, Yale Station, New Haven CT 06520-8269. Website: www.library.yale.edu/socsci/egcpage.html. PG 13. PR $2.00 + postage. JE C22, E22, F41, F43, O11. KW Export Instability. Growth. Stationarity. Cointegration. Investment.
AB In this study, we look at the relationship between export instability, investment and economic growth in nine Asian countries using time series data. The few previous time series studies in this area have not paid any attention to stationarity and cointegration issues. We find that in most cases, the variables are non-stationary in their levels and not co-integrated. These results raise serious doubts about the results of these studies. The results are not uniform across countries casting doubts about the validity of the numerous cross- section studies. For Japan, Malaysia, Philippines and Sri Lanka, we find a negative relationship between export instability and economic growth. For South Korea, Myanmar, Pakistan and Thailand, we find a positive relationship between the two variables. For India, we get mixed results. In most cases, economic growth is found to be positively associated with domestic investment.

Sinn, Hans-Werner
PD June 1998. TI The Pay-As-You-Go Pension System as a Fertility Insurance and Enforcement Device. AA University of Munich and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6610; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 25. PR $5.00. JE H55, J13, J14, J24, J62. KW Public Pensions. Children. Human Capital. Social Security.
AB It is argued that a PAYGO system may have useful allocative functions in that it serves as an insurance against not having children and as an enforcement device for "rotten kids" who are unwilling to pay their parents a pension. It is true that the system has a moral hazard effect in terms of reducing the investment in human capital, but, if it is run on a sufficiently small scale, this effect will not be strong enough to prevent a welfare improvement. If, on the other hand, the scale of the system is so large that parents bequeath some of their pensions to their children, it is overdrawn and creates unnecessarily strong disincentives for human capital investment.

Sirower, Mark
TI The Causes of Mergers: Tests Based on the Gains to

Acquiring Firms' Shareholders and the Size of Premia. AU Mueller, Dennis C.; Sirower, Mark.

Sjoholm, Fredrik
TI Technology Transfer and Spillovers: Does Local Participation with Multinationals Matter? AU Blomstrom, Magnus; Sjoholm, Fredrik.

Skinner, Jonathan
TI How Will Defined Contribution Pension Plans Affect Retirement Income? AU Samwick, Andrew A.; Skinner, Jonathan.

Slinger, Giles
PD December 1998. TI Spanning the Gap: The Theoretical Principles that Connect Stakeholder Policies to Business Performance. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP111; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 27. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE J30, J58, L20. KW Stakeholders. Business Performance. Tavistock Institute. Rich Information.
AB In examining the relevance of the stakeholder concept to business performance, this paper sets out the three principles of commitment, cooperation and rich information on which the concept is based, and discusses the development over the past 50 years of organizational psychology methods, such as those developed at the UK Tavistock Institute and US National Training Laboratories, for improving workplace relations.

Sloan, Frank A.
PD August 1998. TI Hospital Ownership and Cost and Quality of Care: Is There a Dime's Worth of Difference? AU Sloan, Frank A.; Picone, Gabriel A.; Taylor, Donald H., Jr..; Chou, Shin-Yi. AA Sloan, Taylor and Chou: Duke University. Picone: University of South Florida. SR National Bureau of Economic Research Working Paper: 6706; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE I11, I18. KW Not for Profit. Medicare. Cost of Healthcare.
AB This paper compares cost and quality of care for Medicare patients hospitalized in for-profit hospitals contrasted with those in nonprofit and government hospitals following admission for hip fracture, stroke, coronary heart disease, or congestive heart failure. Cost of care in for-profit hospitals was similar to that of nonprofits, but patients admitted to government hospitals incurred less Medicare payments on average. There were only small differences in survival between for- profit, nonprofit, and government hospitals. Other measures of quality, including living in the community and activity of daily living limitations after index admission, show trivial differences by hospital ownership type. Between private sector hospital types (for-profit and nonprofit) there is indeed not a dime's worth of difference between the two in terms of cost to Medicare and patient outcome.

Sloth, Birgitte
TI Testing the Intransitivity Explanation of the Allais Paradox. AU Groes, Ebbe; Jacobsen, Hans Jorgen; Sloth,

Birgitte; Tranaes, Torben.

TI Testing the Intransitivity Explanation of the Allais Paradox. AU Groes, Ebbe; Jacobsen, Hans Jorgen; Sloth, Birgitte; Tranaes, Torben.

Smith, Gillian R.
PD May 1999. TI Area-Based Initiatives: The Rationale and Options for Area Targeting. AA Transport and the Regions. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/25; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 75. PR no charge. JE D63, I31, I32, I38, R13. KW Area Targeting. Deprivation. Polarization. Area-Based Initiatives. Welfare.
AB This paper explores the rationale for area targeting and the growth of new area-based initiatives. The author examines the geographical concentration of deprivation, the extent, and whether there is a polarization between areas. The evidence confirms that there is a clear rationale for area-based approaches, although it should not be assumed that they will be the most effective means to improve conditions in all cases. The evidence suggests that there should be a closer link between area-based approaches and national level main programs, given the time limited nature of the former and the fact that they only reach a minority of all deprived people. The issues involved in identifying target areas are also reviewed including the question of who decides and on what basis. It is concluded that understanding the spatial distribution of deprivation is crucial and that there is an urgent need for better, more up to date statistical and other data relating to small geographical areas.

Smith, James P.
TI The Changing Skill of New Immigration to the United States: Recent Trends and Their Determinants. AU Jasso, Guillermina; Rosenzweig, Mark R.; Smith, James P.

Smith, Jeffrey
TI Characterizing Selection Bias Using Experimental Data. AU Heckman, James; Ichimura, Hidehiko; Smith, Jeffrey; Todd, Petra.

Smith, Peter
TI Structural Adjustment and Poverty: A Study of Rural Uganda. AU Polycarp, Musinguzi; Smith, Peter.

PD August 1998. TI Should Africa Try to Learn From Asia? Lessons For and From Uganda. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9814; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton S017 1BJ, England. Website: www.soton.ac.uk. PG 28. PR annual subscription 40 pounds ($80); individual copies on application. JE O11, O12, O53, O55, O57. KW Africa. East Asia. Uganda. Structural Adjustment. Poverty.
AB The failure of sub-Saharan Africa to achieve economic and human development is in stark contrast to the spectacular success of the Tiger economies of East Asia. Inevitably, the question arises of whether today's languishing economies can learn from the past experience of these success stories, or whether different sorts of remedies are needed to suit African conditions. The paper focuses on Uganda as a case study for

this potential learning experience. Uganda has enjoyed a period of relative macroeconomic success in recent years, but this has yet to be translated into improvements at the microeconomic level. The experience of East Asia is analysed, and the success factors categorised into replicable and nonreplicable factors. The feasibility of devising policies to encourage replicable success factors in the Ugandan context is explored, drawing on evidence from a survey of rural households in Uganda carried out under the auspices of the Bank of Uganda in 1997.

Smith, V. Kerry

PD November 1996. TI Buying Time: Real and Hypothetical Offers. AU Smith, V. Kerry; Mansfield, Carol. AA Smith: Duke University and Resources for the Future. Mansfield: Duke University. SR Resources for the Future Discussion Paper: 97/09; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 32. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE C93, D12, Q20. KW Contingent Value. Real Offers. Hypothetical Offers. Willingness to Accept. Experiments.
AB This paper provides the results of a field test of contingent valuation estimates within a willingness to accept framework. Using dichotomous choice questions in telephone-mail-telephone interviews, we compare responses to real and hypothetical offers to survey respondents for the opportunity to spend time in a second set of interviews on an undisclosed topic. Five hundred and forty people were randomly split between real and hypothetical treatments. Our findings indicate no significant differences between people's choices with real and hypothetical offers. Choice models indicate the size of the offer and income were significant determinants of respondents' decisions, and these models were not significantly different between real and hypothetical offers.

Sobel, Joel

TI Tit for Tat: Foundations of Preferences for Reciprocity in Strategic Settings. AU Segal, Uzi; Sobel, Joel.

Solon, Gary

TI Double Trouble: On the Value of Twins-Based Estimation of the Return to Schooling. AU Bound, John; Solon, Gary.

Sparkes, Jo

PD November 1999. TI Schools, Education and Social Exclusion. AA London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/29; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 47. PR no charge. JE I21, I28, I31, I32, J24. KW Educational Attainment. School Performance. Social Exclusion. Education. Welfare.
AB A review of research evidence suggests that low levels of educational attainment are crucial in generating and sustaining social exclusion. Test scores at school are the most effective predictor of many adult outcomes. School attendance and soft skills are also important. Reviewing the factors accounting for the variance in educational attainment, it is evident that combinations of social disadvantage powerfully affect school performance with up to 75% of school variation in 16 year old attainment at GCSE associated with pupil intake factors. But

school factors can raise attainment by up to 14 GCSE points for average pupils. Hence schools are a good place to improve children's skills. Research suggests that higher per pupil spending, smaller class sizes and teacher quality in schools all seem to make a difference and some have most impact on disadvantaged pupils. However an approach which focuses solely on the improvement of average school performance is likely to be a less effective means of reducing social exclusion than an approach which creates incentives that rewards improvement among the least able. Other factors such as the behavior and hiring decisions of employers also require attention.

Squires, Dale

TI Capacity and Capacity Utilization in Fishing Industries. AU Kirkley, James; Squires, Dale.

Stavins, Robert N.

PD November 1996. TI The Next Generation of Market-Based Environmental Policies. AU Stavins, Robert N.; Whitehead, Bradley W. AA Stavins: Harvard University and Resources for the Future. Whitehead: McKinsey & Co. SR Resources for the Future Discussion Paper: 97/10; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 45. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE Q28, Q48. KW Environmental Policy. Market-Based Policy. Tradable Permits. Pollution Charges. Market Barriers.
AB We examine what will be required if market-based environmental policy instruments are to become a major force in U.S. environmental policy. We define market-based instruments, and specify five categories: pollution charges, tradable permits; deposit refund systems; reducing market barriers; and eliminating government subsidies. We review major U.S. applications, including: EPA's emissions trading program; the leaded gasoline phasedown; water quality permit trading; CFC trading; SO2 allowance trading; and the RECLAIM program. We assess the U.S. experience in terms of the relatively limited use of these instruments and in terms of the mixed record of performance of implemented instruments. We ask how the next generation of market-based instruments can be advanced, focusing on four sets of approaches: improving program design; applying market-based instruments on the state level; implementing new Federal programs; and addressing long-term issues. We conclude with a brief prognosis of the likely future role of market-based instruments in U.S. environment policy.

PD January 1997. TI Policy Instruments for Climate Change: How Can National Governments Address a Global Problem? AA University of Chicago and Resources for the Future. SR Resources for the Future Discussion Paper: 97/11; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 35. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE F42, Q25, Q28, Q48. KW Climate Change. Policy Instruments. Political Barriers. Institutional Barriers. Greenhouse Gases.
AB There continues to be great debate about the desirability of taking actions to limit carbon dioxide (CO2) and other greenhouse gas emissions, but it is important to consider policy instruments that can be employed to meet targets that may eventually be forthcoming. The theoretical advantages of

market-based instruments, such as carbon taxes and systems of tradable carbon rights, are striking. In the U.S. domestic context, grandfathered tradable permits will probably be the preferred approach (if any) in the short-run, although revenue-neutral carbon taxes will hold greater promise in the long run. In the international context, a system of international tradable permits could provide important advantages over alternative approaches, but it is difficult to imagine what existing international institution could administer such a system. Hence, despite the great theoretical advantages of market-based approaches to addressing global climate change, neither domestic political barriers nor international institutional impediments to implementing these and other instruments should be underestimated.

Stead, David

PD November 1998. TI An Arduous and Unprofitable Undertaking: The Enclosure of Stanton Harcourt, Oxfordshire. AA Oxford University. SR University of Oxford, Discussion Paper in Economic and Social History: 26; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 37. PR no charge. JE D60, D74, H43, N53, Q15. KW Enclosure. Land Reform. Conflict Resolution. Rent. Economic History.
AB This paper provides a case study of the parliamentary enclosure of Stanton Harcourt, Oxfordshire. A collection of nearly eighty letters reveals the often-acrimonious negotiations over the draft clauses of the enclosure bill, and the extent of the concessions needed to overcome opposition to enclosure. Rents on the manorial lord's property in Stanton Harcourt after enclosure are adjusted to obtain the income actually derived from the land. These time-series are compared with three counterfactual paths for income had the land remained open. At best enclosure raised "net" rents received by an immediate and persistent 7%. At worst income would have been slightly higher had the land remained open. Under the conventional method of project appraisal, for the manorial lord the enclosure was 100% unprofitable in both the short and long run. Perhaps Stanton Harcourt is best seen as an example of enclosure driven by motives other than purely agricultural profits.

Steinberg, Richard

TI Multiproduct Competition Between Congestible Networks. AU Gibbens, Richard; Mason, Robin; Steinberg, Richard.

Steinmeier, Thomas L.

TI Effects of Pensions on Savings: Analysis with Data from the Health and Retirement Study. AU Gustman, Alan L.; Steinmeier, Thomas L.

TI Changing Pensions in Cross-Section and Panel Data: Analysis with Employer Provided Plan Descriptions. AU Gustman, Alan L.; Steinmeier, Thomas L.

Stern, Scott

PD December 1998. TI Empirical Implications of Physician Authority in Pharmaceutical Decisionmaking. AU Stern, Scott; Trajtenberg, Manuel. AA Stern: Massachusetts Institute of Technology and National Bureau of Economic Research. Trajtenberg: Tel Aviv University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6851; National

Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 28. PR $5.00. JE D23, I11, I12, L23, L84. KW Physician Authority. Prescription Drugs. Pharmaceuticals. Health Care. Industrial Organization.
AB This paper studies the consequences of physician authority on pharmaceutical prescribing. Physicians engage in a costly process of "matching" patients to the drug which most suits their particular conditions and characteristics. The relative efficiency of this matching process results from the diagnostic skill of the physician along with the investments made by the doctor in learning about different drugs. While the underlying level of physician skill or knowledge cannot be observed, differences among physicians in terms of these attributes are reflected in their prescribing behavior. The authors provide evidence for two major findings regarding the exercise of physician authority in this context. First, there is substantial variation in the degree to which physician prescribing is concentrated. Second, this concentration is correlated with observable drug characteristics. The authors' empirical results provide evidence for the importance of both physician effort and diagnostic ability in the prescribing process. In particular, physicians who differentiate among their patients more finely are more likely to have less concentrated prescribing portfolios and to be less sensitive to information sources which promote the use of drugs for the "average" patient.

Stevens, Ann Huff

TI Is Job Stability in the United States Falling? Reconciling Trends in the Current Population Survey and Panel Study of Income Dynamics. AU Jaeger, David A.; Stevens, Ann Huff.

Stinebrickner, Todd R.

TI The Dynamic Effects of Health on the Labor Force Transitions of Older Workers. AU Bound, John; Schoenbaum, Michael; Stinebrickner, Todd R.; Waidmann, Timothy.

TI The Dynamic Effects of Health on the Labor Force Transitions of Older Workers. AU Bound, John; Schoenbaum, Michael; Stinebrickner, Todd R.; Waidmann, Timothy.

Stock, James H.

PD August 1998. TI On the Dynamics of Trade Reform. AU Stock, James H.; Watson, Mark W. AA Stock: Harvard University and National Bureau of Economic Research. Watson: Princeton University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6702; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE C32, E37, F13. KW Dynamic Factor Model. Forecasting. Time Series Methods.
AB This paper considers forecasting a single time series using more predictors than there are time series observations. The approach is to construct a relatively few indexes, akin to diffusion indexes, which are weighted averages of the predictors, using an approximate dynamic factor model. Estimation is discussed for balanced and unbalanced panels. The estimated dynamic factors are (uniformly) consistent, even in the presence of time varying parameters and/or data contamination, and forecasts based on the estimated factors are efficient. In an application to forecasting U.S. inflation and

industrial production using 224 monthly time series, these forecasts outperform various state-of-the-art benchmark models.

Strahan, Philip E.
TI   What Drives Deregulation? Economics and Politics of the Relaxation of Bank Branching Restrictions. AU   Kroszner, Randall S.; Strahan, Philip E.

Strangeland, David A.
TI   Inherited Wealth, Corporate Control and Economic Growth: The Canadian Disease. AU   Morck, Randall K.; Strangeland, David A.; Yeung, Bernard.

Stulz, Rene M.
TI   Do Foreign Investors Destabilize Stock Markets? The Korean Experience in 1997. AU   Choe, Hyuk; Kho, Bong-Chan; Stulz, Rene M.

Sundaram, Rangarajan K.
TI   A Direct Approach to Arbitrage-Free Pricing of Credit Derivatives. AU   Das, Sanjiv Ranjan; Sundaram, Rangarajan K.

TI   On the Regulation of Fee Structures in Mutual Funds. AU   Das, Sanjiv Ranjan; Sundaram, Rangarajan K.

TI   Fee Speech: Adverse Selection and the Regulation of Mutual Fund Fees. AU   Das, Sanjiv Ranjan; Sundaram, Rangarajan K.

Surgailis, Donatas
TI   Variance-Type Estimation of Long Memory. AU   Giraitis, Liudas; Robinson, Peter M.; Surgailis, Donatas.

Svensson, Lars E. O.
PD   November 1998. TI   Inflation Targeting as a Monetary Policy Rule. AA   Stockholm University and National Bureau of Economic Research. SR   National Bureau of Economic Research Working Paper: 6790; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG   not available. PR $5.00. JE   E42, E52, E58. KW   Inflation Targeting. Monetary Policy. Policy Rules. Central Banks. Europe.
AB   The purpose of the paper is to survey and discuss inflation targeting in the context of monetary policy rules. The paper provides a general conceptual discussion of monetary policy rules, attempts to clarify the essential characteristics of inflation targeting, compares inflation targeting to other monetary policy rules, and draws some conclusions for the monetary policy of the European System of Central Banks.

Swagel, Phillip
TI   Tax Burden and Migration: A Political Economy Theory and Evidence. AU   Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

Swanson, Eric T.
PD   October 1999. TI   Measuring the Cyclicality of Real Wages: How Important is Aggregation Across Industries? AA   Board of Governors of the Federal Reserve System. SR   Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/52; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG   31. PR   no charge. JE   E24, E32, J23. KW   Real Wages. Cyclicality. Sectoral Data. Aggregation. Composition Bias.
AB   There is a growing consensus among economists that real wages in the postwar U.S. have been moderately to strongly procyclical, particularly in panel data on workers. From the point of view of hiring decisions of firms, however, this conclusion may be premature or even erroneous. Whether a firm's labor demand curve is stable or shifting at business cycle frequencies should be tested with a wage that is deflated by the firm's own price of output, with appropriate controls for the prices of intermediate inputs, and with respect to the cyclical state of the firm's own industry, as opposed to the state of the aggregate economy. I find that failing to control for these factors has led to a substantial procyclical bias in previous estimates of wage cyclicality. In two-digit and four-digit level SIC industry data on wages, with controls for changes in worker composition, I find that a substantial majority of sectors have paid real product wages that vary inversely i.e., countercyclically with the state of their industry.

Tabellini, Guido
TI   The Size and Scope of Government: Comparative Politics with Rational Politicians. AU   Persson, Torsten; Tabellini, Guido.

Taddei, Antonia
PD   April 1999. TI   London Clubs in the Late Nineteenth Century.   AA   formerly   of   Oxford   University. SR   University of Oxford, Discussion Paper in Economic and Social History: 28; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG   27. PR   no charge. JE   A13, D71, M10, N00, Z10. KW   Gentlemen's Clubs. London. Social Status. Economic History.
AB   London clubs provided a means of establishing gentlemanly status and of making useful connections. Their number and membership was large. The paper begins with a quantitative overview of gentlemen's clubs in London in the late nineteenth century using information contained in contemporary almanacs. The number of clubs and club members were characterized by two periods of intense growth, most significantly during 1860 to 1900, when total membership rose fourfold. This expansion, which exceeded that of the middle-class, was stimulated by the extension of democracy and the general political mobilization during the Irish crisis in the 1880s. Political clubs became the largest type of club, and their characteristics and importance are examined in detail. A random sample of 200 individuals in Who's Who sheds light on the frequency of club membership among the elite. The growth of clubland was exhausted by the end of the century, in part because clubs devalued their own worth as a signal of 'gentlemanliness'.

Takada, Ryoji
TI   Institutional Restructuring in the Japanese Economy, 1985-1996. AU   Matsuura, Kazuyoshi; Pollitt, Michael; Takada, Ryoji; Tanaka, Satoru.

TI   Institutional Restructuring in the Japanese Economy, 1985-1996. AU   Matsuura, Kazuyoshi; Pollitt, Michael; Takada, Ryoji; Tanaka, Satoru.

Tan, Guofu

AB This paper studies endogenous coalition formation in an environment where continuing conflict exists. A number of players compete for an indivisible prize and the probability of winning for a player depends on his initial resource as well as the distribution of initial resources among the other players. Players can pool their resources together to increase their probabilities of winning through coalition formation. If a coalition wins, the players in the coalition will further compete and possibly form new coalitions. The game continues until one individual winner is left. We determine subgame perfect equilibria for the game of three or four players and provide conditions under which the equilibrium coalition structures involve a balance of power. We also illustrate that there can be no equilibrium coalition structure. Our analysis sheds some lights on problems of temporary cooperation among heterogeneous individuals who are rivals in nature.

Tay, Anthony S.

Taylor, Alan M.

Taylor, Donald H., Jr.

Taylor, John B.

AB This paper reviews the role of temporary price and wage rigidities in explaining the dynamic relationship between money, real output, and inflation. It summarizes microeconomic data on price and wage setting behavior, and argues that staggered price and wage setting models provide the most satisfactory match with the data. Research in this area has been very active in the 1990's with a remarkable number of studies using, estimating, or testing models of staggered price and wage setting. A new generation of econometric models is incorporating staggered price and wage setting with rational expectations has been built. Researchers have begun to incorporate staggered wage and price setting into real business cycle models. Close links have been discovered between the parameters of people's utility functions and the parameters of price and wage setting equations. There is now a debate about whether standard calibrations of utility functions prevent staggered price models, at least those with frequent price changes, from explaining long persistence of real output. There is much to be discovered from these debates and from the future research they stimulate.

AB This paper examines several episodes in U.S. monetary history using the framework of an interest rate rule for monetary policy. The main finding is that a monetary policy rule in which the interest rate responds to inflation and real output more aggressively than it did in the 1960s and 1970s, or than during the time of the international gold standard, and more like the late 1980s and 1990s, is a good policy rule. Moreover, if one defines "policy mistakes" as deviations from such a good policy rule, then such mistakes have been associated with either high and prolonged inflation or drawn out periods of low capacity utilization.

Taylor, M. Scott

Teal, Francis

AB The removal of high levels of protection combined with substantial real devaluations has changed the environment in which Ghanaian manufacturing firms have operated in the 1990s. The changes in output, composition and productivity, which have occurred over this period, are examined in this paper. Survey evidence for the growth of the sector is shown to be consistent with data from sales tax returns. Analysis of the panel survey shows that, in a comparative context, the rate of job creation in Ghana's manufacturing sector is high. This rate is highest in medium sized firms; small firms have not grown more rapidly than larger firms. There has been no underlying growth in technical efficiency and output growth has been matched by a commensurate growth in labor and capital inputs. Labor productivity differs substantially by firm size due

primarily to differences in physical, not human, capital endowments.

Telmer, Chris
TI Discrete-Time Models of Bond Pricing. AU Backus, David K.; Foresi, Silverio; Telmer, Chris.

Temin, Peter
PD August 1998. TI The Causes of American Business Cycles: An Essay in Economic Historiography. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6692; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 33. PR $5.00. JE E32, N01, N10, N11. KW Business Cycles.
AB This paper surveys the causes of American business cycles for the century 1890-1990. Causes are taken to be exogenous shocks to a model with largely endogenous policy makers. Causes are classified as either real or monetary and domestic or foreign. All four causes were found to have led to cycles in the past century. This diversity was found in all time periods and for all size cycles. There were more domestic than foreign causes, confirming the relative independence of the American economy from external conditions. There were more real than monetary causes, conflicting with the popular view that monetary shocks are the source of most cycles.

Tesar, Linda L.
TI Multinationals and the Gains from International Diversification. AU Rowland, Patrick F.; Tesar, Linda L.

Tetlow, Robert
TI Optimal Control of Large, Forward-Looking Models: Efficient Solutions and Two Examples. AU Finan, Frederico S.; Tetlow, Robert.

Thomas, Lynne
TI Is Southern Africa Ready for Regional Monetary Integration? AU Jenkins, Carolyn; Thomas, Lynne.

Thornberg, Christopher
TI Efforts and Wages: A New Look at the Inter-Industry Wage Differentials. AU Leamer, Edward E.; Thornberg, Christopher.

Thursby, Marie
TI Proofs and Prototypes for Sale: The Tale of University Licensing. AU Jensen, Richard; Thursby, Marie.

Timmermann, Allan
TI Model Instability and Choice of Observation Window. AU Pesaran, M. Hashem; Timmermann, Allan.

Tirole, Jean
TI LAPM: A Liquidity-Based Asset Pricing Model. AU Holmstrom, Bengt; Tirole, Jean.

Todd, Petra
TI Characterizing Selection Bias Using Experimental Data. AU Heckman, James; Ichimura, Hidehiko; Smith, Jeffrey; Todd, Petra.

Toman, Michael
TI Cost-Benefit Analysis and Regulatory Reform: An Assessment of the Science and the Art. AU Kopp, Raymond J.; Krupnick, Alan J.; Toman, Michael.

Trajtenberg, Manuel
TI Empirical Implications of Physician Authority in Pharmaceutical Decisionmaking. AU Stern, Scott; Trajtenberg, Manuel.

Tranaes, Torben
TI Allocating Multiple Units by Sealed-Bid Auctions. AU Krishna, Kala; Tranaes, Torben.

TI Efficient Competition with Small Numbers -- With Applications to Privatisation and Mergers. AU Krishna, Kala; Tranaes, Torben.

Trento, Sandro
TI Post-War Institutional Shocks: The Divergence of Italian and Japanese Corporate Governance Models. AU Barca, Fabrizio; Iwai, Katsuhito; Pagano, Ugo; Trento, Sandro.

Turner, Sarah E.
TI Coding Geographic Areas Across Census Years: Creating Consistent Definitions of Metropolitan Areas. AU Jaeger, David A.; Loeb, Susanna; Turner, Sarah E.; Bound, John.

Ulph, Alistair
PD December 1998. TI Is Environmental Dumping Greater When Firms Are Footloose? AU Ulph, Alistair; Valentini, Laura. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9819; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 37. PR annual subscription 40 pounds ($80); individual copies on application. JE F01, H04, L05, Q02. KW Plant Location. Environmental Policy. Eco-Dumping. Competition.
AB Concerns have been expressed that in a global market place with mobile capital, national governments will have incentives to set weak environmental policies ("environmental dumping") to protect the international competitiveness of their domestic firms and that these incentives are particularly strong in industries where plants may be relatively footloose so that governments are concerned to prevent "capital flight". In this paper we investigate whether the mobility of firms does indeed increase incentives for environmental dumping. We do this by taking a simple model of imperfect competition and comparing the environmental policies that would be set by non-cooperative governments for two different move structures -- where governments set environmental policies after firms decide where to locate (the exogenous location case or Market Share Game) and where governments set environmental policies before firms decide where to locate (the endogenous location case or Location Game).

Urquhart, M. C.
TI Growth and the Standard of Living in a Pioneer Economy: Upper Canada, 1826 to 1851. AU Lewis, Frank D.; Urquhart, M. C.

Usher, Dan

PD March 1998. **TI** The Colour of the Judge's Eyes: Efficiency as a Criterion for the Legislature and for the Courts. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 969; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 35. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** B04, K01. **KW** Efficiency. Courts. Legislature.
AB Correctly or not, Ronald Coase is often credited with the doctrine that courts ought to adjudicate for efficiency, that "the value of production" should serve as the criterion for resolving disputes over the boundaries between property rights. The doctrine that courts ought to adjudicate for efficiency is often contrasted with the older doctrine that it is the business of the courts to apply the law as formulated by the legislature, regardless of whether or not the law is efficient. This paper is an exploration of these doctrines. The doctrine that courts ought to adjudicate for efficiency crumbles on close inspection and is very largely wrong.

PD March 1998. **TI** The Justification of Private Property. **AA** Queen's University. **SR** Queen's Institute for Economic Research Discussion Paper: 970; Department of Economics, Institute for Economic Research, Queen's University, Kingston, Ontario K7L 3N6, Canada. Website: qed.econ.queensu.ca/pub/papers. **PG** 40. **PR** $3.21 Canada; $3.50 U.S. and Foreign. **JE** K11, P10. **KW** Property. Voting. Law.
AB Justification of private property may be rights-based or needs- based. One may believe that society with private ownership of a significant part of the means of production is good or just in itself, or one may believe that a society with private ownership of a significant part of the means of production is desirable as an instrument to procure other things such as prosperity, personal freedom and the absence of tyranny. This paper defends to former view. Traditional justifications based on the will of God, "first occupation", acquisition by labor, or social contract all seem inadequate. Instead, private property is bracketed with majority-rule voting, public administration and law as essential supports of almost everything we value in life.

Valentini, Laura

TI Is Environmental Dumping Greater When Firms Are Footloose? **AU** Ulph, Alistair; Valentini, Laura.

PD August 1999. **TI** Credit Rationing and Capital Structure: A Survey of Empirical Studies. **AA** University of Southampton. **SR** University of Southampton, Discussion Paper in Economics and Econometrics: 9905; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. **PG** 34.. **PR** annual subscription 40 pounds ($80); individual copies on application. **JE** G21, G32. **KW** Credit Rationing. Capital and Ownership Structure.
AB This survey is part of a project on The Financial Implications of Environmental Legislation. The purpose of it is to see how the problem of credit rationing, according to borrowers' characteristics, has been empirically estimated in some literature. The survey considers first allocation of credit from the lenders' side, and second demand of credit from the borrowers' side. Both commercial and consumers' loan markets have been considered. For commercial loans, the availability of data made it possible to build up more appropriate models, providing a positive answer to the question whether borrowers are discriminated against according to their characteristics. The same has not been possible for the commercial loan market, mainly because data on this are scarce. This made modeling of firms' and banks' behavior more unsatisfactory.

Valletti, Tommaso

TI Firm Size Distribution: Testing the "Independent Submarkets Model" in the Italian Motor Insurance Industry. **AU** Buzzacchi, Luigi; Valletti, Tommaso.

Van Wincoop, Eric

TI Does Exchange Rate Stability Increase Trade and Capital Flows? **AU** Bacchetta, Philippe; Van Wincoop, Eric.

Van Zandt, Timothy

TI Berge's Maximum Theorem with Two Topologies on the Action Set. **AU** Horsley, Anthony; Van Zandt, Timothy; Wrobel, A. J.

Vandenberg, Tim

TI Economic Values of Freshwater in the United States. **AU** Frederick, Kenneth D.; Vandenberg, Tim; Hanson, Jean.

Varese, Federico

PD May 1998. **TI** Altruism: The Importance of Being Asked. The Rescue of Jews in Nazi Europe. **AU** Varese, Federico; Yaish, Meir. **AA** Oxford University. **SR** University of Oxford, Discussion Paper in Economic and Social History: 24; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. **PG** 40. **PR** no charge. **JE** A12, A13, D64, N44, Z10. **KW** Altruism. Screening. Social Values. Economic History. Minorities.
AB The rescue of persecuted minorities -- such as the Jews in Nazi occupied Europe -- is seen in this paper as taking place in a peculiar market. In such a market rescuers face at least two dilemmas. Firstly, they might be willing to help but be uncertain how to go about rescuing. Secondly, they might be unsure over the nature of the request to help. To make a mistake and help the 'wrong' person could be very costly. Following secondary analysis of the APPBI data on those who rescued Jews (rescuers) and those who did not (non-rescuers) during the Nazi occupation of Europe we find that (a) the first dilemma was solved by a direct request for help from those in need; (b) the second dilemma was solved by helping those who were either known to the rescuers, or sent by trusted mediators. We thus conclude that the observed acts of altruism in society do not account for the potential acts of altruism human beings are capable of. If the market for altruism works more efficiently, more people might be helped.

Velasco, Andres

TI The Asian Liquidity Crisis. **AU** Chang, Roberto; Velasco, Andres.

PD November 1998. **TI** The Case for a Populist Central Banker. **AU** Velasco, Andres; Guzzo, Vincenzo. **AA** Velasco: New York University and National Bureau of Economic Research. Guzzo: New York University. **SR** National Bureau of Economic Research Working Paper:

6802; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE E24, E31, E58, J31, J38. KW Wage Setting. Central Banks. Labor Markets. Social Welfare. Employment.
AB We present a general equilibrium optimizing model in which we study the joint effects of centralization of wage setting and central bank conservatism on economic performance. Several striking conclusions emerge. In relatively centralized labor markets employment and output are decreasing and inflation is initially increasing and then decreasing in the degree of central bank conservatism. A radical-populist central banker who cares not at all about inflation (alternatively, who is not conservative) maximizes social welfare. Economic performance is not U- shaped in the degree of centralization of the labor market, in contrast to conventional wisdom.

Verboven, Frank
TI The Evolution of Price Discrimination in the European Car Market. AU Goldberg, Pinelopi Koujianou; Verboven, Frank.

Vermeulen, Dries
TI Invariance Properties of Persistent Equilibria and Related Solution Concepts. AU Balkenborg, Dieter; Jansen, Mathijs; Vermeulen, Dries.

Veronesi, Pietro
TI Option Prices with Uncertain Fundamentals Theory and Evidence on the Dynamics of Implied Volatilities. AU David, Alexander; Veronesi, Pietro.

Viceira, Luis M.
TI Who Should Buy Long-Term Bonds? AU Campbell, John Y.; Viceira, Luis M.

Victoria-Feser, Maria-Pia
TI Statistical Inference for Lorenz Curves with Censored Data. AU Cowell, Frank A.; Victoria-Feser, Maria-Pia.

Vigneault, Marianne
TI Consequences of Overlapping Tax Bases for Redistribution and Public Spending in a Federation. AU Boadway, Robin; Marchand, Maurice; Vigneault, Marianne.

Vincent, Stephanie
PD October 1999. TI Sequential Auctions with Heterogeneous Bidders. AA Vincent: University of Copenhagen. SR Centre for Industrial Economics Discussion Paper: 98/19; Institute of Economics, University of Copenhagen, Studiestraede 6, DK-1455 Copenhagen K, Denmark. Website: www.econ.ku.dk. PG 19. PR no charge. JE D44. KW English Auction. Sealed-Bid Auction. Multi-Unit Demand. Decreasing Marginal Utility. Heterogeneous Bidders.
AB Motivated by empirical findings from jewellery sold at public English auctions at Credit Municipal de Paris, we study the effect of the presence of two types of bidders on equilibrium strategies and on the price tendency. We consider a second-price auction (sealed-bid or English auction) where bidders are heterogeneous. Some bidders, professionals, have multi-unit demand and decreasing marginal utility. Others, amateurs are interested in only one object. In an independent private values setting, we characterize an equilibrium when there is one or more professionals and find different price tendencies according to the nature of the demand of amateurs, thus confirming the fact that heterogeneity has a bearing on price.

Voth, Hans-Joachim
PD April 1996. TI How Long was the Working Day in London in the 1750s? Evidence From the Courtroom. AA Clare College, Cambridge and Nuffield College, Oxford. SR University of Oxford, Discussion Paper in Economic and Social History: 06; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk. PG 33. PR no charge. JE J22, J31, N33. KW Working Hours. Industrial Revolution. London. Court Evidence. Economic History.
AB Little is known about the length of the working year in pre- industrial times. This paper develops a new method for analyzing patterns of time-use in the past. Witnesses' accounts in court records, it will be argued, reflect the actual behavior of a group that is representative of the population at large. This new technique is applied to London during the middle of the eighteenth century. Results are compared with evidence from other eighteenth-century sources. These findings have important implications for our understanding of the Industrial Revolution. Our estimate of the number of working days helps to resolve some apparent contradictions between wage and income measures.

PD June 1996. TI Why Did Working Hours Increase in Eighteenth-Century London? Labour Supply Decisions and Consumer Durables During the Industrial Revolution. AA Clare College, Cambridge and Nuffield College, Oxford. SR University of Oxford, Discussion Paper in Economic and Social History: 08; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 34. PR no charge. JE J22, J23, N33. KW Labor Supply. Working Hours. Consumer Durables. Industrial Revolution. Economic History.
AB This paper analyzes why hours of work increased in London between 1750 and 1800. On the basis of a new technique, changes in labor input are described. The main part of the paper uses the data gathered from witnesses' accounts to evaluate a number of competing hypotheses. The main part of the large rise in annual working hours, it is argued, can be attributed to the increased availability of consumer durables.

TI The Grapes of War: Neutrality and Mediterranean Shipping under the Danish Flag, 1750-1807. AU Andersen, Dan H.; Voth, Hans-Joachim.

PD December 1997. TI Time and Work in Eighteenth Century London. AA Stanford University. SR University of Oxford, Discussion Paper in Economic and Social History: 21; c/o Dr. Avner Offer, Nuffield College, Oxford, OX1 1NF, United Kingdom. Website: www.ox.ac.uk/. PG 48. PR no charge. JE E20, J22, J23, N13, N33. KW Work Patterns. Labor Supply. Growth. Productivity. Economic History.
AB Witnesses' accounts are used to analyze changes in working hours between 1750 and 1800. Two findings stand out. The paper demonstrates that the information contained in witnesses' accounts allows us to reconstruct historical time-budgets, and provides extensive tests of the new method. It also

emerges that the number of annual working hours changed rapidly between the middle and the end of the eighteenth century. Estimates of labor input are presented. These findings have important implications for the issue of total factor productivity during the Industrial Revolution.

Wahba, Sadek
TI Propensity Score Matching Methods for Non-Experimental Causal Studies. AU Dehejia, Rajeev H.; Wahba, Sadek.

Waldfogel, Jane
TI Dunning Delinquent Dads: The Effects of Child Support Enforcement Policy on Child Support Receipt by Never Married Women. AU Freeman, Richard B.; Waldfogel, Jane.

PD February 1999. TI Early Childhood Interventions and Outcomes. AA Columbia University and London School of Economics. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/21; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 20. PR no charge. JE I31, I38, J13. KW Early Intervention. Child Care. Children.
AB Recent advances in brain research have provided new evidence that early experience matters and have greatly increased interest in the effects of early childhood interventions on outcomes for children. This paper reviews what is now known about the potential benefits and potential ill effects of early childhood interventions, with particular attention to evidence from the Rand study of early interventions, recent studies of the Head Start program, and the NICHD study of early child care. The evidence shows that early childhood interventions can make a difference in improving outcomes for children. However, there are two important knowledge gaps. Not enough is known about the types of child care young children in Britain are currently using, and not enough is known about what types of early childhood interventions would achieve the best outcomes for disadvantaged children in Britain.

TI The Family Gap in Pay: Evidence from Seven Industrialised Countries. AU Harkness, Susan; Waldfogel, Jane.

Waldman, Michael
TI The Strategic Use of Tying to Preserve and Create Market Power in Evolving Industries. AU Carlton, Dennis W.; Waldman, Michael.

Wang, Ruqu
TI Learning Buyers' Valuation Distribution in Posted-Price Selling. AU Chen, Yongmin; Wang, Ruqu.

TI Switching Costs in Frequently Repeated Games. AU Lipman, Barton L.; Wang, Ruqu.

TI Endogenous Coalition Formation in Rivalry. AU Tan, Guofu; Wang, Ruqu.

TI Strategic Buybacks of Sovereign Debt. AU Prokop, Jacek; Wang, Ruqu.

Wascher, William
TI Minimum Wages and Training Revisited.

AU Neumark, David; Wascher, William.

Watson, Joel
TI Contract-Theoretic Approaches to Wages and Displacement. AU den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

TI Starting Small in an Unfamiliar Environment. AU Rauch, James E.; Watson, Joel.

TI Liquidity Flows and Fragility of Business Enterprises. AU den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

PD April 1999. TI Starting Small and Commitment. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/08; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu. PG 17. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C72, C73, D74, J41, L14. KW Partnerships. Incomplete Information. Gradualism. Productive Relationships. Contracting.
AB I study a model of a long-term partnership with two-sided incomplete information. The partners jointly determine the stakes of their relationship and individually decide whether to cooperate with or betray each other over time. I characterize the extremal -- interim incentive efficient -- equilibria. In these equilibria, the partners generally "start small," with the level of interaction growing over time. The types of players separate quickly. Further, cooperation between "good" types is viable regardless of how pessimistic the players are about each other initially. The quick nature of separation in an extremal equilibrium contrasts with the outcome selected by a strong renegotiation criterion (as studied in Watson [1999]).

TI Conditioning Institutions and Renegotiation. AU Ramey, Garey; Watson, Joel.

TI Job Destruction and the Experiences of Displaced Workers. AU den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

TI Contractual Intermediaries. AU Ramey, Garey; Watson, Joel.

Watson, Mark W.
TI On the Dynamics of Trade Reform. AU Stock, James H.; Watson, Mark W.

Wei, Shang-Jin
PD September 1998. TI Currency Hedging and Goods Trade. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6742; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE C51, F31, F36, G15. KW International Trade. Volatility. Currency Hedging. Regime Switching.
AB A puzzle in empirical international finance is the difficulty in finding a large and negative effect of exchange rate volatility on international trade. A common explanation is the availability of hedging instruments. This paper examines the empirical validity of this explanation using data on over 1,000 country pairs. Which countries have currency hedging

instruments is not perfectly observable. This paper deals with the problem of specifying an endogenous regime- switching regression. There are two main findings. First, there is no evidence in the data to support the validity of the hedging hypothesis. Second, for country pairs with large trade potential, exchange rate volatility deters goods trade to an extent much larger than that which has typically been documented in the literature (without using the switching regression specification).

Weil, David N.
TI Population, Technology, and Growth: From the Malthusian Regime to the Demographic Transition. AU Galor, Oded; Weil, David N.

Weil, Philippe
TI Approximate Equilibrium Asset Prices. AU Restoy, Fernando; Weil, Philippe.

Weinstein, David E.
TI An Account of Global Factor Trade. AU Davis, Donald R.; Weinstein, David E.

TI Market Access, Economic Geography, and Comparative Advantage: An Empirical Assessment. AU Davis, Donald R.; Weinstein, David E.

TI Do Endowments Predict the Location of Production? Evidence from National and International Data. AU Bernstein, Jeffrey R.; Weinstein, David E.

Weisbenner, Scott J.
TI Capital Gains Tax Rules, Tax Loss Trading and Turn-of-the-Year Returns. AU Poterba, James M.; Weisbenner, Scott J.

PD November 1999. TI Do Pension Plans with Participant Investment Choice Teach Households to Hold More Equity? AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/61; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 37. PR no charge. JE G11, H31, J33. KW Participant-Directed Plan. Portfolio Choice.
AB Some retirement plans allow the participant to choose how funds are invested. Having to direct investments may provide the participant with financial education. This paper finds that households covered by pension plans in which the employee chooses investments are significantly more apt to hold stock outside of their retirement plan relative to households with pension plans offering no such choice. The effect of investment choice upon non-pension asset allocation cannot be explained by portfolio rebalancing or differences in income and saving preferences across households. This provides some evidence that the design of a pension plan can impact an employee's financial decisions.

Weiss, Mary A.
TI Conglomeration Versus Strategic Focus: Evidence from the Insurance Industry. AU Berger, Allen N.; Cummins, J. David; Weiss, Mary A.; Zi, Hongmin.

Weitzman, Martin L.
PD February 1999. TI A Contribution to the Theory of Welfare Comparisons. AA Harvard University. SR Harvard Institute for Economic Research Discussion Paper: 1864; Harvard Institute of Economic Research, Department of Economics, 200 Littauer Center, Cambridge, MA 02138. Website: www.economics.harvard.edu/hier/index.html. PG 18. PR $3.00 per paper domestic (USA & Canada) and $4.00 per paper international. JE D11, D60, E21. KW Welfare. National Income. Consumption.
AB Using only information based on currently-observable market behavior, the paper shows how to make rigorous dynamic welfare comparisons among economies or economic situations having arbitrarily-different endowments and technologies, but sharing a common dynamic preference ordering. The correct answers to seemingly complicated questions, which intrinsically involve comparing wealth-like measures of dynamic well-being, can be translated isomorphically into a simple-minded story told in the familiar language of old-fashioned static consumer-welfare theory.

Wernstedt, Kris
PD December 1996. TI Oil and Water Don't Mix: Risk on Tap in Western Siberia. AA Resources for the Future. SR Resources for the Future Discussion Paper: 97/14; Resources for the Future, 1616 P Street, NW, Washington, D.C. 20036. Website: www.rff.org. PG 26. PR Domestic First Class $10; Domestic Book Rate $6; Foreign Air Mail $15 Foreign Surface $8. JE I18, Q25, Q28. KW Transitional Economies. Drinking Water. Oil Contamination. Health Risks. Prioritization.
AB Western Siberia faces formidable environmental pollution, a problem that in part is the legacy of the highly centralized Soviet era when meeting production quotas was the raison d'etre for many managers of economic enterprises. In this region, over the last thirty years the near singular focus on short term oil production has led to severe contamination of the area's surface and groundwater supplies, threatening both human and ecological health. At the same time, revenues from continued oil extraction may provide the means to address some of the environmental problems. In light of the struggling economy and potential political instability, however, it is particularly critical that authorities prioritize environmental investments, as well as cultivate public support for such investments. This paper reports on a recent investigation of this problem by a team of American and Russian scientists, under the sponsorship of the U.S. National Research Council, U.S. National Academy of Sciences and the Russian Academy of Sciences. The chief recommendation from that investigation is that the region develop an environmental program based on human health risk assessment and management.

Whalley, John
TI Meals on Wheels: Restaurant and Home Meal Production and the Exemption of Food from Sales and Value Added Taxes. AU Iorwerth, Aled A.; Whalley, John.

TI The Division and Size of Gains from Liberalization of Service Networks. AU Bhattarai, Keshab; Whalley, John.

White, Halbert
PD January 1999. TI M-Testing Using Finite and Infinite

Dimensional Parameter Estimators. AU White, Halbert; Hong, Yongmiao. AA White: University of California, San Diego. Hong: Cornell University. SR University of California, San Diego, Department of Economics Working Paper: 93/01R; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. PG 24. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C14, C52. KW Specification Tests. Infinite Dimensional. Nonparametric Estimation. M-Testing.

AB The m-testing approach provides a general and convenient framework in which to view and construct specification tests for econometric models. Previous m-testing frameworks only consider test statistics that involve finite dimensional parameter estimators and infinite dimensional parameter estimators affecting the limit distribution of the m-test statistics. In this paper we propose a new m-testing framework using both finite and infinite dimensional parameter estimators, where the latter may or may not affect the limit distribution of the m-test. This greatly extends the potential and flexibility of m-testing. The new m-testing framework can be used to test hypotheses on parametric, semiparametric and nonparametric models. Some examples are given to illustrate how to use it to develop new specification tests.

TI James-Stein Type Estimators in Large Samples with Application to the Least Absolute Deviation Estimator. AU Kim, Tae-Hwan; White, Halbert.

Whitehead, Bradley W.
TI The Next Generation of Market-Based Environmental Policies. AU Stavins, Robert N.; Whitehead, Bradley W.

Whittaker, Hugh
PD March 1999. TI Entrepreneurs as Cooperative Capitalists: High Tech CEOs in the UK. AA University of Cambridge. SR University of Cambridge, ESRC Centre for Business Research Working Paper: WP125; Centre for Business Research, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, England. Website: www.cbr.cam.ac.uk. PG 60. PR $10.00 (5 pounds); checks payable to University of Cambridge. JE J44, L21, M13, M14. KW High Technology. SMEs. Entrepreneurship. Cooperative Capitalists.
AB This paper presents the findings of a survey of CEOs in the UK high tech SME sector. Based on 510 responses, it builds up a picture of personal backgrounds, careers, reasons for starting or acquiring the business(es) and business objectives. A typology is developed, based on business objectives, of 'cooperative capitalists', 'capitalists', 'co- operatists' and 'coasters'. Participants' own comments show the importance of lessons learned in past employment, a cautious approach to business development, and an orientation to satisfying customer needs through employee involvement, often as part of a 'stakeholder' and/or ethical orientation.

Wieland, Volker
PD March 1999. TI Monetary Policy, Parameter Uncertainty and Optimal Learning. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 99/48; Ms. Karen Blackwell, FEDS

Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.bog.frb.fed.us/pubs/feds/. PG 42. PR no charge. JE C44, D83, E44, E52. KW Optimal Control. Unknown Parameters. Bayesian Learning. Monetary Policy. Inflation Targeting.
AB Since central banks have limited information concerning the transmission channel of monetary policy, they are faced with the difficult task of simultaneously controlling the policy target and estimating the impact of policy actions. A tradeoff between estimation and control arises because policy actions influence estimation and provide information that may improve future performance. I analyze this tradeoff in a simple model with parameter uncertainty and conduct dynamics simulations of the policymaker's decision problem in the presence of the type of uncertainties that arose in the wake of German reunification. A policy that separates learning from control may induce a persistent upward bias in money growth and inflation, just as observed after unification. In contrast, the optimal learning strategy that exploits the tradeoff between control and estimation significantly improves stabilization performance and reduces the likelihood of inflationary bias.

TI Interest-Rate Smoothing and Optimal Monetary Policy: A Review of Recent Empirical Evidence. AU Sack, Brian; Wieland, Volker.

Wilhelm, Mark
TI Taxation and the Labor Supply: Decisions of the Affluent. AU Moffitt, Robert A.; Wilhelm, Mark.

Wilkinson, Frank
TI The Labour Market, the Minimum Wage and the Low Pay Commission Report. AU Sachdev, Sanjiv; Wilkinson, Frank.

Williams, John C.
TI Putty-Clay and Investment: A Business Cycle Analysis. AU Gilchrist, Simon; Williams, John C.

TI Three Lessons for Monetary Policy In a Low Inflation Era. AU Reifschneider, David; Williams, John C.

TI What's Happened to the Phillips Curve? AU Brayton, Flint; Roberts, John M.; Williams, John C.

Williams, Robertson C., III.
TI When Can Carbon Abatement Policies Increase Welfare? The Fundamental Role of Distorted Factor Markets. AU Parry, Ian W. H.; Williams, Robertson C., III..; Goulder, Lawrence H.

Wilson, Berry
TI Bank Capital and Portfolio Management: The 1930's "Capital Crunch" and Scramble to Shed Risk. AU Calomiris, Charles W.; Wilson, Berry.

Wilson, William Julius
PD November 1998. TI When Work Disappears: New Implications For Race and Urban Poverty in the Global Economy. AA Harvard University. SR STICERD, (LSE) Centre for Analysis of Social Exclusion Discussion Paper: CASE/17; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 23. PR no

charge. JE I30, J15, J23, J71, R20. KW Joblessness. Race. Urban Poverty. Unemployment. Neighborhoods.

AB This paper discusses the impact of growing joblessness and dwindling work opportunities on inner-city areas in America. The lack of low- skilled manual work in the inner city is linked to poverty, crime, family dissolution and the social life of neighborhoods. The paper discusses this impact at a neighborhood-wide, family and individual level, noting the interaction between these levels and the intergenerational repercussions that result. The paper looks at race in this context, identifying a new form of cultural racism. It examines the way race becomes an issue as black people become disproportionately represented in neighborhoods where there is a high ratio of joblessness and very few work opportunities. The paper shows how this segregation plus its interaction with other changes in society, escalates rates of neighborhood joblessness and compounds existing problems in these neighborhoods. Finally, the paper examines the role of public policy. The paper concludes by pointing to a way to improve work opportunities for all sectors of society that are struggling to make ends meet, including the inner-city poor and the working- and middle-classes.

Witt, Robert

PD November 1998. TI Crime, Imprisonment, and Female Labor Force Participation: A Time- Series Approach. AU Witt, Robert; Witte, Ann Dryden. AA Witt: University of Surrey. Witte: Florida International University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6786; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 13. PR $5.00. JE H50, K14, J21, J22. KW Prisons. Imprisonment. Crime Rates. Labor Force. Women.

AB Rapidly growing prison population in the US has led to an upsurge of interest in discerning the impact of this costly increase on crime rates. Estimates of impact vary. We obtain new estimates of the impact of prisons using different data, specification and estimation technique than previous work. We find that both higher levels of imprisonment and increases in labor force participation of women are related to significantly higher crime rate. The impact of female labor force participation is much larger than the impact of imprisonment.

Witte, Ann Dryden

TI Crime, Imprisonment, and Female Labor Force Participation: A Time- Series Approach. AU Witt, Robert; Witte, Ann Dryden.

PD November 1998. TI Unintended Consequences? Welfare Reform and the Working Poor. AU Witte, Ann Dryden; Queralt, Magaly; Chipty, Tasneem; Griesinger, Harriet. AA Witte: Florida International University and National Bureau of Economic Research. Queralt: Florida International University. Chipty: Ohio State University. Griesinger: Wellesley College. SR National Bureau of Economic Research Working Paper: 6798; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE H53, I38, J13. KW Welfare Reform. Poverty. Minimum Wage. Child Care.

AB We have used a unique longitudinal database that incorporates information from diverse administrative and research sources to examine the impact of the early stages of welfare reform on poor working families who do not receive cash assistance. Our data are for 2791 working poor families from March 1996 through February 1997. Using a number of different estimation techniques, we find that the impact of the simultaneous October 1996 implementation of welfare reform and a federal minimum wage increase was to lower the earnings of the working poor families in our sample by approximately 6%. We find that increases in funding for Child Care Subsidies associated with welfare reform led to a significant increase in earnings. On net, the increase in Child Care Subsidies and the decrease in earnings because of the October 1996 changes approximately cancel out, with the representative family in our sample experiencing an estimated monthly earnings change of between -$18 and $68, with an earnings gain of $25 being most likely.

Wolfenzon, Daniel

TI The Balance of Power in Close Corporations. AU Bennedsen, Morten; Wolfenzon, Daniel.

Wooders, John

TI Effects of One-Way Spillovers on Market Shares, Industry Price, Welfare, and R&D Cooperation. AU Amir, Rabah; Wooders, John.

TI One-Way Spillovers, Endogenous Innovator/Imitator Roles and Research Joint Venture. AU Amir, Rabah; Wooders, John.

Woodford, Michael

TI Interest-Rate Rules in an Estimated Sticky Price Model. AU Rotemberg, Julio J.; Woodford, Michael.

Wright, Gavin

TI General Purpose Technologies and Surges in Productivity: Historical Reflections on the Future of the ICT Revolution. AU David, Paul A.; Wright, Gavin.

Wright, Stephen

TI The Effects of Uncertainty on Optimal Consumption. AU Mason, Robin; Wright, Stephen.

Wrobel, A. J.

TI Berge's Maximum Theorem with Two Topologies on the Action Set. AU Horsley, Anthony; Van Zandt, Timothy; Wrobel, A. J.

Xavier, Mateos-Planas

PD October 1998. TI Education, Technology Adoption, and Productivity. AA University of Southampton. SR University of Southampton, Discussion Paper in Economics and Econometrics: 9817; Discussion Paper Secretary, Department of Economics, University of Southampton, Southampton SO17 1BJ, England. Website: www.soton.ac.uk. PG 36. PR annual subscription 40 pounds ($80); individual copies on application. JE I21, O33. KW Technology Adoption. Education. Learning-By-Doing.

AB This paper explores the causes of economic disparities across countries in a vintage-capital model that endogenizes education and technology adoption decisions. The implications of differences in the costs of adopting new technologies and in the quality of schools for differences in income per capita and educational attainment are examined. If, as some evidence on

human capital indicates, the main role of education consists of improving the ability to learn to operate new technologies, the analysis suggests that differences in the costs of adopting new technologies can be a primary source of cross-country disparities. On its part, differences in the quality of schools cannot be a fundamental cause of these disparities.

Xu, Chenggang

TI Incentives, Scale Economies, and Organizational Form.
AU Maskin, Eric.; Qian, Yingyi; Xu, Chenggang.

Yaish, Meir

TI Altruism: The Importance of Being Asked. The Rescue of Jews in Nazi Europe. AU Varese, Federico; Yaish, Meir.

Yeung, Bernard

TI Inherited Wealth, Corporate Control and Economic Growth: The Canadian Disease. AU Morck, Randall K.; Strangeland, David A.; Yeung, Bernard.

Yi, Kang-Oh

PD August 1999. TI A Quantal Response Equilibrium Model of Order Statistic Games. AA University of California, San Diego. SR University of California, San Diego, Department of Economics Working Paper: 99/17; Working Paper Coordinator, Department of Economics, 0508, University of California, San Diego, 9500 Gilman Drive, La Jolla, CA 92093-0508. Website: http://www.econ.ucsd.edu/. PG 22. PR $3.00 U.S. and Canada; $7.00 Foreign; make checks payable to Regents, University of California. JE C79, C92. KW Equilibrium Selection. Coordination. Strategic Uncertainty. Logit Equilibrium. Quantal Response.
AB This paper applies quantal response equilibrium (QRE) models (McKelvey and Palfrey, Games and Economic Behavior 10 (1995), 6-38) to a wide class of symmetric coordination games in which each player's best response is determined by an order statistic of all players' decisions, as in the classic experiments of Van Huyck, Battalio, and Beil (American Economic Review 80 (1990), 234-248; Quarterly Journal of Economics 106 (1991), 885-910), but players have a bounded continuum of decisions, which approximates to Van Huyck, Battalio, and Rankin's (1996) environment. Generalizing the results of Anderson, Goeree, and Holt (1998) with a quadratic payoff function, I show that as the noise vanishes the QRE approaches the most efficient equilibrium as a unique limit for all order statistics, including the minimum.

Young, Alwyn

PD July 1998. TI Alternative Estimates of Productivity Growth in the NIC's: A Comment on the Findings of Chang-Tai Hsieh. AA University of Chicago and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6657; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 43. PR $5.00. JE O47. KW Productivity Growth. National Accounts. East Asia. Capital Formation.
AB Dual estimates of productivity growth by Chang-Tai Hsieh have raised questions about the accuracy of the East Asian national accounts, suggesting that productivity growth in the NIC's, particularly Singapore, may have been substantially higher than previously estimated. This paper shows that once one corrects for computational and methodological errors, dual

estimates, using Hsieh's own data, are not that far removed from the results implied by primal sources. Further, Hsieh's criticisms of the accuracy of the national accounts capital formation figures are shown to be invalid. Finally, other data exist which support the picture of declining real rentals painted by the national accounts capital formation figures.

PD July 1998. TI Paasche vs. Laspeyres: The Elasticity of Substitution and Bias in Measures of TFP Growth. AA University of Chicago and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6663; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE O47. KW Total Factor Productivity. Paasche. Laspeyres.
AB In recent papers, Nelson and Pack (1995), Rodrik (1997), and Hsieh (1997a) argue that standard measures of total factor productivity growth in countries where the capital-labor ratios has risen rapidly, e.g. the East Asian NICS, will understate true productivity growth if the elasticity of substitution is less than one and there is labor augmenting technical change. This note shows that this argument increases a Paasche measure of productivity, at the expense of lowering a Laspeyres estimate. The conditions under which total factor productivity growth is consistently underestimated are clarified.

Yurtoglu, B. Burcin

TI Rates of Return on Investment: A Cross-National Comparison. AU Mueller, Dennis C.; Yurtoglu, B. Burcin.

Zaffaroni, Paolo

PD January 2000. TI Contemporaneous Aggregation of GARCH Processes. AA Banca d'Italia. SR STICERD, (LSE) Econometrics Discussion Paper: EM/00/378; STICERD, Room 415, London School of Economics and Political Science, Houghton Street, London WC2A 2AE, England. Website: sticerd.lse.ac.uk. PG 48. PR no charge. JE C32, C43, G11. KW Aggregation. GARCH. Heteroskedasticity. Idiosyncratic Risk. Nonlinearity.
AB We study the impact of large cross-sections of contemporaneous aggregation of GARCH processes and of dynamic GARCH factor models. The results crucially depend on the shape of the cross-sectional distribution of the GARCH coefficients and on the cross-sectional dependence properties of the rescaled innovation. The aggregate maintains the core nonlinearity of a volatility model, uncorrelation in the levels but autocorrelation in the squares, when the rescaled innovation is common across units. The nonlinearity is, however, lost at the aggregate level, when the rescaled innovation is orthogonal across units. This is not a consequence of the usual result of a vanishing importance of purely idiosyncratic risk as, under appropriate conditions, this is simply not fully diversifiable in arbitrary large portfolios. Non-GARCH memory properties arise at the aggregate level. Strict stationarity, ergodicity and finite kurtosis might fail for the aggregate despite the micro GARCH satisfying these properties. Under no conditions does aggregation of GARCH induce long memory conditional heteroskedasticity.

TI Aggregation of Simple Linear Dynamics: Exact Asymptotic Results. AU Lippi, Marco; Zaffaroni, Paolo.

Zeldes, Stephen P.

TI Would a Privatized Social Security System Really Pay a

Higher Rate of Return? AU Geanakoplos, John; Mitchell, Olivia S.; Zeldes, Stephen P.

TI Social Security Money's Worth. AU Geanakoplos, John; Mitchell, Olivia S.; Zeldes, Stephen P.

Zhang, Zhichao
TI Parallel Exchange Market as a Transition Mechanism for Foreign Exchange Reform: China's Experiment. AU Lu, Maozu; Zhang, Zhichao.

TI Exchange Rate Reform and Its Inflationary Consequences: An Empirical Analysis for China. AU Lu, Maozu; Zhang, Zhichao.

Zi, Hongmin
TI Conglomeration Versus Strategic Focus: Evidence from the Insurance Industry. AU Berger, Allen N.; Cummins, J. David; Weiss, Mary A.; Zi, Hongmin.

Zimmerman, David J.
TI Discrimination in the Small Business Credit Market. AU Blanchflower, David G.; Levine, Phillip B.; Zimmerman, David J.

Zinde-Walsh, Victoria
TI On Intercept Estimation in the Sample Selection Model. AU Schafgans, Marcia; Zinde-Walsh, Victoria.