Summaries

Fiscal Integration and Growth Stimulation in Europe

Jacques H. Drèze and Alain Durré

With the current sovereign debt crisis, the incompleteness of economic integration in the Economic and Monetary Union (EMU) has become patent, leading to an intense debate among academics and policy makers. Much of the debate concerns fiscal rules and austerity measures, both of which weigh on growth prospects. In this paper we look at the main structural shortcomings of EMU through the lens of general equilibrium theory. We address two issues (international sharing of macroeconomic risks and coordinated growth stimulation) which are at the heart of the sustainability of EMU. We propose: (A) a specific scheme for mutual insurance of macroeconomic risks; (B) locating responsibility for demand policies at the EMU level, with ambitious investment programs (public, or fiscally-neutral private) as main instrument.

Keywords: General equilibrium model, risk sharing, growth stimulation, fiscal integration, indexed bonds.

JEL Classification: E24, E63, H63.

Monetary Policy Deliberations: Committee Size and Voting Rules

Vincent Maurin and Jean-Pierre Vidal

How large should a monetary policy committee be? Which voting rule should a monetary policy committee adopt? This paper builds on Condorcet's jury theorem to analyse the relationships between committee size and voting rules in a model where policy discussions are subject to a time constraint. It suggests that in large committees majority voting is likely to enhance policy outcomes. Under unanimity (consensus) it is preferable to limit the size of the committee. Finally, supermajority voting rules are social contrivances that contribute to policy performance in a more uncertain environment, when initial policy proposals are less likely to be correct, or when payoffs are asymmetric.

Keywords: Monetary policy, collective decision-making, optimal committee size, voting rules.

JEL Classification: D71, D78, D81, E58.

Does the competition structure impact the performance of multi-unit auctions? An experimental investigation

Raphaële Préget and Sophie Thoyer

Competition in a multi-unit auction is measured both by the number of bidders and by the relative size of their demands, compared to the number of units on sale. For the same degree of competition (identical aggregate demand and supply), we can observe different demand structures. Do they have an impact on the auction efficiency and revenue-raising properties? It is essential to understand better the impact of competition structure on performance in order to draw recommendations for the design of multi-unit auctions. Theoretical results demonstrate on a simple case contrasting a uniform-price auction of two bidders with a demand of 6 units each, and an auction of 6 bidders with a demand of two units each, that there are multiple equilibria leading to different performance outcome. Experiments are conducted to compare the performance of these two auctions. Results support that with a constant competition degree, the seller gets higher expected revenue with a lower variance when he faces a large number of bidders with small individual demands. We show that this result is attained with no significant effect on allocative efficiency.

Keywords: Experiments; Multi-unit auction; Competition structure.

JEL Classification: C92; D4; D44.

Growth–Employment Relationship and Leijonhufvud's Corridor

Jean-Marie Le Page

Since 2008, the euro area unemployment rate has increased constantly, while this economy's GDP was the same at the end of 2012 as it was in 2008. The recent trend of aggregate economic activity in this area illustrates the risk that an economy leaves its stability corridor, in which it usually progresses in a cyclical way, to enter an area of turbulence. In this area, the automatic stabilizers have weak feedback forces. To examine this kind of situation in a theoretical framework, this paper presents a model that relies both on Leijonhufvud's corridor and on Harrod's instability principle. This model allows a threshold to be defined beyond which the economy runs the risk of entering a cumulative process of simultaneous declines in growth and employment. However, the existence of such a process requires unemployment to have a sufficiently direct effect on the growth in aggregate demand, as seems to be the case nowadays.

Keywords: Growth–employment relationship, economic dynamics, instability principle, corridor.

JEL Classification: B22, E12, E24.