ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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Abrego, Lisandro

PD October 1997. **TI** Trade and Environment: Bargaining Outcomes from Linked Negotiations. **AU** Abrego, Lisandro; Perroni, Carlo; Whalley, John; Wigle, Randall M. **AA** Abrego and Perroni: University oif Warwick. Whalley: University of Western Ontario and National Bureau of Economic Research. Wigle: Wilfred Laurier University. **SR** National Bureau of Economic Research Working Paper: 6216; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C78, E61, F13, F42, Q28. **KW** International Trade. Investment. Environmental Policy. Bargaining. Trade Negotiations.

AB Recent literature has explored both physical and policy linkage between trade and environment. Here the authors explore linkage through leverage in bargaining, whereby developed countries can use trade policy threats to achieve improved developing country environmental management, while developing countries can use environmental concessions to achieve trade disciplines in developed countries. The authors use a global numerical simulation model to compute bargaining outcomes from linked trade and environment negotiations, comparing developed-developing country bargaining only on trade policy with joint bargaining on both trade and domestic environmental policies. Results indicate joint gains from expanding the trade bargaining set to include environment. However, compared to bargaining with cash side payments, linking trade and environment through negotiation on policy instruments provides significantly inferior developing country outcomes. Thus, a trade and environment policy-linked negotiation may be better than an environment- only negotiation, but negotiating compensation to developing countries for environmental restraint would be better.

Acemoglu, Daron

PD January 1998. **TI** The Structure of Wages and Investment in General Training. **AU** Acemoglu, Daron; Pischke, Jorn-Steffen. **AA** Acemoglu: Massachusetts Institute of Technology. Pischke: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6357; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J24, J31, J41, J51. **KW** Human Capital. Training. Labor Markets. Wage Structure.

AB In the standard model of human capital with perfect labor markets, workers pay for general training. When labor market frictions compress the structure of wages, firms may invest in the general skills of their employees. The reason is that the distortion in the wage structure turns "technologically" general skills into "specific" skills. Labor market frictions and institutions, such as minimum wages and union wage setting, are crucial in shaping the wage structure, and thus have an important impact on training. Our results suggest that the more frictional and regulated labor markets in Europe and Japan may generate more firm-sponsored general training than the U.S.

Agenor, Pierre-Richard

PD March 1999. **TI** Macroeconomic Fluctuations in Developing Countries: Some Stylized Facts. **AU** Agenor, Pierre-Richard; McDermott, C. John; Prasad, Eswar S. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/35; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 42. **PR** not available. **JE** E31, E32, F41, O11. **KW** Business Cycles. Fluctuations. Developing Countries.

AB This paper documents the main stylized features of macroeconomic fluctuations for 12 developing countries. Cross-correlations between domestic industrial output and a large group of macroeconomic variables (including fiscal variables, wages, inflation, money, credit, trade, and exchange rates) are presented. Also analyzed are the effects of industrial country economic conditions on output fluctuations in these countries. The robustness of the results is examined using different detrending procedures. The results indicate many similarities between macroeconomic fluctuations in developing and industrial countries (procyclical real wages; countercyclical variation in government expenditure) and some important differences (countercyclical variation in the velocity of monetary aggregates).

Aghion, Philippe

PD 1998. **TI** Uncovering some Causal Relationships Between Inequality and Economic Growth. **AU** Aghion, Philippe; Caroli, Eve; Garcia-Penalosa, Cecilia. **AA** Aghion: University College London and EBRD. Caroli: INRA and CEPREMAP. Garcia-Penalosa: Nuffield College. **SR** Institute for Fiscal Studies Working Paper: W98/02; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 59. **PR** 3 pounds. **JE** D30, O15, O33, O41. **KW** Inequality. Economic Growth. Development. Kuznets Hypothesis.

AB The question of how inequality is generated and how it reproduces over time has been a major concern for social scientists for more than a century. However, for the past forty years, conventional economic wisdom on inequality and growth has been dominated by two fallacies. On the effect of inequality on growth in market economies, the standard argument is that inequality is necessarily good for incentives and therefore good

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for growth, although incentive and growth considerations might (sometimes) be traded off against equity or insurance aims. On the reverse causal relationship from growth to inequality, the conventional wisdom is that inequality should obey the so-called Kuznets hypothesis whereby income inequality and gross national product per head have an inverted U-shaped relation. The aim of this survey is to challenge the conventional wisdom on inequality and growth, which cannot explain recent empirical evidence. The analysis remains within the framework of neoclassical economics. However, the introduction of additional aspects such as credit market imperfections, moral hazard, non-neutral technical and organizational change, and labor market institutions, gives a more complex and more realistic picture of the relationship between inequality and economic growth.

Aizenman, Joshua

PD December 1997. **TI** Volatility and Financial Intermediation. **AU** Aizenman, Joshua; Powell, Andrew. **AA** Aizenman: Dartmouth College and National Bureau of Economic Research. Powell: Banco Cenral de la Republica Argentina. **SR** National Bureau of Economic Research Working Paper: 6320; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E44, F32, F34, G21, O16. **KW** Emerging Markets. Currency Crises. Financial Crises. Financial Intermediation. Credit Markets.

AB In this paper, the authors consider an economy where risk neutral banks provide financial intermediation services and risk neutral producers demand credit to finance their working capital needs. The model blends costly state verification with imperfect enforcement power, and, in this context of costly financial intermediation, the authors show that a weak legal system combined with high information verification costs leads to large, first-order effects of volatility on production, employment and welfare. A calibration illustrates that the semi-elasticity of welfare with respect to volatility is less than negative one for reasonable parameter values (i.e., a one percent increase in the coefficient of variation of productivity shocks would reduce welfare by more than one percent). The authors suggest that legal and information problems in the credit market may then be at the heart of the reason why volatility has profound effects on emerging market economies.

Al-Najjar, Nabil I.

PD December 1998. **TI** Large Non-Anonymous Repeated Games. **AU** Al-Najjar, Nabil I.; Smorodinsky, Rann. **AA** Al-Najjar: MEDS and KGSM. Smorodinsky: Technion -- Israel Institute of Technology. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1250; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 16. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C73. **KW** Repeated Games. Aggregate Outcome. Pivotal Players. Signals.

AB Sabourian (1990), following Green (1980), studies a class of repeated games where a player's payoff depends on his stage action and an anonymous aggregate outcome, and shows that long-run players behave myopically in any equilibrium of such games. In this paper we extend Sabourian's results to games where the aggregate outcome is not necessarily an anonymous function of players' actions, and where players' strategies may depend non-anonymously on signals of other players' behavior. Our argument also provides a conceptually simpler proof of Green and Sabourian's analysis, showing how their basic result is driven by bounds on how many pivotal players there can be in a game.

PD January 1999. **TI** Subjective Representation of Complexity. **AU** Al-Najjar, Nabil I.; Casadesus-Masanell, Ramon; Ozdenoren, Emre. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1249; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 44. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D11, D81, D84. **KW** Complexity. Uncertainty. Preferences. Probabilistic Model.

AB We study how individuals cope with the complexity of their environment by developing subjective models, or representations, to guide their predictions and decisions. Formally, an individual who believes his environment is deterministic, but too complex to permit tractable deterministic representation, builds a probabilistic model embodying perceived regularities of that environment. In this model, the individual's inability to think through all possible instances of the problem is represented by an uncertainty about random states. The resulting behavior is fully rational in the traditional sense, yet consistent with an agent who believes his environment is too complex to warrant precise planning, forgoes finely detailed contingent rules in favor of vaguer plans, and expresses a preference for flexibility. We consider applications to time-inconsistent preferences, delegation, and two-player simultaneous games.

Altig, David

PD October 1997. **TI** Simulating U.S. Tax Reform. **AU** Altig, David; Auerbach, Alan J.; Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan. **AA** Altig: Federal Reserve Bank of Cleveland. Auerbach: University of California, Berkeley and National Bureau of Economic Research. Kotlikoff: Boston University and National Bureau of Economic Research. Smetters and Walliser: Congressional Budget Office. **SR** National Bureau of Economic Research Working Paper: 6248; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** C68, H21, H22, H23, H24. **KW** Public Economics. Taxation. Income Tax. Tax Reform.

AB This paper uses a new large-scale dynamic simulation model to compare the equity, efficiency, and macroeconomic effects of five alternatives to the current U.S. federal income tax. The model predicts major macroeconomic gains from a proportional consumption tax. Future middle- and upper-income classes gain, but initial older generations and the poor, current and future, lose. The flat tax, which adds a standard deduction to the consumption tax, makes all members of future generations better off, but halves the economy's long-run output gain and bans initial older generations. Insulating these older

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generations through transition relief further reduces the long-run gains. A proportional income tax hurts current and future low lifetime earners, but helps everyone else. It also raises long-run output. An "X tax", a progressive variant of the flat tax, makes everyone better off in the long-run and also raises long-run output by 7.5 percent. But it harms initial older generations.

Altman, Edward I.

PD April 1998. **TI** Corporate Bankruptcy and Financial Markets: An Overview. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/29; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 6. **PR** $5.00 each; $100.00 yearly subscription. **JE** G33, G38. **KW** Corporate Bankruptcy. Bankruptcy Systems. Distressed Firms.

AB This essay provides an overview of bankruptcy systems around the world. The paper discusses how the cost and length of bankruptcy proceedings vary between countries, and compares how different groups (e.g., reorganizing firms, junior creditors, senior creditors) fare under different bankruptcy systems. Outdated bankruptcy systems can interfere with economic growth when creditors' rights and expected recoveries are not clear. In addition to the comparative benefits of different national restructuring systems, a number of intriguing theoretical and empirical issues are related to the topic of the distressed firm. The paper outlines a number of these issues, including corporate debt capacity and firm valuation, manager-creditor-owner incentives and behavior, ability to predict distress, data and computations for default rate estimation and credit risk management, investment in securities of distressed firms and post-reorganization performance measurement.

Altonji, Joseph G.

PD November 1997. **TI** Employer Learning and Statistical Discrimination. **AU** Altonji, Joseph G.; Pierret, Charles R. **AA** Altonji: Northwestern University and National Bureau of Economic Research. Pierret: Bureau of Labor Statistics. **SR** National Bureau of Economic Research Working Paper: 6279; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 47. **PR** $5.00. **JE** D83, J24, J31, J71. **KW** Labor Markets. Statistical Discrimination. Wages. Productivity. Asymmetric Information.

AB This paper provides a test for statistical discrimination or "rational" stereotyping in environments in which agents learn over time. The application is to the labor market. If profit maximizing firms have limited information about the general productivity of new workers, they may choose to use observable characteristics like years of education to "statistically discriminate" among workers. As firms acquire more information about a worker, pay will become more dependent on actual productivity and less dependent on easily observable characteristics or credentials that predict productivity. The authors show that the wage coefficient on an unobservable productivity variable should rise with time in the labor market and the wage coefficient on education should fall. They investigate this proposition using panel data on education, the AFQT test, father's education, and wages for young men and their siblings from NLSY. They also examine the empirical implications of statistical discrimination on the basis of race.

Altshuler, Rosanne

PD January 1998. **TI** Has U.S. Investment Abroad Become More Sensitive to Tax Rates? **AU** Altshuler, Rosanne; Grubert, Harry; Newlon, T. Scott. **AA** Altshuler: State University of New Jersey. Grubert and Newlon: Office of Tax Analysis. **SR** National Bureau of Economic Research Working Paper: 6383; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F21, F23, H25, H87. **KW** Multinational Firms. Investment. Taxation. Corporate Taxation.

AB This paper uses data from the U.S. Treasury corporate tax files for 1984 and 1992 to address two questions concerning the investment decisions of U.S. multinational corporations. First, how sensitive are investment location decisions to tax rate differences across countries? And second have investment location choices become more sensitive to differences in host country tax rates? The authors regress a measure of the real capital held in the manufacturing affiliates of U.S. manufacturing firms in each of the 58 countries in their sample on tax rate variables and measures of non-tax characteristics of countries. They find large estimated tax elasticities for investment abroad. The increase of more than one in the estimated elasticities from 1984 to 1992 suggests that the allocation of real capital abroad may have become more sensitive to differences in host country taxes. These results are consistent with increasing international mobility of capital and globalization of production.

Anderson, James E.

PD October 1997. **TI** Trade and Security, I: Anarchy. **AU** Anderson, James E.; Marcouiller, Douglas. **AA** Anderson: Boston College and National Bureau of Economic Research. Marcouiller: Boston College. **SR** National Bureau of Economic Research Working Paper: 6223; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D70, F11, F12, F13, O19. **KW** International Trade. Investment. Predation. Specialization. Development.

AB Market exchange is subject to an endogenously determined level of predation which impedes specialization and gains from trade. We construct a model in which utility-maximizing agents opt between careers in production and careers in predation. Three types of equilibria may emerge: autarky (with no predation and no defense), insecure exchange equilibria (with predation and defense), and secure exchange equilibria (in which defense completely deters predation). Trading equilibria, two- thirds of them secure, are supported only in a narrow range of security parameter values. Since changes in the technologies of defense and predation have terms of trade effects, some producers may be hurt by enhanced security. We show cases of 'immiserizing security' in which producers in large poor countries are banned by increased security.

Anderson, Kym

PD July 1998. **TI** Will Trade Liberalization Harm the Environment? The Case of Indonesia 2020. **AU** Anderson, Kym; Strutt, Anna. **AA** Anderson: University of Adelaide. Strutt: University of Waikato. **SR** Centre for Economic

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Policy Research Discussion Paper: 1933; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F13, F14, F15, F17, Q28. **KW** International Trade. Environment. Indonesia. Global CGE Model. Trade Liberalization.

AB Most-favored-nation (MFN) trade liberalizations will always improve global economic welfare provided globally optimal environmental, and other, policies are in place. But since the latter proviso is not met in practice, empirical studies of the environmental and resource depletion effects of such reforms are needed to convince skeptics that trade reform is still worthwhile. This paper provides a methodology for doing that. It is illustrated with a case study of Indonesia. A modified version of the global CGE model known as GTAP is used to project the world economy to 2010 and 2020 both with and without those reforms. The study suggests that, at least with respect to air and water, trade policy reforms slated for the next two decades would in many cases improve the environment and reduce the depletion of natural resources and, in the worst cases, would add only slightly to environmental degradation.

PD July 1998. **TI** On the Need for More Economic Assessment of Quarantine/SPS Policies. **AU** Anderson, Kym; James, Sallie. **AA** University of Adelaide. **SR** Centre for Economic Policy Research Discussion Paper: 1934; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F13, F14, Q17, Q28. **KW** Quarantine. SPS Measures. Externalities. Risk. Optimal Policy.

AB Quarantine policy reviews are becoming more sophisticated. Yet they still focus primarily on the effects of restrictions just on import- competing producers. A fuller analysis that includes the consumers demonstrates that even if imported diseases were to wipe out a local industry, the gains to consumers may outweigh the losses to import- competing producers from removing a ban on imports. This paper provides the simplest partial-equilibrium framework for thinking more about the economics of quarantine policy measures. An empirical analysis of Australia's ban on imports of bananas, used to illustrate the methodology, suggests a move to free trade may well cause a major contraction of banana growing in Australia but the economic welfare gains to consumers are almost certain to far outweigh the losses to producers. The paper concludes by arguing that there is a need for a comprehensive economic review of Australia's myriad quarantine restrictions.

Anderson, Patricia M.

PD October 1997. **TI** Trends in Male Labor Force Participation and Retirement: Some Evidence on the Role of Pensions and Social Security in the 1970's and 1980's. **AU** Anderson, Patricia M.; Gustman, Alan L.; Steinmeier, Thomas L. **AA** Anderson and Gustman: Dartmouth College and National Bureau of Economic Research. Steinmeier: Texas Tech University. **SR** National Bureau of Economic Research Working Paper: 6208; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 34. **PR** $5.00. **JE** H55, J14, J26, J32. **KW** Aging. Labor Studies. Gender. Retirement. Social Security.

AB This paper estimates the effects on steady state retirement by men of changes in pension plans and social security in the 1970's and 1980's. Work incentives associated with pension coverage and plan characteristics are calculated primarily from the 1969-79 Retirement History Study and the 1983 and 1989 Surveys of Consumer Finances. Simulations with a structural retirement model suggest that the long run effects of changes in pension plans and social security account for about a quarter of the reduction in full-time work by men in their early sixties, but none of the trend for those age 65.

Aoki, Reiko

PD December 1998. **TI** Public Disclosure of Patent Applications, R&D, and Welfare. **AU** Aoki, Reiko; Spiegel, Yossi. **AA** Aoki: University of Auckland. Spiegel: Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 30/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 49. **PR** no charge. **JE** O31, O34. **KW** Research and Development. Patent Applications. Consumers Surplus. Innovations.

AB In Europe and in Japan, patent applications are publicly disclosed after 18 months from the filing date regardless of whether a patent has been or will be registered. In the U.S. in contrast, patent applications are publicly disclosed only when a patent is granted. In this paper we examine the consequences of this difference for (i) firm's R and D and patenting behavior, (ii) consumers' surplus and social welfare, and (iii) the incentives of firms to innovate in a setting where patent protection is imperfect in the sense that patent applications may be rejected and patents are not always upheld in court. The main conclusions are that public disclosure leads to fewer patent applications and fewer innovations, but for a given number of innovations, it raises the probability that new technologies will reach the product market and thereby enhances consumers' surplus and possibly total welfare as well.

Apps, Patricia F.

PD November 1997. **TI** On the Taxation of Trade Within and Between Households. **AU** Apps, Patricia F.; Rees, Ray. **AA** Apps: University of Sydney and Australian National University. Rees: University of Munich. **SR** Australian National University Working Paper in Economics and Econometrics: 337; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 25. **PR** no charge. **JE** D13, H21, H31, J22. **KW** Tax Reform. Household Production. Specialization. Household Trade.

AB Tax reform proposals affect individual welfares in ways which strongly depend on the nature of specialization in household production and the pattern of trade within households. Variation in the degree of specialization in domestic production across households strongly influences the impacts on individual tax burdens of a given tax reform. The standard models of the economics literature cannot be used to analyze these issues because they ignore the two-person nature of households and the existence of household production and trade. This paper proposes a simple and tractable model to remedy this and uses it to analyze the impacts of the types of tax reform that have been the subject of recent policy debate.

Arreaza, Adriana

PD January 1998. **TI** Consumption Smoothing through Fiscal Policy in OECD and EU Countries. **AU** Arreaza,

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Adriana; Sorensen, Bent E.; Yosha, Oved. **AA** Arreaza, and Sorensen: Brown University. Yosha: Tel Aviv University. **SR** National Bureau of Economic Research Working Paper: 6372; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E21, E32, E62, F15, G15. **KW** Deficit. Consumption Smoothing. Budget. Fiscal Policy. International Trade.

AB We measure the amount of smoothing achieved through various components of the government deficit in EU and OECD countries. For EU countries, at the 1-year frequency, 13 percent of shocks to GDP are smoothed via government consumption, 18 percent via transfers, 5 percent via subsidies, while taxes provide no smoothing. The results for OECD countries are similar. Government transfers provide more smoothing of negative than of positive shocks among EU countries. There seems to be no trade-off between high government deficits in a country and the ability to smooth consumption. We find that in countries where there is "delegation" of power or where fiscal targets are negotiated effectively by coalition members, consumption smoothing via government consumption and government transfers is considerably higher. We interpret this finding as evidence that effective budgetary institutions can accomplish efficient consumption smoothing via government deficit spending and lower average deficits.

Artis, Mike

PD July 1998. **TI** Inflation Targeting: What Can the ECB Learn from the Recent Experience of the Bank of England. **AU** Artis, Mike; Kontolemis, Zenon; Mizen, Paul. **AA** Artis: European University Institute. Kontolemis: University of Manchester. Mizen: University of Nottingham. **SR** Centre for Economic Policy Research Discussion Paper: 1941; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 28. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E52, E58, F33. **KW** Inflation Targeting. Central Banks. Accountability. Bank of England. European Central Bank.

AB The establishment of the European Central Bank (ECB) presents a rare opportunity to define the operations of a central bank with no prior track record. Before the ECB specifies an, as yet undefined, operational target this paper asks what might be learnt from the recent experience of inflation targeting at the Bank of England. We consider whether there should be single or multiple targets and which, if any, of the existing inflation measures should be used. If inflation is targeted then a forecast of its value becomes the intermediate variable. This raises both the issue of transparency and the issue of providing a compensating supply of information material necessary to fill the gap, but too much "openness" can also be problematic. The ECB must be accountable and the contracting approach may be useful, but being seen to 'say' and 'do' the same thing is ultimately of the most importance.

Asea, Patrick K.

PD January 1997. **TI** Heterogeneous Information Arrival and Option Pricing. **AU** Asea, Patrick K.; Ncube, Mthuli. **AA** Asea: University of California, Los Angeles and National Bureau of Economic Research. Ncube: London School of Economics and INVESTEC Bank. **SR** University of California, Los Angeles, Department of Economics Working Paper: 763; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 39. **PR** $5.00. **JE** D52, G12, G13. **KW** Heterogeneous Information. Doubly Stochastic. Poisson Process. Options. CAPM.

AB We model the arrival of heterogeneous information in a financial market as a doubly-stochastic Poisson process (DSPP). A DSPP is a member of the family of Poisson processes in which the mean of the process itself is governed by a stochastic mechanism. We explore the implications for pricing stock, index and foreign currency options of the assumption that the underlying security evolves as mixed diffusion DSPP. We derive an intertemporal CAPM and demonstrate that accounting for heterogeneous information arrival may minimize the ubiquitous pricing bias -- "smile-effect" - of standard option pricing models. We propose a conceptually simple but numerically intensive maximum likelihood estimator of the parameters of a DSPP. A simulation study verifies the adequacy of the asymptotic approximations in finite samples.

PD January 1997. **TI** Lending Cycles. **AU** Asea, Patrick K.; Blomberg, Brock. **AA** Asea: University of California, Los Angeles and National Bureau of Economic Research. Blomberg: Wellesley College. **SR** University of California, Los Angeles, Department of Economics Working Paper: 764; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 50. **PR** $5.00. **JE** C33, E24, E32. **KW** Lending Standards. Credit Rationing. Unemployment. Panel Data.

AB We investigate the lending behavior of banks by exploiting a rich panel dataset on the contract terms of approximately two million commercial and industrial loans granted by 580 banks between 1977-1993. Using a Markov switching panel model, we demonstrate that banks change their lending standards -- from tightness to laxity -- systematically over the cycle. We then use an efficient minimum chi-square estimator to examine the relationship between the cyclical component of aggregate unemployment and bank-lending standards when both variables are jointly endogenously determined in a system of simultaneous equations with mixed, continuous/discrete dependent variables. The patterns we uncover suggest that lax lending standards that tend to occur during expansions exert considerable influence on the dynamics of aggregate fluctuations.

PD May 1997. **TI** Time-to-Build and Cycles. **AU** Asea, Patrick K.; Zak, Paul J. **AA** Asea: University of California, Los Angeles and National Bureau of Economic Research. Zak: Claremont Graduate School. **SR** University of California, Los Angeles, Department of Economics Working Paper: 767; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 27. **PR** $5.00. **JE** C61, E22, E32, O40. **KW** Business Cycles. Time-To-Build. Optimal Paths. Hopf Cycles.

AB We analyze the dynamics of a simple growth model in which production occurs with a delay while new capital is installed (time-to-build). The time-to-build technology is shown to yield a system of functional (delay) differential equations with a unique steady state. We demonstrate that the steady state, though typically a saddle, may exhibit Hopf cycles on a measurable set of the parameter space. Furthermore, the optimal path to the steady state is oscillatory. A counter-example to the claim that "models with a time-to-build

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technology are not intrinsically oscillatory" is provided. We also provide a primer on the central technical apparatus -- the mathematics of functional differential equations.

PD June 1997. **TI** Capital Income Taxation and Risk -- Taking in a Small Open Economy. **AU** Asea, Patrick K.; Turnovsky, Stephen J. **AA** Asea: University of California, Los Angeles and National Bureau of Economic Research. Turnovsky: University of Washington. **SR** University of California, Los Angeles, Department of Economics Working Paper: 768; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 38. **PR** $5.00. **JE** E62, F43, G11, H21. **KW** Taxation. Portfolio Choice. Growth. Risk.

AB How do capital income taxes affect household portfolio choice and growth? We approach this question within the context of a stochastic model of a small open economy in which taxes on income from domestic capital (equity) and foreign bonds affect household portfolio choice, welfare and growth rate of the economy. The theoretical and numerical analysis demonstrates the important role that risk plays in determining the mean and variability of growth as well as the conditions under which a higher tax rate can be welfare improving. To shed more light on the complex theoretical interaction between taxes and risk-taking we estimate a reduced-form multi-nominal probit model of household portfolio choice using the method of simulated moments. The empirical evidence is in stark contrast to the conventional wisdom -- we find that higher taxes make it less likely that the household will hold risky assets.

Asher, Wolinsky

TI Second Opinions and Price Competition: Inefficiency in the Market for Expert Advice. **AU** Wolfgang, Pesendorfer; Asher, Wolinsky.

Attanasio, Orazio

PD March 1998. **TI** Trends in Household Saving: A Tale of Two Countries. **AU** Attanasio, Orazio; Banks, James. **AA** University College London and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/15; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 53. **PR** 3 pounds. **JE** D91, E21, H23, J11. **KW** Lifetime Consumption. Life Cycle. Household Saving. Government Policy.

AB This paper argues that only when one uses data and arguments relating to the life-time experiences of individuals or households within an economy can one understand recent trends and patterns in saving rates. Only within this framework is it sensible to design and analyze policies to encourage saving either in the population as a whole or in particular groups of households. These issues are becoming increasingly important as income inequality increases, populations age and as proposals relating to tax harmonization, cross-border capital flows and tax competition begin to take shape -- European Union member states continue to show very diverse saving behavior and governments continue to introduce tax incentive schemes designed to help particular groups. To understand the issues relating to the design of policies for household saving one must first understand how life-time profiles of consumption, income and demographic profiles have evolved and are likely to evolve in the future. The authors present these profiles and show how they can be used as an input into techniques designed to look at the effects of recent demographic and labor market changes on life-cycle savings profiles.

PD April 1998. **TI** Asset Holding and Consumption Volatility. **AU** Attanasio, Orazio; Banks, James; Tanner, Sarah. **AA** Institute for Fiscal Studies and University College London. **SR** Institute for Fiscal Studies Working Paper: W98/08; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 25. **PR** 3 pounds. **JE** D91, E21, G12. **KW** Consumption CAPM. Asset Pricing. Share Ownership. Intertemporal Substitution.

AB Recent studies have explored the possibility that limited participation in asset markets, and the stock market in particular, might explain the lack of correspondence between the sample moments of the Intertemporal Marginal Rate of Substitution (IMRS) and asset returns. We estimate ownership probabilities to separate 'likely' shareholders from non-shareholders, enabling us to control for changing composition effects as well as selection into the group. We then construct estimates of the IMRS for each of these different groups and consider their time series properties. We find that the consumption growth of shareholders is more volatile than that of non-shareholders, and more highly correlated with excess returns to shares. In particular, one cannot reject the predictions of the Consumption Capital Asset Pricing Model for the group of households predicted to own both assets. This is in contrast to the failure of the model when estimated on data for all households.

Audretsch, David B.

PD September 1998. **TI** Agglomeration and the Location of Innovative Activity. **AA** Wissenschaftzentrum Berlin fur Sozialforschung. **SR** Centre for Economic Policy Research Discussion Paper: 1974; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F43, O14, O31, O33, R12. **KW** Innovation. Economic Geography. Economic Development. Agglomeration. Spillovers.

AB Only a few years ago the conventional wisdom predicted that globalization would render the demise of the region as a meaningful unit of economic analysis. The purpose of this article is to explain why and how geography still matters for innovative activity and ultimately for the international comparative advantage. The comparative advantage of the high-cost countries of North America and Western Europe is increasingly based on knowledge-driven innovative activity. The spillover of knowledge from the firm or university creating that knowledge to a third-party firm is essential to innovative activity. Such knowledge spillovers tend to be spatially restricted. Thus, an irony of globalization is that even as the relevant geographic market for most goods and services becomes increasingly global, the increased importance of innovative activity in the leading developed countries has triggered a resurgence in the importance of local regions as a key source of comparative advantage.

Auerbach, Alan J.

TI Simulating U.S. Tax Reform. **AU** Altig, David; Auerbach, Alan J.; Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

PD February 1998. **TI** Capital Gains Taxation and Tax

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Avoidance: New Evidence from Panel Data. **AU** Auerbach, Alan J.; Burman, Leonard E.; Siegel, Jonathan M. **AA** Auerbach: University of California, Berkeley and National Bureau of Economic Research. Burman: The Urban Institute. Siegel: University of California, Berkeley. **SR** National Bureau of Economic Research Working Paper: 6399; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H24, H31. **KW** Taxation. Capital Gains. Tax Avoidance. Taxpayer Behavior.

AB Previous theoretical analyses of the capital gains tax have suggested that investors have considerable opportunity to avoid the tax. Yet, past empirical work has found relatively little evidence of such activity. Using a previously unavailable panel data set with a very large sample of high-income individuals, this paper aims to bring the theory and evidence closer together by examining the behavior of individual taxpayers over time. Though confirming past findings that avoidance of tax on realized capital gains is not prevalent, the authors do observe that tax avoidance activity increased after the passage of the Tax Reform Act of 1986, and that high-income, high-wealth and more sophisticated taxpayers were most likely to avoid tax. However, the efficacy of tax avoidance strategies depends on being able to avoid tax for long periods, and the authors find that most tax avoidance is of relatively short duration.

Austen-Smith, David

PD July 1998. **TI** Cycling of Simple Rules in the Spatial Model. **AU** Austen-Smith, David; Banks, Jeffrey S. **AA** Austen-Smith: Northwestern University. Banks: California Institute of Technology. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1246; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 11. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D71. **KW** McKelvey. Preference Aggregation. Rules. Core. Top-Cycle Set.

AB McKelvey (1979) proved that for strong simple preference aggregation rules applied to multidimensional sets of alternatives, the typical situation is that either the core is nonempty or the top-cycle set includes all available alternatives. But the requirement that the rule must be strong excludes, inter alia, all supermajority rules. In this note, we show that McKelvey's theorem further implies that the typical situation for any simple rule is that either the core is nonempty or the weak top-cycle set (equivalently, the core of the transitive closure of the rule) includes all available alternatives. Moreover, it is often the case that both of these statements obtain.

PD November 1998. **TI** Cheap Talk and Burned Money. **AU** Austen-Smith, David; Banks, Jeffrey S. **AA** Austen-Smith: Northwestern University. Banks: California Institute of Technology. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1245; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 20. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C72, D82. **KW** Cheap Talk. Costless Messages. Burned Money. Information Transmission.

AB We augment the standard Crawford-Sobel (Econometrica 1982) model of cheap talk communication by allowing the informed party to use both costless and costly messages. The issues on which we focus are the consequences for cheap talk signaling of the option to use a costly signal ("burned money"); the circumstances under which both cheap talk and burned money are used to signal information; and the extent to which burning money is the preferred instrument for information transmission.

Aw, Bee Yan

PD October 1997. **TI** Firm-Level Evidence on Productivity Differentials, Turnover, and Exports in Taiwanese Manufacturing. **AU** Aw, Bee Yan; Chen, Xiaomin; Roberts, Mark J. **AA** Aw: Pennsyvânia State University. Chen: The World Bank. Roberts: Pennsylvania State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6235; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D24, L11, L60, O12. **KW** Productivity. Turnover. Manufacturing. Exports. Taiwan.

AB The manufacturing sector in Taiwan has a market structure composed of large numbers of small firms, a heavy focus on less capital-intensive industries, and a dense network of firms specializing in subcontracting and trading services. It has been argued that these features lower the start-up costs of new manufacturing firms. Recent theoretical models of market evolution emphasize that low sunk entry and exit costs act to speed firm turnover by facilitating entry and increasing the pressure on inefficient firms to exit. Using comprehensive firm-level panel data from the Taiwanese Census of Manufactures for 1981, 1986, and 1991, the authors measure differences in total factor productivity among entering, exiting, and continuing firms, and quantify the contribution of firm turnover to industry productivity improvements. The authors find that the productivity differential between entering and exiting firms is an important source of industry-level productivity growth in Taiwanese manufacturing.

Aziz, Jahangir

TI The Quality of Governance: "Second-Generation" Civil Service Reform in Africa.. **AU** Haque, Nadeem Ul.; Aziz, Jahangir.

Bacchetta, Philippe

PD September 1998. **TI** Does Exchange Rate Stability Increase Trade and Capital Flows? **AU** Bacchetta, Philippe; van Wincoop, Eric. **AA** Bacchetta: Studienzentrum Gerzensee. van Wincoop: Federal Reserve Bank of New York. **SR** Centre for Economic Policy Research Discussion Paper: 1962; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 48. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F31, F32, F33, F41, G15. **KW** Exchange Rates. Uncertainty. Trade. Capital Flows. Purchasing Power Parity.

AB On the eve of the adoption of a single currency in Europe, our theoretical understanding of the implications of the

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exchange rate regime for trade and capital flows is still limited. The authors argue that two key model ingredients are essential to address this question: a general equilibrium set-up and deviations from purchasing power parity. By developing a simple benchmark monetary model that contains these two ingredients, the authors 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 when 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 qualitatively affect the results.

Backus, David

PD January 1998. **TI** Predictable Changes in Yields and Forward Rates. **AU** Backus, David; Foresi, Silverio; Mozumdar, Abon; Wu, Liuren. **AA** Backus: New York University and National Bureau of Economic Research. Foresi: Salomon Smith Barney. Mozumdar: Virginia Tech University. Wu: New York University. **SR** National Bureau of Economic Research Working Paper: 6379; 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** Interest Rates. Expectations. Affine Models. Forward Rates. Asset Pricing.

AB The authors consider patterns in the predictability of interest rates, characterized relative to the expectations hypothesis (EH), and attempt to account for them with affine models. They make the following points: (i) Discrepancies in the data from the EH take a particularly simple form with forward rates: as theory suggests, the largest discrepancies are at short maturities. (ii) Reasonable estimates of one- factor Cox-Ingersoll-Ross models imply regressions on the opposite side of the EH than are seen in the data: regression slopes are greater than one, not less than one. (iii) Multifactor affine models can nevertheless approximate both departures from the EH and other properties of interest rates.

Baig, Taimur

PD November 1998. **TI** Financial Market Contagion in the Asian Crisis. **AU** Baig, Taimur; Goldfajn, Ilan. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/155; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 57. **PR** not available. **JE** F31, F36, F40, G15. **KW** Contagion. Asian Crisis. Financial Markets. Foreign Exchange.

AB This paper tests for evidence of contagion between the financial markets of Thailand, Malaysia, Indonesia, Korea, and the Philippines. Cross-country correlation among currencies and sovereign spreads are found to increase significantly during the crisis period, whereas the equity market correlations offer mixed evidence. A set of dummy variables using daily news is constructed to capture the impact of own- country and cross border news on the markets. After controlling for own- country news and other fundamentals, the paper shows evidence of cross- border contagion in the currency and equity markets.

TI Monetary Policy in the Aftermath of Currency Crises: The Case of Asia. **AU** Goldfajn, Ilan; Baig, Taimur.

Balduzzi, Pierluigi

PD December 1997. **TI** The Central Tendency: A Second Factor in Bond Yields. **AU** Balduzzi, Pierluigi; Ranjan Das, Sanjiv; Foresi, Silverio. **AA** Balduzzi: New York University. Das: Harvard University and National Bureau of Economic Research. Foresi: Salomon Brothers. **SR** National Bureau of Economic Research Working Paper: 6325; 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** Asset Pricing. Interest Rates. Bonds. Term Structure.

AB We assume that the instantaneous riskless rate reverts towards a central tendency which, in turn, is changing stochastically over time. As a result, current short-term rates are not sufficient to predict future short-term rate movements, as would be the case if the central tendency was constant. However, since longer-maturity bond prices incorporate information about the central tendency, longer-maturity bond yields can be used to predict future short-term rate movements. We develop a two-factor model of the term-structure, which implies that a linear combination of any two rates can be used as a proxy for the central tendency. Based on this central-tendency proxy, we estimate a model of the one-month rate, which performs better than models, which assume the central tendency to be constant.

Baldwin, Robert E.

PD January 1998. **TI** Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills. **AU** Baldwin, Robert E.; Magee, Christopher S. **AA** Baldwin: University of Wisconsin-Madison and National Bureau of Economic Research. Magee: Michigan State University. **SR** National Bureau of Economic Research Working Paper: 6376; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** $5.00. **JE** D72, F13, F42, P16. **KW** International Trade. Political Economy. Commercial Policy. NAFTA. GATT.

AB This paper examines voting by members of Congress on three trade bills introduced in 1993 and 1994: the North American Free Trade Agreement (NAFTA), the agreements concluded in the Uruguay Round of multilateral trade negotiations (GATT), and most-favored-nation status for China. We first review recent political economy models of trade policy and then, after presenting a brief legislative history of the three bills, use these models to formulate an empirical specification of political behavior. In our empirical tests, we find evidence that campaign contributions given by political action committees influenced legislators' votes on both the NAFTA and GATT bills. Contributions from labor groups were associated with votes against freer trade. We also find that the broad policy views of the legislators, industry employment in each member's state or congressional district, and general economic conditions in the district or state affected voting on the trade bills.

Baliga, Sandeep

PD November 1998. **TI** Cheap Talk and Co-ordination with Payoff Uncertainty. **AU** Baliga, Sandeep; Morris, Stephen. **AA** Baliga: Northwestern University. Morris: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1203; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 19. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C72. **KW** Cheap Talk. Incomplete Information. Common

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Knowledge. Communication. Coordination.
AB This paper belongs to a growing literature on cheap talk in incomplete information settings (both sender-receiver and more complex). The purpose of the paper is to derive general lessons about communication in an incomplete information context. The authors suggest the following general results for two-player games: (1) If there is common knowledge that each player wishes the other player to take the same action as himself, then it is possible to achieve efficient outcomes (Full Communication); (2) If there is common knowledge that each player's preferences over the other's actions is independent of his own type, then that player's statements about his intended actions cannot change the equilibrium set of outcomes (No Communication). The authors prove these results, giving sufficient conditions for full and no communication. The most striking feature of the formal sufficient conditions is how strong they are, but examples show they are not excessively strong.

Balino, Tomas J. T.

PD March 1999. **TI** The Korean Financial Crisis of 1997 -- A Survey of Financial Sector Reform. **AU** Balino, Tomas J. T.; Ubide, Angel. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/28; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 64. **PR** not available. **JE** E44, F32, F34, G18, G21. **KW** Financial Crises. Prudential Regulations. Banking Supervision. Capital Inflows. Korea.
AB After years of strong performance, Korea's economy entered a crisis in 1997, owing largely to structural problems in its financial and corporate sectors. These problems emerged in the second half of that year, when the capital inflows that had helped finance Korea's growth were reversed, as foreign investors -- reeling from losses in other Southeast Asian economies -- decided to reduce their exposure to Korea. This paper focuses on the sources of the crisis that originated in the financial sector, the measures taken to deal with it, and the evolution of key banking and financial variables in its aftermath.

Banks, James

TI Trends in Household Saving: A Tale of Two Countries. **AU** Attanasio, Orazio; Banks, James.

TI Asset Holding and Consumption Volatility. **AU** Attanasio, Orazio; Banks, James; Tanner, Sarah.

Banks, Jeffrey S.

PD February 1998. **TI** Optimal Retention in Agency Problems. **AU** Banks, Jeffrey S.; Sundaram, Rangarajan K. **AA** Banks: California Institute of Technology. Sundaram: New York University. **SR** New York University, Salomon Center Working Paper: S/98/11; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 26. **PR** $5.00 each; $100.00 yearly subscription. **JE** D82. **KW** Principal Agent. Retention Rule. Adverse Selection. Moral Hazard.
AB This paper studies the interaction between a single long-lived principal and a series of short-lived agents in the presence of both moral hazard and adverse selection. We assume that the principal can influence the agents' behavior only through her choice of a retention rule; this rule is further required to be sequentially rational (i.e., no precommitment is allowed). We provide general conditions under which equilibria exist in which (a) the principal adopts a "cut-off" rule under which agents are retained only when the reward they generate exceeds a critical bound; and (b) agents separate according to type, with better agents taking superior actions. We show that in equilibrium, a retained agent's productivity is necessarily declining over time, but that retained agents are also more productive on average than untried agents due to selection effects. Finally, we show that for each given type, agents of that type are more productive in the presence of adverse selections than when there is pure moral hazard (i.e., when that type is the sole type of agent in the model); nonetheless, adding uncertainty about agent-types cannot benefit the principal except in uninteresting cases.

TI Cycling of Simple Rules in the Spatial Model. **AU** Austen-Smith, David; Banks, Jeffrey S.

TI Cheap Talk and Burned Money. **AU** Austen-Smith, David; Banks, Jeffrey S.

Barlevy, Gadi

PD January 1999. **TI** Credit Market Frictions and the Reallocation Process. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1251; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 41. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** E24, E32, E44, J63. **KW** Credit Market. Market Imperfections. Job Reallocation. Cleansing Effect.
AB In a seminal paper, Davis and Haltiwanger (1990) demonstrate that recessions are associated with an increase in job reallocation, at least in the manufacturing sector. The conventional view has interpreted this as evidence of "cleansing" effects: less productive jobs are destroyed in recessions, and resources are reallocated towards more productive uses. Thus, recessions serve to improve allocative efficiency. This paper shows that when credit market frictions are introduced, the result can be reversed. That is, the most efficient jobs are destroyed in recessions, resources are reallocated towards less productive uses, and misallocation is exacerbated.

PD January 1999. **TI** On the Possibility of Stock Market Crashes in the Absence of Portfolio Insurance. **AU** Barlevy, Gadi; Veronesi, Pietro. **AA** Barlevy: Northern University. Veronesi: University of Chicago Graduate School of Business. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1252; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 15. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D82, D84, G14. **KW** Giffen Effect. Portfolio Insurance. Hedging Demand. Market Crashes.
AB Policymakers and academic economists have placed most of the blame for the October 1987 stock market crash on hedging strategies by portfolio insurers, which dictated selling stocks as soon as prices fell. The fact that the practice of buying and selling stocks as portfolio insurance has virtually

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disappeared since then has given many comfort that a replay of the 1987 crash, when prices fell so much so quickly, is unlikely. This note argues with this view by developing a model in which crashes are possible in the absence of portfolio insurance. In our model, a crash is driven by panic selling among rational, but uninformed traders.

Barreto, Flavio Ataliba

TI After Chile, What? Second-Round Pension Reforms in Latin America. **AU** Mitchell, Olivia S.; Barreto, Flavio Ataliba.

Barro, Robert J.

PD December 1997. **TI** Myopia and Inconsistency in the Neoclassical Growth Model. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6317; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** E21, O40. **KW** Growth. Consumption. Saving. Institutional Design. Isoelastic Utility.

AB The neoclassical growth model is modified to allow for a non-constant rate of time preference. If the household cannot commit future choices of consumption and if utility is logarithmic, then an equilibrium is found that resembles the standard results of the neoclassical model. In this solution, the effective rate of time preference is high, but constant. Although this model has potentially important implications for policy designs -- because households would benefit from an ability to commit future consumption -- there is a sense in which the results are observationally equivalent to those of the conventional model. When the framework is extended to allow for partial commitment ability, some testable hypotheses emerge concerning the link between this ability and the rates of saving and growth. Steady-state results are obtained for general concave utility functions, and some properties of the dynamic paths are worked out for the case of isoelastic utility.

Bartolini, Leonardo

PD November 1998. **TI** Soft Exchange Rate Bands and Speculative Attacks: Theory, and Evidence from the ERM since August 1993. **AU** Bartolini, Leonardo; Prati, Alessandro. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/156; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** C15, E58, F31, F33. **KW** Exchange Rates. Target Zones. Speculative Attacks. Central Banks.

AB We present a model of a "soft" exchange rate target zone and interpret it as a stylized description of the post-August 1993 ERM. Our central bank targets a moving average of the current and past exchange rates, rather than the exchange rate's current level, thus allowing the rate to move within wide margins in the short run, but within narrow margins in the long run. For realistic parameters, soft target zones are significantly less vulnerable to speculative attacks than "hard" target zones. These predictions are consistent with the ERM's experience and the abatement of speculative pressure in European markets since the bands' widening in 1993.

Baucells, Manel

PD July 1998. **TI** Multiperson Utility. **AU** Baucells, Manel; Shaply, Lloyd S. **AA** Baucells: AGSM and University of California, Los Angeles. Shaply: University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 779; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 32. **PR** $5.00. **JE** C71, C72, D11. **KW** Utility Theory. Multi-Person Utility. Joint Preferences. Interpersonal Comparisons.

AB This paper presents a theory of multi-person preference based on the ability of some pairs of individuals to agree on a joint preference. If such pairs form a spanning tree of the set of players, then the acceptance of the Pareto rule is enough to determine a unique preference for the entire group. Moreover, there is a set of positive weights, unique up to a positive factor of proportionality, such that the utility for the group can be expressed as the weighted sum of the individual utilities. Those ideas shed light in the theory of transferable utility and the concept of interpersonal comparisons of utility.

Bayoumi, Tamim

PD July 1998. **TI** Deviations of Exchange Rates from Purchasing Power Parity: A Story Featuring Two Monetary Unions. **AU** Bayoumi, Tamim; MacDonald, Ronald. **AA** Bayoumi: International Monetary Fund. MacDonald: University of Strathclyde. **SR** Centre for Economic Policy Research Discussion Paper: 1932; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 24. **PR** 5 pounds or 8 dollars or 8 euros. **JE** C12, C23, E50, F31. **KW** Exchange Rates. Stationarity. Unit Roots. Panel Data. Monetary Shocks.

AB We examine the mean-reverting properties of real exchange rates, by comparing the unit root properties of a group of international real exchange rates with two groups of intra-national real exchange rates. Strikingly, we find that while the international real rates taken as a group are mean-reverting, the intra-national rates are not. This is consistent with the view that while monetary shocks may be mean- reverting over the medium-term, underlying real factors do generate long-term trends in real exchange rates.

PD September 1998. **TI** Estimating Trade Equations from Aggregate Bilateral Data. **AA** International Monetary Fund. **SR** Centre for Economic Policy Research Discussion Paper: 1970; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F11, F12, F17, F30, F41. **KW** Trade Elasticities. Panel Data. International Trade. Exchange Rates. Pricing.

AB Bilateral data on 420 merchandise trade flows between 21 industrial countries are used to estimate standard trade equations. The data set of over 11,000 observations allows the underlying elasticities to be estimated with considerable precision. Remarkably, a single specification appears to explain behavior across these countries in spite of the large number of individual flows analyzed. The results indicate a powerful long-run effect from supply on exports. Also, the real exchange rate elasticity depends upon the behavior of third country exchange rates, there is evidence of pricing to market and of a J-curve.

PD January 1999. **TI** The Morning After: Explaining the Slowdown in Japanese Growth in the 1990s.

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AA International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/13; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** E32, E44, G21. **KW** Economic Slump. Financial Intermediation. Banking. Business Cycles. Japan.

AB This paper uses vector autoregressions (VAR's) to investigate four explanations of the extended slump in Japanese economic activity during the 1990's: the absence of bold and consistent fiscal stimulus; limited room for expansionary monetary policy because of a liquidity trap; asset price deflation reflecting the long-term problems caused by over investment, inadequate returns on saving, and debt overhang; and disruption of financial intermediation. The results indicate that disruption in financial intermediation, largely operating through the impact of changes in domestic asset prices on bank lending, has been the principal cause of the slump.

Beaudry, Paul

PD January 1998. **TI** Taxes and Employment Subsidies in Optimal Redistribution Programs. **AU** Beaudry, Paul; Blackorby, Charles. **AA** Beaudry: University of British Columbia and National Bureau of Economic Research. Blackorby: University of British Columbia. **SR** National Bureau of Economic Research Working Paper: 6355; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D82, H21, H23, H24, J22. **KW** Redistribution. Optimal Taxation. Employment. Screening. Income Taxes.

AB This paper characterizes an optimal redistribution program when taxation authorities: (1) are uninformed about individuals' value of time in both market and non-market activities, (2) can observe both market-income and time allocated to market employment, and (3) are utilitarian. Formally, the problem is a special case of a multidimensional screening problem with two dimensions of unobserved attributes. In contrast to much of the optimal income taxation literature, we show that optimal redistribution in this environment involves distorting market employment upwards for low net-income individuals (through negative marginal income taxes or employment subsidies) and distorting employment downward for high net-income individuals (through positive marginal income taxes). It is also shown that workfare is only part of an optimal program if certain individuals have no access to market employment.

Becker, Connie

PD February 1998. **TI** Conditional Market Timing with Benchmark Investors. **AU** Becker, Connie; Ferson, Wayne; Myers, David; Schill, Michael. **AA** Becker, Myers and Schill: School of Business Administration. Ferson: School of Business Administration and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6434; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 38. **PR** $5.00. **JE** G11, G12, G14, G23. **KW** Mutual Funds. Market Timing. Public Information. Financial Markets. Benchmark Investors.

AB This paper tests models of mutual fund market timing that (1) allow the manager's utility function to depend on returns in excess of a benchmark; (2) distinguish timing based on lagged, publicly available information variables from timing based on finer information; and (3) simultaneously estimate the parameters which describe the public information environment, the risk aversion and the precision of the fund's market timing signal. Using a sample of more than 400 U.S. mutual funds for 1976-94, the estimates imply that mutual funds behave as risk averse, benchmark investors. Conditioning on public information variables improves the model specification, and after controlling for the public information we find no evidence that funds have significant market timing ability.

Beddies, Christian H.

PD March 1999. **TI** Monetary Policy and Public Finances: Inflation Targets in a New Perspective. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/26; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** E52, E58, E62, E63. **KW** Policy Interaction. Public Finances. Seigniorage. Inflation Targets. Monetary Policy.

AB This paper considers the interaction between the private sector, the monetary authority, and the fiscal authority, and concludes that unrestricted central bank independence may not be an optimal way to collect seigniorage revenues or stabilize supply shocks. Moreover, the paper shows that the implementation of an optimal inflation target results in optimal shares of government finances -- seigniorage, taxes, and the spending shortfall -- from society's point of view but still involves suboptimal stabilization. Even if price stability is the sole central bank objective, a positive inflation target has important implications for the government's finances, as well as for stabilization.

Beetsma, Roel M. W. J.

PD September 1998. **TI** The Optimality of a Monetary Union Without a Fiscal Union. **AU** Beetsma, Roel M. W. J.; Bovenberg, A. Lans. **AA** Beetsma: University of Limburg. Bovenberg: Netherlands Central Planning Bureau. **SR** Centre for Economic Policy Research Discussion Paper: 1975; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 48. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E52, E58, E61, E62, F42. **KW** Monetary Union. Fiscal Transfer Scheme. Fiscal Discipline. Moral Hazard. Inflation Targets.

AB The paper explores the case for monetary and fiscal unification. Monetary policy suffers from an inflation bias because the monetary authorities are not able to commit. With international risk-sharing in a fiscal union, fiscal discipline suffers from moral hazard. An inflation target alleviates the inflation bias but weakens fiscal discipline. In a monetary union, however, this adverse effect on fiscal discipline is weaker. This advantage of monetary unification may outweigh the disadvantage of not being able to employ monetary policy to stabilize country-specific shocks. While monetary unification may thus be optimal, international risk-sharing may be undesirable because it weakens fiscal discipline.

Begg, David

PD September 1998. **TI** Pegging Out: Lessons from the Czech Exchange Rate Crisis. **AA** Birkbeck College. **SR** Centre for Economic Policy Research Discussion Paper: 1956; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website:

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www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E58, E63, E65, F31, F32. **KW** Speculative Attacks. Monetary Policy. Exchange Rate Bands. Capital Inflows. Fiscal Policy.

AB In May 1997 the Czech Republic abandoned its exchange rate peg, the centerpiece of macroeconomic strategy since 1991. I examine the usefulness of theories of speculative attack in interpreting the crisis. Significantly, after the crisis subsided, competitiveness returned to its earlier level. One interpretation is that the koruna was the innocent victim of turmoil in Asia. This neglects the trend deterioration of competitiveness prior to the crisis. I therefore conclude that the crisis provoked a much-needed adjustment in fiscal policy, which altered the monetary-fiscal mix and consequent equilibrium exchange rate. Sterilization during 1994-6 unhelpfully delayed adjustment. Earlier abandonment of the parity would have helped only if it had also induced the required fiscal adjustment.

Begum, Jahanara

PD December 1998. **TI** Correlations Between Real Interest Rates and Output in a Dynamic International Model: Evidence from G-7 Countries. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/179; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** E23, E32, E43, F41, F43. **KW** Adjustment Costs. Habit Persistence. Interest Rates. General Equilibrium. International Economics.

AB This paper examines the extent to which a dynamic international general equilibrium model can account for observed movements in real interest rates and interest rate differentials. Using data for Group of Seven, the study finds that measured real interest rates are counter- cyclical in a single country and that the contemporaneous cross- correlations between international real interest differentials and output growth spreads are negative. Predictions of the baseline model are, however, inconsistent with the data. Extending the benchmark model to include habit persistence in consumption improves the match between theory and data.

Bekaert, Geert

PD December 1997. **TI** Foreign Speculators and Emerging Equity Markets. **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: 6312; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** F21, F32, F36, G15, G18. **KW** Liberalization. Capital Markets. Market Volatility. Speculation. Equity Markets.

AB A number of countries have delayed the opening of their capital markets to international investments because of reservations about the impact of foreign speculators on expected returns and market volatility. The authors propose a cross-sectional time-series model that attempts to assess the impact of market liberalization, in the form of the offering of depositary receipts, country funds and other financial instruments, in an extranational market, on the cost of capital and market volatility in emerging equity markets. They also examine the impact of capital market liberalization on the correlation of emerging equity market returns and the world market return. Their empirical approach is designed to control for other economic events, which might confound the impact of foreign speculators on local equity markets. The cost of capital always decreases after market liberalization but the effect is economically and statistically weak. The effects on volatility and correlation are less robust.

Ben-David, Dan

PD November 1997. **TI** Slowdowns and Meltdowns: Postwar Growth Evidence from 74 Countries. **AU** Ben-David, Dan; Papell, David H. **AA** Ben-David: Tel Aviv University and National Bureau of Economic Research. Papell: University of Houston. **SR** National Bureau of Economic Research Working Paper: 6266; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 20. **PR** $5.00. **JE** C22, F43, O10, O47, O50. **KW** Growth. Structural Breaks. Postwar Growth.

AB This paper proposes an explicit test for determining the significance and the timing of slowdowns in economic growth during the postwar period. The authors examine a large sample of countries (both industrialized and developing), and find that a majority exhibit a significant structural break in their postwar growth rates. In nearly all of these cases, the break was followed by a growth slowdown. The breaks fall into two primary periods which delineate countries by developmental and regional characteristics as well as by the magnitude of the subsequent slowdowns. The authors find that (a) most industrialized countries experienced postwar growth slowdowns in the early 1970's though (b) the United States, Canada and the United Kingdom did not, and (c) developing countries (and in particular, Latin American countries) tended to experience much more severe slowdowns which, in contrast with the more developed countries, began nearly a decade later.

PD November 1997. **TI** Convergence Clubs and Subsistence Economies. **AA** Tel Aviv University. **SR** National Bureau of Economic Research Working Paper: 6267; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E13, E21, E22, O41, O47. **KW** Growth. Subsistence Consumption. Savings. Capital.

AB This paper focuses on one possible explanation for the empirical evidence of (a) income convergence among the world's poorest countries and among its wealthiest countries, and (b) income divergence among most of the remaining countries. The model incorporates the assumption of subsistence consumption into the neoclassical exogenous growth model -- yielding outcomes that are consistent with the convergence-divergence empirical evidence. While subsistence consumption can lead to negative saving and disaccumulation of capital, it can also coincide with positive saving and accumulation of capital. The model predicts that the poorer the country, the lower its saving rate, a result that also appears to be borne out by the evidence provided here.

PD February 1998. **TI** Unit Roots, Postwar Slowdowns and Long-Run Growth: Evidence from Two Structural Breaks. **AU** Ben-David, Dan; Lumsdaine, Robin L.; Papell, David H. **AA** Ben-David: Tel Aviv University and National Bureau of Economic Research. Lumsdaine: Brown University and National Bureau of Economic Research. Papell: University of Houston. **SR** National Bureau of Economic Research

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Working Paper: 6397; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C20, F43, N10, O40, O50. **KW** Unit Roots. Growth. Structural Breaks. Business Fluctuations.

AB This paper provides evidence on the unit root hypothesis and long- term growth by allowing for two structural breaks. We reject the unit root hypothesis for three-quarters of the countries -- approximately 50 percent more rejections than in models that allow for only one break. While about half of the countries exhibit slowdowns following their postwar breaks, the others have grown along paths that have become steeper over the past 120 years. The majority of the countries, including most of the slowdown countries, exhibit faster growth after their second breaks than during the decades preceding their first breaks.

Benabou, Roland

PD August 1998. **TI** Social Mobility and the Demand for Redistribution: The POUM Hypothesis. **AU** Benabou, Roland; Ok, Efe A. **AA** New York University. **SR** Centre for Economic Policy Research Discussion Paper: 1955; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 40. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D31, D72, H20, J62, P16. **KW** Social Mobility. Income Distribution. Political Economy. Inequality. Taxation.

AB Even relatively poor people oppose high rates of redistribution because of the anticipation that they, or their children, may move up the income ladder. This "Prospect of Upward Mobility" (POUM) hypothesis is commonly advanced to explain why democracies do not engage in large- scale progressive redistributions. But is it compatible with rational expectations, given that not everyone can end up richer than average? This paper establishes the formal basis for the POUM hypothesis. There is a range of incomes below average where agents oppose lasting redistributions, provided tomorrow's expected income is increasing and concave in today's income. The laissez-faire coalition is larger the more concave the transition function and the longer the political horizon. The authors illustrate the general analysis with an example (calibrated to the United States) where three-quarters of families are always poorer than average, yet a two-thirds majority has expected future incomes above the mean.

Benge, Matt

PD May 1997. **TI** Depreciation Provisions and Investment Incentives Under Full Imputation. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 322; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 43. **PR** no charge. **JE** E22, E62, H25. **KW** Investment Biases. Full Imputation. Australia. Depreciation Provisions.

AB This paper examines how the Australian full imputation and capital gains tax provisions can combine to influence incentives to invest by affecting the cost of capital. Costs of capital for both unincorporated enterprises and widely-held, Australian-owned companies are examined under idealized depreciation provisions. The paper also presents numerical estimates of costs of capital under actual Australian depreciation provisions.

PD September 1998. **TI** Growth in a Small Open Economy. **AU** Benge, Matt; Wells, Graeme. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 350; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 27. **PR** no charge. **JE** F41, F43, O41. **KW** Solow-Swan. Growth Model. Open Economy. Steady State.

AB This paper provides a framework with which to analyze growth in a small economy with perfect capital mobility. It provides a diagrammatic representation of steady states which differs in interesting and important ways from the usual closed-economy Solow-Swan diagram. The key diagrams are used to illustrate the effects of changes in parameters such as the saving rate, population growth or productivity growth on steady-state values of macroeconomic aggregates. Steady-state results for the open economy are compared with those obtained using the more familiar closed-economy model. The paper also analyzes model dynamics in response to shocks which perturb the steady state and it is shown that, by contrast to the convergence, changes in the saving rate increase both the steady-state level of income and the half-life of income adjustment.

Benigno, Pierpaolo

TI Managing the Public Debt in Fiscal Stabilizations: The Evidence. **AU** Missale, Alessandro; Giavazzi, Francesco; Benigno, Pierpaolo.

Bentolila, Samuel

PD September 1998. **TI** Explaining Movements in the Labour Share. **AU** Bentolila, Samuel; Saint-Paul, Gilles. **AA** Bentolila: CEMFI. Saint-Paul: DELTA, Paris. **SR** Centre for Economic Policy Research Discussion Paper: 1958; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 64. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E25, J24, J31, J32. **KW** Labor Share. Capital-Output Ratio. Labor Productivity. Wages. Factor Income Distribution.

AB In this paper we study the evolution of the labor share in the OECD since 1970. We present a theoretical model showing that it is essentially related to the capital-output ratio; that this relationship is shifted by factors like the price of imported materials or the skill mix; and that discrepancies between the marginal product of labor and the real wage (due to, e.g. product market power, union bargaining, and labor adjustment costs) cause departures from it. We estimate the model with panel data on 15 industries and 14 countries for 1973-93 and derive the evolution of the wage gap in Germany and the United States.

Berg, Andrew

PD November 1998. **TI** Are Currency Crises Predictable? A Test. **AU** Berg, Andrew; Pattillo, Catherine. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/154; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 59. **PR** not available. **JE** F31, F47. **KW** Currency Crises. Vulnerability Indicators. Asian Crisis. Balance of Payments. Crisis Prediction.

AB This paper evaluates three models for predicting currency

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crises that were proposed before 1997. The idea is to answer the question: if we had been using these models in late 1996, how well armed would we have been to predict the Asian crisis? The results are mixed but somewhat encouraging. One model, and our modifications to it, provides useful forecasts, at least compared with a naive benchmark. The head-to-head comparison also sheds light on the economics of currency crises, the nature of the Asian crisis, and issues in the empirical modeling of currency crises.

Bergemann, Dirk

PD December 1998. **TI** Dynamic Common Agency. **AU** Bergemann, Dirk; Valimaki, Juuso. **AA** Bergemann: Yale University. Valimaki: Northwestern University. **SR** Yale Cowles Foundation Discussion Paper: 1206; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 61. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D81, D82, D83. **KW** Common Agency. Dynamic Bidding. Marginal Contribution. Markov Perfect Equilibrium. Job Matching.

AB We consider a general model of dynamic common agency with symmetric information. We focus on Markov perfect equilibria and characterize the equilibrium set for a refinement of the Markov perfect equilibria. Particular attention is given to the existence of a marginal contribution equilibrium where each principal receives her contribution to the coalition of agent and remaining principals. The structure of the intertemporal payoffs is analyzed in terms of the flow marginal contribution. As a by-product, new results for the static common agency game are obtained. The general characterization results are then applied to two dynamic bidding games for a common agent: (i) multi-task allocation and (ii) job matching under uncertainty.

PD March 1999. **TI** Experimentation in Markets. **AU** Bergemann, Dirk; Valimaki, Juuso. **AA** Bergemann: Yale University. Valimaki: Northwestern University. **SR** Yale Cowles Foundation Discussion Paper: 1214; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 38. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C72, C73, D43, D83, L15. **KW** Learning. Experimentation. Informational Externalities. Dynamic Oligopoly. Markov Perfect Equilibrium.

AB We present a model of entry and exit with Bayesian learning and price competition. A new product of initially unknown quality is introduced in the market, and purchases of the product yield information on its true quality. We assume that the performance of the new product is publicly observable. As agents learn from the experiments of others, informational externalities arise. We determine the Markov Perfect Equilibrium prices and allocations. In a single market, the combination of the informational externalities among the buyers and the strategic pricing by the sellers results in excessive experimentation. If the new product is launched in many distinct markets, the path of sales converges to the efficient path in the limit as the number of markets grows.

Berger, Tommy

PD January 1998. **TI** Another Look at the Capitalization of Interest Subsidies: Evidence from Sweden. **AU** Berger, Tommy; Englund, Peter; Hendershott, Patric H.; Turner, Bengt. **AA** Berger, Englund and Turner: Uppsala University. Hendershott: Ohio State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6365; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G12, R31. **KW** Capitalization. Interest Rates. Asset Prices. Housing.

AB We analyze by far the most extensive data base yet employed in estimating capitalization of below-market interest rates into asset prices: nearly 300,000 sales of owner-occupied homes in Sweden from 1981 to 1993 with 40,000 including government subsidized interest rates. Our estimates indicate very clearly that interest subsidies are capitalized into house prices. The below-market financing parameter is consistently significantly negative in all model specifications, irrespective of assumptions about the degree of foresight, representation of the age structure and interest rate measure for all ten regions that we have studied. In our favored model specification the estimated capitalization coefficients center on minus unity, indicating full capitalization.

Berman, Eli

PD December 1997. **TI** Environmental Regulation and Labor Demand: Evidence From the South Coast Air Basin. **AU** Berman, Eli; Bui, Linda T. **AA** Berman: Boston University and National Bureau of Economic Research. Bui: Boston University. **SR** National Bureau of Economic Research Working Paper: 6299; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 20. **PR** $5.00. **JE** H20, J23, L50, Q25, Q26. **KW** Environmental Regulation. Employment. Pollution. Econometric Methods.

AB The devoted nature of environmental regulation provides an excellent opportunity for estimating the effects of regulation on employment, by generating rich variation in regulation across regions and over time. The authors exploit this variation using direct measures of regulation and plant data. They estimate the employment effects of an unprecedented increase in air quality regulation in the Los Angeles region, using unregulated plants in other regions, industries and years for comparison. While environmental regulation is generally thought to reduce employment, economic theory is ambiguous on this point, since pollution abatement technologies may be labor using. The authors find that air quality regulation induced very expensive investments in abatement capital for individual plants, especially for oil refineries. They find no evidence that environmental regulation decreased labor demand, even when allowing for induced plant exit and dissuaded plant entry. If anything, air quality regulation probably increased employment slightly.

Bernanke, Ben

PD March 1998. **TI** The Financial Accelerator in a Quantitative Business Cycle Framework. **AU** Bernanke, Ben; Gertler, Mark; Gilchrist, Simon. **AA** Bernanke: Princeton University and National Bureau of Economic Research. Gertler: New York University and National Bureau of Economic Research. Gilchrist: Boston University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6455; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 58. **PR** $5.00. **JE** E31, E32, E44, E50, G21. **KW** Business

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Fluctuations. Credit Markets. Monetary Policy. Investment. Financial Accelerator.

AB This paper develops a dynamic general equilibrium model that is intended to help clarify the role of credit market frictions in business fluctuations, from both a qualitative and a quantitative standpoint. The framework exhibits a "financial accelerator," in that endogenous developments in credit markets work to amplify and propagate shocks to the macroeconomy. In addition, the authors add several features to the model that are designed to enhance the empirical relevance. First, they incorporate money and price stickiness, which allows them to study how credit market frictions may influence the transmission of monetary policy. In addition, they allow for lags in investment which enables the model to generate both hump-shaped output dynamics and a lead-lag relation between asset prices and investment, as is consistent with the data. Finally, they allow for heterogeneity among firms. Under reasonable parametrizations, the financial accelerator has a significant influence on business cycle dynamics.

Bernard, Andrew B.

PD November 1997. **TI** Exceptional Exporter Performance: Cause, Effect, or Both? **AU** Bernard, Andrew B.; Jensen, J. Bradford. **AA** Bernard: Yale School of Management and National Bureau of Economic Research. Jensen: Carnegie Mellon University. **SR** National Bureau of Economic Research Working Paper: 6272; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D21, F10, L20, L60. **KW** Firm Behavior. Exports. Manufacturing.

AB A growing body of empirical work has documented the superior performance characteristics of exporting plants and firms relative to non-exporters. Employment, shipments, wages, productivity and capital intensity are all higher at exporters at any given moment. This paper asks whether good firms become exporters or whether exporting improves firm performance. The evidence is quite clear on one point: good firms become exporters, both growth rates and levels of success measures are higher ex-ante for exporters. The benefits of exporting for the firm are less clear. Employment growth and the probability of survival are both higher for exporters; however, productivity and wage growth is not superior, particularly over longer horizons.

PD March 1998. **TI** Understanding the U.S. Export Boom. **AU** Bernard, Andrew B.; Jensen, J. Bradford. **AA** Bernard: Yale School of Management and National Bureau of Economic Research. Jensen: Carnegie Mellon University. **SR** National Bureau of Economic Research Working Paper: 6438; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 15. **PR** $5.00. **JE** F14, F41. **KW** International Trade. Exports. Growth. Manufacturing.

AB U.S. exports grew at a rate of 8.2% per year from 1987-1994, far faster than the economy as a whole or even the manufacturing sector. This paper examines the source of this export boom and argues that the boom itself has been less remarkable for the rate of growth than for the increase in export intensity. This increase in intensity has occurred both in the aggregate and for individual plants across a wide range of industries. Competing explanations for the rise in exports are tested with a comprehensive plant level data set. Changes in exchange rates and rises in foreign income are the dominant sources for the export increase, while productivity increases in U.S. plants play a relatively small role. The results suggest that slower growth rates of U.S. trading partners and an appreciation of the dollar will have strong negative effects on the growth rate of U.S. manufacturing exports.

Berndt, Ernst R.

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

Bernheim, B. Douglas

PD October 1997. **TI** What Accounts for the Variation in Retirement Wealth Among U.S. Households? **AU** Bernheim, B. Douglas; Skinner, Jonathon; Weinberg, Steven. **AA** Bernheim: Stanford University and National Bureau of Economic Research. Skinner: Dartmouth College and National Bureau of Economic Research. Weinberg: Stanford University. **SR** National Bureau of Economic Research Working Paper: 6227; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 62. **PR** $5.00. **JE** D10, D91, E21, H30, J14. **KW** Aging. Public Economics. Savings. Life Cycle. Wealth Variation.

AB Household survey data consistently depict large variations in saving and wealth, even among households with similar socio-economic characteristics. Within the context of the life cycle hypothesis, families with identical lifetime resources might choose to accumulate different levels of wealth for a variety of reasons, including variation in time preference rates, risk tolerance, exposure to uncertainty and so forth. These factors can be divided into a small number of classes, each with a distinctive implication concerning the relation between accumulated wealth and the shape of the consumption profile. One can test for the presence or absence of these particular explanations for differences in wealth. Using the Panel Study of Income Dynamics and the Consumer Expenditure Survey, the authors find little support for life cycle models that rely on the above factors to explain wealth variation. The data are, however, consistent with "rule of thumb" or "mental accounting" theories of wealth accumulation.

Bertsimas, Dimitris

PD November 1997. **TI** Pricing and Hedging Derivative Securities in Incomplete Markets: An E-Arbitrage Approach. **AU** Bertsimas, Dimitris; Kogan, Leonid; Lo, Andrew W. **AA** Bertsimas and Kogan: Massachusetts Institute of Technology. Lo: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6250; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 60. **PR** $5.00. **JE** G12, G13. **KW** Asset Pricing. Derivatives. Options. Financial Markets.

AB Given a European derivative security with an arbitrary payoff function and a corresponding set of underlying securities on which the derivative security is based, we solve the dynamic replication problem: find a self-financing dynamic portfolio strategy -- involving only the underlying securities -- that most closely approximates the payoff function at maturity. By applying stochastic dynamic programming to the minimization of a mean-squared-error loss function under Markov state-dynamics, we derive recursive expressions for the optimal-replication strategy that are readily implemented in practice.

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The approximation error or "e" of the optimal-replication strategy is also given recursively and may be used to quantify the "degree" of market incompleteness. To investigate the practical significance of these e- arbjtrage strategies, we consider several numerical examples including path-dependent options and options on assets with stochastic volatility and jumps.

Besley, Timothy

PD June 1998. **TI** Read My Lips: The Political Economy of Information Transmission. **AU** Besley, Timothy; Pande, Rohini. **AA** Besley: London School of Economics and Institute for Fiscal Studies. Pande: London School of Economics. **SR** Institute for Fiscal Studies Working Paper: W98/13; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 21. **PR** 3 pounds. **JE** D11, D72, D82, H23. **KW** Political Economy. Cheap Talk. Redistribution. Development.

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.

Bewley, Truman

PD January 1999. **TI** Work Motivation. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1209; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 27. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** E24, J22, J24, J31. **KW** Labor Markets. Wage Rigidity. Incentives. Effort.

AB In 1992 and 1993, the author undertook a field study in the Northeast of the United States with the intention of learning why wages and salaries seldom fall during recessions. The explanation of wage rigidity given by the over 275 business people and labor leaders interviewed was based on views of worker motivation that deviate from the standard model. In this paper, the author formulates a somewhat speculative model of work motivation stimulated by what the author heard during his field study. The model incorporates ideas from psychology into the utility maximizing framework of economics.

Bhattarai, Keshab

PD November 1997. **TI** Discreteness and the Welfare Cost of Labor Supply Tax Distortions. **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: 6280; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H21, H31, J22. **KW** Labor Supply. Welfare Costs. Tax Distortions. Leisure.

AB This paper discusses the role played by discrete labor supply (leisure consumption) choice in affecting measures of the welfare cost of labor supply tax distortions. The authors construct comparable continuous and discrete choice models, each calibrated to have similar aggregate (uncompensated) labor supply elasticities. In the former, there is a single representative consumer; in the latter there is a distribution of individuals across preference parameters. In the discrete model, taxes induce a large response from a subset of the population, while the majority of the population shows unchanged behavior. Welfare costs of similar taxes in continuous models can substantially exceed those in discrete models or vice versa, depending upon the formulation used. Experiments are also reported for a two labor type household model with one continuous variable (secondary labor) and one discrete variable (primary labor), and calculations are also made using an empirically based model specification calibrated to UK data.

PD November 1997. **TI** The Redistributive Effects of Transfers. **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: 6281; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 31. **PR** $5.00. **JE** H23, H53, I38, J22. **KW** Welfare Programs. Cash Transfers. Money Metric. Labor Supply. Income Redistribution.

AB Existing literature assessing the impacts of transfers on low income households assumes that transfer program participants benefit by the full amount of cash transfers received. This paper argues that because tax-back arrangements accompany such transfer programs, and endogenous participation decisions are involved, a money-metric measure of the utility generated by transfers will typically be substantially less than the cash value of transfers received. The authors use a conditional choice general equilibrium model of the UK, calibrated to literature based labor supply and labor demand elasticities, with a leisure- consumption choice for household and production involving heterogeneous labor inputs. In the model, households face non-convex budget sets due to differences in tax rates and tax-back schemes in transfer programs. Model results suggest that a money-metric measure of the utility equivalent of transfers received by the bottom deciles of UK households in the early 1990's was only 32 percent of cash transfers received.

Bickel, Warren K.

TI A Behavioral Economic Analysis of Polydrug Abuse in Heroin Addicts. **AU** Petry, Nancy M.; Bickel, Warren K.

PD March 1998. **TI** The Behavioral Economics of Smoking. **AU** Bickel, Warren K.; Madden, Gregory J. **AA** University of Vermont. **SR** National Bureau of Economic Research Working Paper: 6444; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** C91, D11, D12, I10, J10. **KW** Smoking. Consumer Behavior. Price Elasticity. Experiments. Demographics.

AB Evidence that economic principles may be employed to predict the rates at which cigarettes are consumed is presented from several laboratory experiments. In these experiments, cigarette-deprived smokers were required to make an effortful response to earn cigarette puffs. Changing the number of responses required per puff is conceptualized as a price manipulation. The experiments demonstrate that these price increases decrease cigarette consumption and that price elasticity of demand increases with increases in price. When data from 74 different smokers, participating in 17 different

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experiments, were analyzed, five demographic variables were related to rates of earning and smoking cigarettes in the lab. Demographic effects on price elasticity did not accord as well with econometric data. Finally, the authors discuss the ability of behavioral-economic laboratory experiments to model cigarette smoking in the natural economy, and the validity of using these laboratory results as a means of assessing the likely effects of public- policy initiatives.

Billot, Antoine

PD September 1998. **TI** Sharing Beliefs: Between Agreeing and Disagreeing. **AU** Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc. **AA** Billot: CERAS-ENPC and Universite Paris II. Chateauneuf: CERMSEM, Universite Paris I. Gilboa: Tel-Aviv University and Boston University. Tallon: CNRS-MAD. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 19/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 20. **PR** no charge. **JE** C70, C78, D81, D82. **KW** Betting. Common Priors. Choquet. Full Insurance.

AB In an exchange economy with no aggregate uncertainty and Bayesian agents, Pareto optimal allocations provide full insurance if and only if the agents have a common prior. It is hard to explain why there is relatively so little betting taking place. One is led to ask, when are full insurance allocations optimal for uncertainty averse agents? It turns out that commonality of beliefs, appropriately defined, is key again. Specifically, consider agents who are uncertainty averse and who maximize the minimal expected utility according to a set of possible priors. Pareto optimal allocations provide full insurance if and only if the agents share at least one prior. For the case of Choquet expected utility maximizers whose beliefs are not convex, a conceptually similar result is shown to hold if the economy is large.

Bils, Mark

PD February 1998. **TI** Does Schooling Cause Growth or the Other Way Around? **AU** Bils, Mark; Klenow, Peter J. **AA** Bils: University of Rochester and National Bureau of Economic Research. Klenow: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6393; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 38. **PR** $5.00. **JE** E10, I21, J24, J31, O40. **KW** Education. Growth. Human Capital. Technological Change.

AB Barro (1991) and others find that growth and schooling are highly correlated across countries. In a model with finite-lived individuals who choose schooling, schooling can influence growth, but also faster technology-driven growth can induce more schooling. The authors have two main findings. First, faster-growing countries have at most modestly flatter cross-sectional experience-earnings profiles, consistent with a minority role for the channel from schooling to growth. Second, the authors calibrate the model using evidence from the labor literature and employ UNESCO attainment data to construct schooling going back well before 1960. They find the channel from schooling to growth to be too weak to generate even half of Barro's coefficient under a range of plausible parameter values. The reverse channel from expected growth to schooling is capable of explaining the empirical relationship. The authors conclude that the evidence favors a dominant role for the reverse channel from growth to schooling.

Blackorby, Charles

TI Taxes and Employment Subsidies in Optimal Redistribution Programs. **AU** Beaudry, Paul; Blackorby, Charles.

Blanchet, Didier

PD October 1997. **TI** Social Security and Retirement in France. **AU** Blanchet, Didier; Pele, Louis-Paul. **AA** INSEE. **SR** National Bureau of Economic Research Working Paper: 6214; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H55, J14, J26, J44. **KW** Aging. Public Economics. Social Security. Retirement. France.

AB Among numerous retirement schemes in France, the Social Security general regime covers all wage earners from the private sector, about 65% of workers. In this regime, retirees are eligible for a full pension at 65, or between 60 and 65 if they contributed to the regime for at least 37.5 years. For people between 60 and 65 who do not fulfill this condition, retirement is still possible but with a downward adjustment of benefits. Our computations show that early retirement adjustment rules give strong incentives to go on working until being eligible for a full pension, even if mandatory complementary schemes soften incentives, especially for executives. These results are consistent with empirical hazard rates, showing two spikes at 60 and 65, and with the change in the retirement age induced by the 1983 reform.

Blank, Rebecca M.

PD December 1997. **TI** What Causes Public Assistance Caseloads to Grow? **AA** Council of Economic Advisers and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6343; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H53, I38. **KW** Welfare Programs. Public Assistance. AFDC. Eligibility.

AB This paper uses state panel data to investigate changes in public assistance caseloads. Compared to other research, it uses more extensive data, both across states and over time; it utilizes a particularly rich set of control variables; it investigates the different subcomponents of the AFDC program separately; and it investigates the extent to which changes in caseloads are driven by changes in take-up rates versus in eligibility. The results indicate that an unexplained increase in AFDC- Basic caseloads started in the mid-1980's. This trend appears to be driven by three underlying components: a rise in child-only cases, an increase in take-up rates over the early 1990's during the economic slowdown, and a long-term increase in eligibility which is not well explained by a large set of control variables. In contrast, AFDC-UP caseload changes are relatively well explained by the model in this paper and are far more responsive to economic factors.

Blomberg, Brock

TI Lending Cycles. **AU** Asea, Patrick K.; Blomberg, Brock.

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Bloom, David E.

PD November 1997. **TI** Demographic Transitions and Economic Miracles in Emerging Asia. **AU** Bloom, David E.; Williamson, Jeffrey G. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6268; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** J11, O10, O40, O53. **KW** Demographics. Growth. East Asia.

AB The demographic transition -- a change from high to low rates of mortality and fertility -- has been more dramatic in East Asia during this century than in any other region or historical period. By introducing demographic variables into an empirical model of economic growth, this essay shows that this transition has contributed substantially to East Asia's so-called economic miracle. The "miracle" occurred in part because East Asia's demographic transition resulted in its working-age population growing at a much faster pace than its dependent population during the period 1965-1990, thereby expanding the per capita productive capacity of East Asian economies. The empirical analysis indicates that population growth has a purely transitional effect on economic growth; this effect operates only when the dependent and working-age populations are growing at different rates. An important implication of these results is that future demographic change will tend to depress growth rates in East Asia.

Blow, Laura

PD June 1998. **TI** A Quality-Constant Price Index for New Cars in the UK, 1986 to 1995. **AU** Blow, Laura; Crawford, Ian. **AA** Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/12; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 23. **PR** 3 pounds. **JE** C23, D12, L62. **KW** Quality Change. Price Indices. Automobiles. Principal Components.

AB This paper presents an hedonic model of the price of a sample of new cars available in the United Kingdom during the period 1986 to 1995. It overcomes the problem of collinearity in the characteristics data by grouping them on a priori grounds and then using principal components analysis to generate group characteristic indices. The resulting hedonic index is compared to the mean price index and is shown to be significantly different by the end of the period studied.

Blundell, Richard

PD August 1998. **TI** Labor Supply: A Review of Alternative Approaches. **AU** Blundell, Richard; MaCurdy, Thomas E. **AA** Blundell: Institute for Fiscal Studies and University College London. MaCurdy: Stanford University. **SR** Institute for Fiscal Studies Working Paper: W98/18; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 166. **PR** 3 pounds. **JE** C21, C24, J21, J22, J24. **KW** Labor Supply. Difference-in-Differences. Non-Linear Constraints. Dynamic Modeling.

AB This chapter surveys existing approaches to modeling labor supply and identifies important gaps in the literature The discussion begins with a look at recent policy reforms and labor market facts that motivate the study of labor supply. The analysis then presents a unifying framework that allows alternative empirical formulations of the labor supply model to be compared and their resulting elasticities to be interpreted. This is followed by critical reviews of alternative approaches to labor- supply modeling. The first review assesses the difference-in-differences approach and its relationship to natural experiments. The second analyzes estimation with nonlinear budget constraints and welfare- program participation. The third appraises developments of family labor- supply models including both the standard unitary and collective labor- supply formulations. Finally, the fourth review briefly explores dynamic extensions of the labor supply model, characterizing how participation decisions, learning-by-doing, human capital accumulation and habit formation affect the analysis of the life-cycle model. At the end of each of the four broad reviews, the paper summarizes a selection of the recent empirical findings. The concluding section asks whether the developments reviewed in this chapter place us in a better position to answer the policy-reform questions and to interpret trends in participation and hours.

PD September 1998. **TI** GMM Estimation with Persistent Panel Data: An Application to Production Functions. **AU** Blundell, Richard; Bond, Stephen. **AA** Blundell: University College London and Institute for Fiscal Studies. Bond: Nuffield College, Oxford and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W99/04; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 14. **PR** 3 pounds. **JE** C23, C51, D24, E23. **KW** Cobb-Douglas. Firm-Specific Effects. GMM. First Differences.

AB This paper considers Cobb-Douglas production function estimation using a large sample of companies over a small number of time periods. Standard Generalized Method of Moments (GMM) estimators, which eliminate unobserved firm-specific effects by taking first differences, produce unsatisfactory results in this context (Mairesse and Hall, 1996). This is attributed to weak instruments: the series on firm sales, capital and employment are highly persistent, so lagged levels are only weakly correlated with subsequent first differences. Blundell and Bond (1998) show that this can result in large finite-sample biases and that these biases can be dramatically reduced by exploiting reasonable stationarity restrictions on the initial conditions process. This yields an extended GMM estimator in which lagged first-differences of the series are also used as instruments for the levels equations (cf. Arellano and Bover, 1995). Using data for a panel of R&D-performing U.S. manufacturing companies the authors show that the instruments available for the production function in first differences are weak. The additional instruments used in the extended GMM estimator appear to be both valid and informative in this context; this estimator yields much more reasonable parameter estimates. The importance of allowing for an autoregressive component in the productivity shocks is also stressed.

PD November 1998. **TI** Collective Labor Supply: Heterogeneity and Nonparticipation. **AU** Blundell, Richard; Chiappori, Pierre-Andre; Magnac, Thierry; Meghir, Costas. **AA** Blundell and Meghir: University College London and Institute for Fiscal Studies. Chiappori: University of Chicago. Magnac: INRA-LEA and CREST. **SR** Institute for Fiscal Studies Working Paper: W98/20; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 56. **PR** 3 pounds. **JE** C14, J12, J22. **KW** Collective Labor-Supply. Nonparticipation in Employment. Nonparametric Identification. Heterogeneity.

AB In this paper we develop the collective labor supply framework to allow for corner solutions and nonparticipation in

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employment. We derive conditions for the complete nonparametric identification of individual preferences. We extend our results to allow for unobserved heterogeneity and show identification in the linear labor supply framework. We derive testable implications of the collective approach. We apply our results to the estimation of a collective labor supply model for married couples.

PD January 1999. **TI** Individual Effects and Dynamics in Count Data Models. **AU** Blundell, Richard; Griffith, Rachel; Windmeijer, Frank. **AA** Blundell: University College London and Institute for Fiscal Studies. Griffith and Windmeijer: Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W99/03; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 28. **PR** 3 pounds. **JE** C23, C25, C61, O32. **KW** Count Data. Individual Effects. Predetermined Regressors. Pre-Sample Information.

AB In this paper we examine the panel data estimation of dynamic models for count data that include correlated fixed effects and predetermined variables. Use of a linear feedback model is advocated, and its properties and estimation results are compared to those of a multiplicative distributed lag model. The standard Poisson conditional maximum likelihood estimator for non-dynamic models, which is shown to be the same as the Poisson maximum likelihood estimator in a model with individual specific constants, is inconsistent when regressors are predetermined. A quasi-differenced Generalized Method of Moments estimator is consistent for the parameters in the dynamic model, but when series are highly persistent, there is a problem of weak instrument bias. An estimator is proposed that utilizes pre-sample information of the dependent count variable, which is shown in Monte Carlo simulations to possess desirable small sample properties. The models and estimators are applied to data on US patents and R&D expenditure.

Bodnar, Gordon M.

PD October 1997. **TI** Both Sides of Corporate Diversification: The Value of Impacts of Geographic and Industrial Diversification. **AU** Bodnar, Gordon M.; Tang, Charles; Weintrop, Joseph. **AA** Bodnar: University of Pennsylvania and National Bureau of Economic Research. Tang: Pace University. Weintrop: Baruch College, CUNY. **SR** National Bureau of Economic Research Working Paper: 6224; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F23, F30, G31, G32, L23. **KW** International Finance. Macroeconomics. Diversification. Multinational Firms.

AB This paper examines the effect of geographic and industrial diversification on firm value for a sample of over 20,000 firm-year observations of U.S. corporations from 1987-1993. Our multivariate tests indicate the average value of a firm with international operations is 2.2% higher than comparable domestic single activity firms, while the average value of a firm with activities in multiple industrial segments is 5.4% lower than a portfolio of comparable focused domestic firms in similar activities. More importantly, we demonstrate the failure to control simultaneously for both dimensions of diversification results in over-estimation of the negative value impact of industrial diversification, but has little impact on estimates of the positive value impact of geographic diversification.

Bond, Stephen

TI GMM Estimation with Persistent Panel Data: An Application to Production Functions. **AU** Blundell, Richard; Bond, Stephen.

PD January 1999. **TI** Investment, R&D and Financial Constraints in Britain and Germany. **AU** Bond, Stephen; Harhoff, Dietmar; Van Reenen, John. **AA** Bond: Institute for Fiscal Studies and Nuffield College, Oxford. Harhoff: Zentrum fur Europaische Wirtschaftsforschung and University of Mannheim. Van Reenen: University of California, Berkeley, Institute for Fiscal Studies and University College London. **SR** Institute for Fiscal Studies Working Paper: W99/05; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 45. **PR** 3 pounds. **JE** C23, C25, E22, O31. **KW** Investment. R&D. Cash Flow. Financial Constraints.

AB This paper tests for the importance of cash flow on investment in fixed capital and R&D using firm-level panel data in two countries. For German firms, cash flow is not informative in simple econometric models of fixed investment or R&D. In identical specifications for British firms, cash flow is informative about investment, although not about the level of R&D spending conditional on the R&D participation decision. In the United Kingdom, we also find that investment is less sensitive to cash flow for R&D-performing firms, and that cash flow predicts whether firms perform R&D or not. We confirm that these differences do not simply reflect a greater role for current cash flow in forecasting future sales. These results suggest that financial constraints are more significant in Britain, that they affect the decision to engage in R&D rather than the level of R&D spending by participants, and that consequently the British firms that do engage in R&D are a self-selected group where financing constraints tend to be less binding.

Boot, Arnoud W. A.

PD August 1998. **TI** Market Discipline and Incentive Problems in Conglomerate Banks. **AU** Boot, Arnoud W. A.; Schmeits, Anjolein. **AA** Boot: University of Amsterdam. Schmeits: Washington University. **SR** Centre for Economic Policy Research Discussion Paper: 1949; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 48. **PR** 5 pounds or 8 dollars or 8 euros. **JE** G21, G31, G34. **KW** Banking. Scope. Internal Organization. Market Discipline. Conglomeration.

AB This paper analyses the optimal conglomeration of bank activities. We show that the effectiveness of market discipline for stand-alone activities (divisions) is of crucial importance for the potential benefits of conglomeration. We find that effective market discipline reduces the potential benefits of conglomeration. With ineffective market discipline of stand-alone activities conglomeration would further undermine market discipline, but may nevertheless be beneficial. In particular, when rents are not too high the diversification benefits of conglomeration may dominate the negative incentive effects. A more competitive environment therefore may induce conglomeration. We also show that introducing internal cost of allocation schemes may create "internal" market discipline that complements the weak external market discipline of the conglomerate. In this context we show that these schemes should respond to actual risk choices, rather than be limited to anticipated risk choices.

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PD August 1998. **TI** Expansion of Banking Scale and Scope: Don't Banks Know the Value of Focus. **AU** Boot, Arnoud W. A.; Thakor, Anjan V.; Milbourn, Todd T. **AA** Boot: University of Amsterdam. Thakor: Indiana University. Milbourn: London Business School. **SR** Centre for Economic Policy Research Discussion Paper: 1950; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** G21, G34. **KW** Banks. Mergers. Economies of Scale. Economies of Scope. Demand Uncertainty.

AB This paper provides an explanation for the urge of banks to merge and expand scope. The authors build a model where bank activities evolve over time. Due to deregulation and technological advances, new opportunities become available, but the skill needed to exploit them effectively may be unknown. Early entry into these scope-expanding activities may have learning benefits that are manifested in discovery of the skill needed to operate effectively. This discovery permits more efficient production decisions and thus has value that is increasing in the strategic uncertainty about future skill that exists in the scope- expanding activity. Scope expansion may not always be optimal, however. The reason is that scope expansion requires irreversible investments before actual demand is known. This demand uncertainty means that losses are incurred when demand does not materialize and the irreversible investment is forsaken. To offset these losses, two conditions must be met.

Booth, Alison L.

PD September 1998. **TI** Glass Ceilings or Sticky Floors? **AU** Booth, Alison L.; Frank, Jeff; Francesconi, Marco. **AA** Booth: University of Essex. Frank: University of London. Francesconi: ESRC. **SR** Centre for Economic Policy Research Discussion Paper: 1965; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** J16, J31, J41, J44. **KW** Promotion. Gender Gaps. Glass Ceilings. Discrimination. Wages.

AB According to surprising raw data from the British Household Panel Survey, full-time women are more likely than men to be promoted. Controlling for observed and unobserved individual heterogeneity, we find that women are promoted at roughly the same rate as men, but receive smaller wage increases consequent upon promotion. These facts contradict the conventional view that "glass ceilings" limit the promotion of women. They are consistent with our new "sticky floors" model of discrimination where women are just as likely as men to be promoted, but find themselves stuck at the bottom of the wage scale for the new grade.

Bordo, Michael D.

PD March 1998. **TI** The Rise and Fall of a Barbarous Relic: The Role of Gold in the International Monetary System. **AU** Bordo, Michael D.; Eichengreen, Barry. **AA** Bordo: Rutgers University and National Bureau of Economic Research. Eichengreen: International Monetary Fund and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6436; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 43. **PR** $5.00. **JE** E42, E58, F33, N10, N20. **KW** Central Banks. Economic History. Gold Standard. Monetary System.

AB This paper analyzes the changing role of gold in the international monetary system, in particular the persistence of gold holdings by monetary authorities for 20 years following the breakdown of the Bretton Woods system. The authors emphasize four points. First, the gold- exchange standard was a relatively recent arrangement that emerged only around 1900 in response to a set of historically-specific factors. Second, a system which relied on inelastically-supplied precious metal and elastically-supplied foreign exchange to meet the world economy's incremental demand for reserves was intrinsically fragile, prone to confidence problems, and a transmission belt for policy mistakes. Third, network externalities, statutory restrictions, and habit all contributed to the persistence of the practice of holding gold reserves. Fourth, network externalities suggest that the same factors which have long held in place the practice of holding gold reserves, when they come unstuck, may become unstuck all at once.

Borenstein, Severin

PD November 1997. **TI** The Competitive Effects of Transmission Capacity in a Deregulated Electricity Industry. **AU** Borenstein, Severin; Bushnell, James; Stoft, Steven. **AA** Borenstein: University of California, Berkeley and National Bureau of Economic Research. Bushnell and Stoft: U.C. Energy Institute. **SR** National Bureau of Economic Research Working Paper: 6293; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** L51, L94. **KW** Electricity. Transmission Capacity. Regulation. California.

AB In an unregulated electricity generation market, the degree to which generators in different locations compete with one another depends on the capacity to transmit electricity between the locations. The authors study the impact of transmission capacity on competition among generators. They show that there may be no relationship between the effect of a transmission line in spurring competition and the actual electricity that flows on the line. They then investigate the equilibria that are likely to result as transmission lines between previously unconnected locations are built and expanded. They demonstrate that limited transmission capacity can give a firm the incentive to restrict its output in order to congest transmission into its area of dominance. The results indicate that at least one firm could have an incentive to strategically induce transmission congestion and that relatively small investments in transmission may yield surprisingly large payoffs in terms of increased competition.

Borensztein, Eduardo

PD February 1999. **TI** Credit Allocation and Financial Crisis in Korea. **AU** Borensztein, Eduardo; Lee, Jong-Wha. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/20; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** E44, E51, G18, O16, O53. **KW** Credit Allocation. Financial Crisis. Financial Markets. Manufacturing. Korea.

AB This paper analyzes some of the structural problems associated with the Korean financial sector, and investigates whether the financial system has allocated credit in an efficient way over the past three decades. Using data for 32 manufacturing sectors, we find no evidence that credit flows

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were directed to the relatively more profitable sectors, either before or after the financial reforms. We also find that the flow of credits did not contribute to improving the economic performance of the favored industries over time.

Born, Patricia

PD February 1998. **TI** Does Spending on Medical Services Change as HMOs Grow and Mature? **AU** Born, Patricia; Pacula, Rosalie Liccardo. **AA** Born: University of Connecticut. Pacula: University of San Diego and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6423; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D33, I11, L10, L23, L80. **KW** Health Care. HMO's. Factor Expenditures. Production Cost.

AB This research examines the cost structure of a nationally representative sample of HMO's from 1991-1994 to determine whether cost savings achieved through enrollment growth and age of the plan are shared with any of the factors of production. The data are obtained from Health Care Investment Analysts. A generalized translog cost function is used to derive factor share equations for four intermediate groups of inputs: physician services, other medical provider services, hospital services and administrative services. The authors find that both plan size and age have a significantly positive effect on the level of plan expenditure on physicians, other medical providers and hospitals. Examination of the changes in factor shares over time, however, indicates that large changes in membership have no significant effect on the amount of resources dedicated to physicians. Only hospitals see a significant increase in the change in factor share at the expense of administrative services.

Bovenberg, A. Lans

TI The Optimality of a Monetary Union Without a Fiscal Union. **AU** Beetsma, Roel M. W. J.; Bovenberg, A. Lans.

Boyer, Joseph G.

TI Requiem for Kyoto: An Economic Analysis of the Kyoto Protocol. **AU** Nordhaus, William D.; Boyer, Joseph G.

Branstetter, Lee

TI Does Cash Flow Cause Investment and R&D: An Exploration Using Panel Data for French, Japanese, and United States Scientific Firms. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Branstetter, Lee; Crepon, Bruno.

Brenner, Menachem

PD February 1998. **TI** Altering the Terms of Executive Stock Options. **AU** Brenner, Menachem; Sundaram, Rangarajan K.; Yermack, David. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/22; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 26. **PR** $5.00 each; $100.00 yearly subscription. **JE** G13, M12. **KW** Stock Options. Reset Options. Exercise Prices. Executive Compensation.

AB This paper examines the practice of resetting of the terms of previously-issued executive stock options. We identify the properties of the typical reset option, characterize the firms that have reset options, and develop a model to value options that may be reset. In our sample of 396 executives whose options had terms reset in the 1992-95 period, a large majority had exercise prices reset to the market price. This resulted in a reduction of the typical option's exercise price by about 40%. Slightly less than half of these options also had their maturities extended, generally receiving a new expiration of 10 years. We find that resetting has a strong negative relationship with firm performance even after correcting for industry performance. Resetting is also significantly more common among small firms than among large firms. However, few other industry- or firm-specific factors appear to matter. Finally, we find that the possibility of resetting does not have a large impact on the ex-ante value of an option award, but the ex-post gain can be substantial.

Brief, Richard P.

PD March 1998. **TI** Comparing the Return Series for Two Sets of Accounting Policies Over Short Time Horizons. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/30; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 24. **PR** $5.00 each; $100.00 yearly subscription. **JE** C53, M41. **KW** Accounting Policies. Return Series. Short-Run Horizon.

AB The analytical properties of an accounting system have been studied by Preinreich (1936), Kay (1976), Peasnell (1982) and others. Often, this work focused on special cases relating to liquidation, steady- state conditions or an infinite time horizon. In this paper, the focus is on short time horizons where convergence generally cannot be assumed. The methodology that is developed shows how to compare the return series for two accounting policies. The analytical results are based on the standard assumption that dividends grow at a constant rate over the time horizon. However, one of the main points of the paper is to show that rather large forecast errors in the growth rate do not introduce material errors. Another new result concerns the use of regression techniques to simplify compound interest formulas.

Brisson, Anne E.

PD October 1997. **TI** Impact of Managed Behavioral Health Care Carved-Out: A Case Study of One HMO. **AU** Brisson, Anne E.; Frank, Richard G.; Notman, Elizabeth S.; Gazmararian, Julie A. **AA** Brisson and Notman: Harvard Medical School. Frank: Harvard Medical School and National Bureau of Economic Research. Gazmararian: Prudential Center for Health Care Research. **SR** National Bureau of Economic Research Working Paper: 6242; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I11. **KW** Health Care. Mental Health. Substance Abuse. HMO.

AB In this study the authors examine a case study of a carve-out for mental health and substance abuse services between a local plan of a national HMO (N=120,213) and a local managed behavioral health care vendor (MBHC). This is one of the first studies which estimates the impact of an HMO carve-out on costs and patterns of MH/SA care. Three years of insurance claims data (1993-1995) were used for the analyses, with a new carve-out contract implemented in May 1994. The new carve-out arrangement included a new vendor, a change in the organizational structure of clinical services, and increased financial risk to the vendor for inpatient care. Descriptive and

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empirical analyses are reported on a continuously enrolled population (N=49,529). Enrollees were 20% less likely to use MH/SA services after the implementation of the new carve-out, and inpatient MH/SA utilization dropped 50% under the new carve-out.

Brooks, Tama

TI The Market and the Estimators: Forecasting the Cost of Medicare Catastrophic Coverage. **AU** Glied, Sherry; Brooks, Tama.

Brown, Annette N.

PD August 1998. **TI** Does Market Structure Matter? New Evidence from Russia. **AU** Brown, Annette N.; Brown, J. David. **AA** Brown: Western Michigan University. Brown: Stockholm School of Economics. **SR** Centre for Economic Policy Research Discussion Paper: 1945; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 33. **PR** 5 pounds or 8 dollars or 8 euros. **JE** L11, L13, P20, R12. **KW** Market Structure. Concentration. Competition. Transition Economies. Russia.

AB In this paper we re-examine empirically the Structure-Conduct- Performance relationship between concentration and profitability using new data on Russia that allow us to overcome the endogeneity problem of market structure and expand on the traditional analysis in several ways. The analysis yields several important results. We find strong evidence that national concentration does increase profitability, but only in geographically dispersed industries, suggesting that regional markets are an important source of market power for oligopolistic industries. We find preliminary evidence that the effects of market structure are persistent in the long run. And we find for Russia that capital intensity is negatively related to profitability, suggesting that capital-intensive industries face higher adjustment costs and thus are less profitable after recessionary shocks.

Brown, J. David

TI Does Market Structure Matter? New Evidence from Russia. **AU** Brown, Annette N.; Brown, J. David.

Brown, Paul R.

PD December 1997. **TI** Documented Disputes Involving Auditor Independence: A Preliminary Report. **AU** Brown, Paul R.; Calderon, Jeanne A.; Lev, Baruch. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/07; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 24. **PR** $5.00 each; $100.00 yearly subscription. **JE** M41. **KW** Accounting, Auditor Independence.

AB Auditor independence represents one of the cornerstones of the accounting profession. When the auditor opines on a set of financial statements, investors and creditors, among other key users, assume that the opinion reached is void of any influence by the client. It is widely believed that any hint that objectivity is lacking, either in fact or appearance, severely limits the benefits intended to be achieved from the audit. The responsibility for establishing criteria to maintain and monitor auditor independence has been a joint effort of the accounting firms, the accounting profession as a whole (primarily through the American Institute of CPAs) and state and federal regulatory authorities. All of these parties recognize the importance of independence to the quality and integrity of the audit function and, as such, work closely to maintain and enhance independence standards.

Brown, Stephen J.

PD January 1998. **TI** The Dow Theory: William Peter Hamilton's Track Record Re-Considered. **AU** Brown, Stephen J.; Goetzmann, William N.; Kumar, Alok. **AA** Brown: New York University. Goetzmann and Kumar: Yale School of Management. **SR** New York University, Salomon Center Working Paper: S/98/17; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 41. **PR** $5.00 each; $100.00 yearly subscription. **JE** C45, C53, G11, G12. **KW** Dow Theory. Sharpe ratios. Neural Network. William Hamilton.

AB Alfred Cowles' (1934) test of the Dow Theory apparently provided strong evidence against the ability of Wall Street's most famous chartist to forecast the stock market. In this paper, we review Cowles' evidence and find that it supports the contrary conclusion -- that the Dow Theory, as applied by its major practitioner, William Peter Hamilton over the period 1902 to 1929, yielded positive risk-adjusted returns. A reanalysis of the Hamilton editorials suggests that his timing strategies yield high Sharpe ratios and positive alphas. Neural net modeling to replicate Hamilton's market calls provides interesting insight into the nature and content of the Dow Theory. This allows us to examine the properties of the Dow Theory itself out-of-sample.

PD January 1998. **TI** The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi. **AA** Brown: New York University. Goetzmann: Yale University and National Bureau of Economic Research. Hiraki and Otsuki: International University of Japan. Shiraishi: Rikkyo University. **SR** National Bureau of Economic Research Working Paper: 6347; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G10, G23. **KW** Mutual Funds. Tax Dilution. Asset Management. Japan.

AB Recent empirical evidence has suggested that the Japanese mutual fund industry has underperformed dramatically over the past two decades. Conjectured reasons for underperformance range from tax-dilution effects to high fees, high turnover and poor asset management. In this paper, we show that this underperformance is largely due to tax-dilution effects, and not necessarily to poor management. Using a broad database of funds which includes investment trusts closed to new investment, we show that once an instrument for the time-varying tax-dilution exposure is included in a factor model, there is little evidence of poor risk- adjusted performance. A style analysis of the industry demonstrates that managers appear to pursue tax-driven dynamic strategies.

PD February 1998. **TI** Offshore Hedge Funds: Survival & Performance 1989-1995. **AU** Brown, Stephen J.; Goetzmann, William N.; Ibbotson, Roger G. **AA** Brown: New York University. Goetzmann and Ibbotson: Yale School of Management. **SR** New York University, Salomon Center

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Working Paper: S/98/18; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 20. **PR** $5.00 each; $100.00 yearly subscription. **JE** G11, G23. **KW** Hedge Funds. Off-Shore Funds. Manager Skill.

AB We examine the performance of the off-shore hedge fund industry over the period 1989 through 1995 using a database that includes both defunct and currently operating funds. The industry is characterized by high attrition rates of funds, low covariance with the U.S. stock market, evidence consistent with positive risk-adjusted returns over the time, but little evidence of differential manager skill.

PD February 1998. **TI** The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi. **AA** Brown: New York University. Goetzmann: Yale School of Management. Hiraki and Otsuki: International University of Japan. Shiraishi: Rikkyo University. **SR** New York University, Salomon Center Working Paper: S/98/19; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 42. **PR** $5.00 each; $100.00 yearly subscription. **JE** G11, G23, H20. **KW** Japan. Mutual Funds. Tax-Dilution Effects.

AB See abstract for Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyukii and Shiraishi, Noriyoshi. January 1998. "The Japanese Open-End Fund Puzzle". National Bureau of Economic Research Working Paper: 6347; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.

PD February 1998. **TI** Positive Portfolio Factors. **AU** Brown, Stephen J.; Goetzmann, William N.; Grinblatt, Mark. **AA** Brown: New York University. Goetzmann: Yale University and National Bureau of Economic Research. Grinblatt: University of California, Los Angeles. **SR** National Bureau of Economic Research Working Paper: 6412; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G11, G12, G23. **KW** Iterative Relocation. Stock Returns. Asset Pricing. Portfolio Choice.

AB We use an iterative relocation algorithm to identify factors in common stock returns. The benefit of the approach is that factors are portfolios of assets with non-negative weights. As a result, they are readily interpreted in terms of their characteristics of the underlying securities. The positive portfolio factors have comparatively high explanatory power in sample and out-of-sample. We find evidence of a size factor and factors identified with certain industries. Factors extracted from the mutual fund universe perform marginally better than factors from the universe of equities.

PD February 1998. **TI** Hedge Funds and the Asian Currency Crisis of 1997. **AU** Brown, Stephen J.; Goetzmann, William N.; Park, James. **AA** Brown: New York University. Goetzmann: Yale University and National Bureau of Economic Research. Park: Paradigm Asset Management. **SR** National Bureau of Economic Research Working Paper: 6427; 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, G13, G15. **KW** Hedge Funds. Currency Crises. Exchange Rates.

AB We test the hypothesis that hedge funds were responsible for the crash in the Asian currencies in late 1997. To do so, we develop estimates of the changing positions of the largest ten currency funds in one currency, the Malaysian ringgit and to a basket of Asian currencies. Our methodology is adapted from the Sharpe's (1992) style analysis approach that decomposes fund returns. We find that the net long or short positions in the ringgit or its correlates did fluctuate dramatically over the last four years. However, these fluctuations were not associated with moves in the exchange rate. The estimated net positions of the major funds were not unusual during the crash period, nor were the profits of the funds during the crisis. In sum, we find no empirical evidence to support the hypothesis that George Soros, or any other hedge fund manager was responsible for the crisis.

Bruce, Donald

PD November 1997. **TI** Apocalypse Now? Fundamental Tax Reform and Residential Housing Values. **AU** Bruce, Donald; Holtz-Eakin, Douglas. **AA** Bruce: Syracuse University. Holtz-Eakin: Syracuse University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6282; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H24, R20. **KW** Tax Reform. Housing Market. Income Tax.

AB Using a simulation model crafted to integrate the short-run and long- term impacts of tax reform on the housing market, we find modest impacts from fundamental reform of the Federal income tax. These results suggest that concerns over the impact of tax reform on housing values and household net worth are overstated. To the extent that reform is otherwise desirable, fears of drastic effects on the housing market should not stand as an impediment to reform.

Brunschwig, Sonia

TI The Impact of Human Capital on Growth: Evidence from West Africa. **AU** Sacerdoti, Emilio; Brunschwig, Sonia; Tang, Jon.

Bui, Linda T.

TI Environmental Regulation and Labor Demand: Evidence From the South Coast Air Basin. **AU** Berman, Eli; Bui, Linda T.

Buiter, Willem H.

PD November 1997. **TI** Transition Issues for the European Monetary Union. **AU** Buiter, Willem H.; Sibert, Anne C. **AA** Buiter: University of Cambridge and National Bureau of Economic Research. Sibert: Birkbeck College. **SR** National Bureau of Economic Research Working Paper: 6292; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E58, E63, F31, F33, F36. **KW** European Union. Currency Risk. Structural Reform. Seigniorage.

AB If Stage Three of EMU starts on January 1, 1999, transition issues remain on two time scales. Until July 1, 2002, national currencies and the euro co-exist as legal tender. We argue that intra-EMU currency risk exists in principle during that period, but that no EMU member can be forced out through speculative attacks. Cohabitation of Ins and Outs has an open-

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ended time scale. We discuss the effect of EMU on incentives for both Ins and Outs to undertake structural reform and the coordination problems associated with the distribution of seigniorage revenue and the Stability and Growth Pact.

PD February 1998. **TI** The Young Person's Guide to Neutrality, Price Level Indeterminacy, Interest Rate Pegs, and Fiscal Theories of the Price Level. **AA** University of Cambridge and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6396; 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, E58, E62. **KW** Monetary Neutrality. Price Level. Interest Rates. Transactions Technology. Fiscal Policy.
AB The paper establishes the following: First, money is neutral even if there is a non-zero stock of non-monetary nominal public debt, because the government adjusts real taxes to satisfy its intertemporal budget constraint. Second, Woodford's fiscal theory of the price level is invalid. It combines an overdetermined fiscal-financial program with an unwarranted weakening of the government's intertemporal budget constraint. Third, there is price level determinacy under an exogenous nominal interest rate rule if the transactions technology has cash-in- advance features. The price level is hysteretic in this case. Finally, it is not possible to draw inferences about the historical process of technological improvements in the transactions technology leading to a cashless economy by studying the limiting behavior, as a transactions efficiency index takes on successively higher values of a sequence of histories, each one of which is indexed for all time by a given level of efficiency.

Burman, Leonard E.

TI Capital Gains Taxation and Tax Avoidance: New Evidence from Panel Data. **AU** Auerbach, Alan J.; Burman, Leonard E.; Siegel, Jonathan M.

Busch, Susan H.

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

Bushnell, James

TI The Competitive Effects of Transmission Capacity in a Deregulated Electricity Industry. **AU** Borenstein, Severin; Bushnell, James; Stoft, Steven.

Caballero, Ricardo J.

PD October 1997. **TI** Jobless Growth: Appropriability, Factor Stabilization, and Unemployment. **AU** Caballero, Ricardo J.; Hammour, Mohamad L. **AA** Caballero: Massachusetts Institute of Technology and National Bureau of Economic Research. Hammour: Capital Guidance, SARL. **SR** National Bureau of Economic Research Working Paper: 6221; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E22, E24, J64, L23, O33. **KW** Capital. Growth. Technology. Appropriability. Unemployment.
AB A central determinant of the political economy of capital-labor relations is the appropriability of specific quasi-rents. This paper is concerned with the general-equilibrium interaction of appropriability and characteristics of technology -- namely, the embodiment of technology in capital and capital-labor substitutability in the technological menu. Technological embodiment means that the supply of capital is effectively much less elastic in the short than in the long run, and is therefore more exposed to appropriability; technology choice implies that an attempt at appropriating capital will induce a substitution away from labor in the long run, and constitutes a mechanism to thwart appropriation. Shifts in European labor relations in the last three decades offer a good laboratory to explore the empirical relevance of those mechanisms. The evolution of the labor share, the profit rate, the capital/output ratio, and unemployment -- which are examined more particularly in the case of France -- appears supportive.

PD November 1997. **TI** Aggregate Investment. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6264; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D20, D92, E22, G31. **KW** Investment. Sunk Costs. Information. Contracts. Aggregation.
AB The 90's have witnessed a revival in economists' interest and hope of explaining aggregate and microeconomic investment behavior. New theories, better econometric procedures, and more detailed panel data sets are behind this movement. Much of the progress has occurred at the level of microeconomic theories and evidence; however, progress in aggregation and general equilibrium aspects of the investment problem also has been significant. The concept of sunk costs is at the center of modern theories. The implications of these costs for investment go well beyond the neoclassical response to the irreversible-technological friction they represent, for they can also lead to first order inefficiencies when interacting with informational and contractual problems.

PD February 1998. **TI** Nonlinear Aggregate Investment Dynamics: Theory and Evidence. **AU** Caballero, Ricardo J.; Engel, Eduardo M. R. A. **AA** Caballero: Massachusetts Institute for Technology and National Bureau of Economic Research. Engel: Universidad de Chile and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6420; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C10, C20, D92, E22. **KW** Investment. Adjustment Costs. Capacity. Time Series. Manufacturing.
AB In this paper we derive a model of aggregate investment that builds from the lumpy microeconomic behavior of firms facing stochastic fixed adjustment costs. Instead of the standard sharp (S,s) bands, firms' adjustment policies take the form of a probability of adjustment (adjustment hazard) that responds smoothly to changes in firms' capacity gap. The model has appealing aggregation properties, and yields nonlinear aggregate time series processes. The passivity of normal times is, occasionally, more than offset by the brisk response to large accumulated shocks. Using within and out-of-sample criteria, we find that the model performs substantially better than the standard linear models of investment for postwar sectoral U.S. manufacturing equipment and structures investment data.

Calderon, Jeanne A.

TI Documented Disputes Involving Auditor Independence:

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A Preliminary Report. **AU** Brown, Paul R.; Calderon, Jeanne A.; Lev, Baruch.

Cameron, Gavin

TI The Housing Market and Regional Commuting and Migration Choices. **AU** Muellbauer, John; Cameron, Gavin.

Cameron, Stephen V.

PD January 1998. **TI** Life Cycle Schooling and Dynamic Selection Bias: Models and Evidence for Five Cohorts of American Males. **AU** Cameron, Stephen V.; Heckman, James J. **AA** Cameron: Columbia University. Heckman: University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6385; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C14, D81, I21, I28. **KW** Education. Family Influence. Academic Progress. Econometric Methods.

AB This paper examines an empirical regularity found in many societies: that family influences on the probability of transiting from one grade level to the next diminish at higher levels of education. We examine the statistical model used to establish the empirical regularity and the intuitive behavioral interpretation often used to rationalize it. We show that the implicit economic model assumes myopia. The intuitive interpretive model is identified only by imposing arbitrary distributional assumptions onto the data. We produce an alternative choice-theoretic model with fewer parameters that rationalizes the same data and is not based on arbitrary distributional assumptions.

Cangiano, Marco

PD October 1998. **TI** Pension Developments and Reforms in Transition Economies. **AU** Cangiano, Marco; Cottarelli, Carlo; Cubeddu, Luis. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/151; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 44. **PR** not available. **JE** G23, H55, O57, P21. **KW** Pension Reforms. Transition Economies. Social Protection. Defined Contributions.

AB This paper reviews developments in pension systems in 11 transition economies during the 1990's, highlighting the forces behind their rapid weakening. It focuses on the challenges these systems face -- including those arising from demographic factors -- and discusses why most transition countries are considering shifting, or have already shifted, from traditional defined-benefit pay-as-you-go systems to defined-contribution fully funded systems. Finally, the paper looks at the main options that arise in introducing fully funded components, including the relative mix between funding and pay-as-you-go, and the speed of the transition toward the new system.

PD December 1998. **TI** Will Fiscal Policy Be Effective Under EMU? **AU** Cangiano, Marco; Mottu, Eric. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/176; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** E61, E63, F33, F42, H87. **KW** European Union. Policy Coordination. Fiscal Policy. Economic Integration.

AB European Economic and Monetary Union does not envisage creating a central fiscal authority. Monetary and exchange rate policies will be centralized, but fiscal policy will remain a national responsibility, in line with the subsidiarity principle. This paper argues that monetary union will generate pressures for closer economic integration than currently envisaged. Although not a necessity, a more active central role could then be justified on the grounds of allocative efficiency, redistribution, and stabilization. While in the short term enhanced policy coordination may address those pressures satisfactorily, as economic integration proceeds, the case for a central fiscal authority may become stronger.

Card, David

PD January 1998. **TI** A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data. **AU** Card, David; Krueger, Alan B. **AA** Card: University of California, Berkeley and National Bureau of Economic Research. Krueger: Princeton University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6386; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J23, J31, J38. **KW** Minimum Wages. Fast Food. Employment. New Jersey. Wages.

AB This paper re-examines the effect of the 1992 New Jersey minimum wage increase on employment in the fast-food industry. The authors begin by analyzing employment trends using a new data set derived from the Bureau of Labor Statistic's (BLS's) ES-202 data file. A longitudinal sample and a repeated-cross-section sample both indicate similar or slightly faster employment growth in New Jersey relative to eastern Pennsylvania after New Jersey's minimum wage increase. The authors also use the ES-202 data to measure the effects of the 1996 federal minimum wage increase, which raised Pennsylvania's but not New Jersey's minimum wage. In light of their findings, the authors re-examine employment trends in the sample of fast-food restaurants assembled by the Employment Policies Institute (EPI) and David Neumark and William Wascher. Controlling for the systematic effects of varying reporting intervals, the combined EPI/Neumark-Wascher sample shows no difference in hours growth between New Jersey and Pennsylvania.

PD March 1998. **TI** Would Financial Incentives for Leaving Welfare Lead Some People to Stay on Welfare Longer? An Experimental Evaluation of 'Entry Effects' in the Self-Sufficiency Project. **AU** Card, David; Robins, Philip K.; Lin, Winston. **AA** Card: University of California, Berkeley and National Bureau of Economic Research. Robins: University of Miami. Lin: MDRC. **SR** National Bureau of Economic Research Working Paper: 6449; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** H20, I38. **KW** Welfare. Social Experiments. Earnings Supplements. Subsidies.

AB The Self-Sufficiency Project (SSP) is a large scale social experiment being conducted in Canada to evaluate the effects of an earnings supplement for long-term welfare recipients who find a full-time job and leave income assistance. The supplement is available to single parents who have received income assistance for a year or more. A critical issue in the evaluation of SSP is whether the availability of the supplement would lead some new income assistance recipients to prolong their stay on welfare to gain eligibility. A separate experiment

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was conducted to measure the magnitude of this effect. One half of a group of new applicants was informed that they would be eligible to receive SSP if they stayed on income assistance for a year; the other half was randomly assigned to a control group. The authors' analysis indicates a very modest "delayed exit" effect among the treatment group relative to the controls.

Cardoso, Jaime

TI Managing Capital Flows: Lessons from the Experience of Chile. **AU** Laurens, Bernard; Cardoso, Jaime.

Caroli, Eve

TI Uncovering some Causal Relationships Between Inequality and Economic Growth. **AU** Aghion, Philippe; Caroli, Eve; Garcia-Penalosa, Cecilia.

Carroll, Christopher D.

PD December 1997. **TI** Death to the Log-Linearized Consumption Euler Equation! (And Very Poor Health to the Second-Order Approximation). **AA** Johns Hopkins University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6298; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** C50, C61, D91, E21. **KW** Consumption. Euler Equations. Relative Risk Aversion. Structural Parameters.

AB This paper shows that standard empirical methods for estimating log- linearized consumption Euler equations cannot successfully uncover structural parameters like the coefficient of relative risk aversion from the dataset of simulated consumers behaving exactly according to the standard model. Furthermore, consumption growth for the simulated consumers is very highly statistically related to predictable income growth -- and thus standard "excess sensitivity" tests would reject the hypothesis that consumers are behaving according to the standard model. Results are not much better for the second-order approximation to the Euler equation. The paper concludes that empirical estimation of consumption Euler equations should be abandoned, and discusses some alternative empirical strategies that are not subject to the problems of Euler equation estimation.

Carroll, Marilyn E.

PD February 1998. **TI** Income Alters the Relative Reinforcing Effects of Drug and Nondrug Reinforcers. **AA** University of Minnesota. **SR** National Bureau of Economic Research Working Paper: 6407; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C91, D11, D12. **KW** Income. Substitution. Elasticity. Consumer Behavior. Drugs.

AB Income is defined as the amount of funds, resources and/or time allowed to obtain goods over a specified period of time. This review discusses laboratory studies of income using methods of behavior analysis, behavioral pharmacology and behavioral economics. Initially, income was studied with respect to consumption of two types of the same good, and later comparisons were made between food and nonfood rewards as well as drug and nondrug rewards. A consistent finding is that preferences between two goods change and often reverse as income is changed from low to high. Thus, reinforcing effects are not inherent in the goods, but they depend on the economic context. Another economic variable that has shown considerable impact on drug-reinforced behavior is the availability of nondrug alternative reinforcers which seem to function as economic substitutes. The present review also examines the interaction of income variables with drug price and availability of nondrug alternatives.

Carroll, Robert

PD January 1998. **TI** Entrepreneurs, Income Taxes, and Investment. **AU** Carroll, Robert; Holtz-Eakin, Douglas; Rider, Mark; Rosen, Harvey S. **AA** Carroll and Rider: Office of Tax Analysis. Holtz-Eakin: Syracuse University and National Bureau of Economic Research. Rosen: Princeton University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6374; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E22, H24, H25, H32, M13. **KW** Entrepreneurs. Income Taxes. Investment. Business Taxes.

AB This paper investigates the effect of entrepreneurs' personal income tax situations on their capital investment decisions. We examine the income tax returns of a sample of sole proprietors before and after the Tax Reform Act of 1986 and determine how the substantial reductions in marginal tax rates for the relatively affluent associated with that law affected their decisions to invest in physical capital. We find that individual income taxes exert a statistically and quantitatively significant influence on investment decisions. In our sample, a 5 percentage point increase in marginal tax rates would reduce the proportion of entrepreneurs who make new capital investments by 10.4 percent, and decrease mean investment expenditures by 9.9 percent.

Casadesus-Masanell, Ramon

TI Subjective Representation of Complexity. **AU** Al-Najjar, Nabil I.; Casadesus-Masanell, Ramon; Ozdenoren, Emre.

Cashin, Paul

PD December 1998. **TI** International Capital Flows and National Creditworthiness: Do the Fundamental Things Apply as Time Goes By? **AU** Cashin, Paul; McDermott, C. John. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/172; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 37. **PR** not available. **JE** F32, F41, F47. **KW** Consumption Smoothing. International Capital Flows. Structural Break. Creditworthiness. Australia.

AB This paper examines the optimality of international capital flows to a persistent net importer of capital, Australia, during its post- capital-controls period 1984-98. The results suggest that international capital flows were larger than optimal during the 1980's, but in the 1990's such flows have been broadly consistent with those predicted by the consumption-smoothing approach to the determination of the current account. The paper also discusses the main implications arising from measures of optimal capital flows, and compares them with the implications arising from the key concepts used in the determination of national creditworthiness.

PD December 1998. **TI** Terms of Trade Shocks and the Current Account. **AU** Cashin, Paul; McDermott, C. John. **AA** International Monetary Fund. **SR** International

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Monetary Fund Working Paper: WP/98/177; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 36. **PR** not available. **JE** E21, F32, F41, O51, O52. **KW** Terms of Trade. Current Account. Elasticity of Substitution. Savings.

AB This paper examines the relationship between terms of trade shocks, private savings, and the current account position. The relationship between these variables is theoretically ambiguous: an adverse transitory terms of trade shock can either induce a deterioration or an improvement in the current account, depending on whether the resulting income effects are greater or less then the resulting substitution effects. The substitution effects involve both intertemporally substituting consumption and intratemporally substituting consumption between importables and nontradables. The relative strength of these substitution effects is estimated using data for five OECD countries during 1970-1995; both are found to exert large and significant effects on the current account balance.

Castillo, Sonsoles

TI The Fall in Consumption from Being Unemployed in Spain and Portugal. **AU** Dolado, Juan J.; Jimeno, Juan F.; Castillo, Sonsoles.

TI A Tale of Two Neighbour Economies: Labour Market Dynamics in Spain and Portugal. **AU** Dolado, Juan J.; Jimeno, Juan F.; Castillo, Sonsoles.

Cawley, John

PD January 1998. **TI** Cognitive Ability and the Rising Return to Education. **AU** Cawley, John; Heckman, James J.; Vytlacil, Edward. **AA** Cawley and Vytlacil: University of Chicago. Heckman: University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6388; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** I21, J24, J31. **KW** Education. Ability. Returns to Schooling. Nonparametric Methods.

AB This paper examines the contribution of the rise in the return to ability to the rise in the economic return to education. All of the evidence on this question comes from panel data sets in which a small collection of adjacent birth cohorts is followed over time. The data's structure creates an identification problem that makes it impossible to identify main age and time effects and to isolate all possible age-time interactions. In addition, many education-ability cells are empty due to the stratification of ability with educational attainment. These problems are "solved" in various ways in the literature and produce a variety of estimates. The authors test and reject widely used linearity assumptions invoked to identify the contribution of the return to ability on the return to schooling. Using nonparametric methods, the authors find little evidence that the rise in the return to education is centered among the most able.

PD March 1998. **TI** Meritocracy in America: Wages Within and Across Occupations. **AU** Cawley, John; Heckman, James J.; Vytlacil, Edward. **AA** Cawley and Vytlacil: University of Chicago. Heckman: University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6446; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** J23, J24, J31. **KW** Meritocracy. Wages. Discrimination. Occupational Choice.

AB In The Bell Curve, Herrnstein and Murray argue that the U.S. economy is a meritocracy in which differences in wages (including differences across race and gender) are explained by differences in cognitive ability. In this paper we test their claim for wages conditional on occupation using a simultaneous model of occupation choice and wage determination. Our results contradict Herrnstein and Murray's claim that the U.S. labor market operates only on meritocratic principles.

Cecchetti, Stephen G.

PD December 1997. **TI** Central Bank Policy Rules: Conceptual Issues and Practical Considerations. **AA** Federal Reserve Bank of New York and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6306; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E31, E32, E52, E58. **KW** Central Banks. Monetary Policy. Inflation. Business Cycles.

AB The design of rules for central bank policy has been a subject of increasing interest to many monetary economists. The purpose of this essay is to present an analytical structure in which a policymaker formulates a rule based on the solution to an optimal control problem, and then to examine a number of issues that are germane to the current debate on the nature of such rules. These issues include the implication for policymaking of the slope of the output-inflation variability frontier, the importance of various types of uncertainty, the consequences of a zero nominal interest rate floor, and the possible reasons for interest rate smoothing. This paper offers fairly compelling evidence on one point: the potential consequences of the move toward some form of price-level or inflation targeting. In adopting this approach, central banks are implicitly changing the relative importance of output and inflation variability in their objective function.

PD January 1998. **TI** Asset Pricing with Distorted Beliefs: Are Equity Returns Too Good to be True? **AU** Cecchetti, Stephen G.; Lam, Pok-sang; Mark, Nelson C. **AA** Cecchetti: Federal Reserve Bank of New York and National Bureau of Economic Research. Lam and Mark: Ohio State University. **SR** National Bureau of Economic Research Working Paper: 6354; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** G12. **KW** Asset Pricing. Beliefs. Endowment Growth. Equity Premium. Excess Returns.

AB We study a Lucas asset-pricing model that is standard in all respects, except that the representative agent's subjective beliefs about endowment growth are distorted. Using constant-relative-risk- aversion (CRRA) utility, with a CRRA coefficient below ten, and fluctuating beliefs that exhibit, on average, excessive pessimism over expansions and excessive optimism over contractions, our model is able to match the first and second moments of the equity premium and risk- free rate, as well as the persistence and predictability of excess returns found in the data.

Cerra, Valerie

PD January 1999. **TI** China's Trade Flows: Changing Price Sensitivities and the Reform Process. **AU** Cerra, Valerie; Dayal-Gulati, Anuradha. **AA** International

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Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/01; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** C22, F13, F14, F41, N75. **KW** Trade Reform. China. Exports. Imports. Price Elasticity.

AB Over the past 20 years, the Chinese authorities have undertaken wide- ranging reforms of their exchange and trade systems that have steadily reduced the role of planning and increased the importance of market forces. As these reforms have taken root, relative prices and domestic and foreign demand would be expected to have played a bigger role in determining trade flows. Econometric estimates of export and import equations provide evidence that trade flows have indeed become increasingly price sensitive, owing to the gradual liberalization of the trade regime over time, and to the growing shares of foreign-funded enterprises and manufacturers in total trade.

Chaloupka, Frank

PD February 1998. **TI** The Demand for Cocaine and Marijuana by Youth. **AU** Chaloupka, Frank; Grossman, Michael; Tauras, John A. **AA** Chaloupka: University of Illinois at Chicago and National Bureau of Economic Research. Grossman: City University of New York Graduate School and National Bureau of Economic Research. Tauras: University of Illinois at Chicago. **SR** National Bureau of Economic Research Working Paper: 6411; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D12, D61, I10, J10, K10. **KW** Drug Use. Price Sensitivity. Marijuana. Cocaine. Drug Legalization.

AB In recent years, the debate over the costs and benefits of legalizing the use of currently illicit drugs has been revived. This paper attempts to inform this debate by providing some evidence on the effects of illicit drug prices and legal sanctions for drug possession and sale on youth drug use. Data on cocaine and marijuana use by high school seniors are taken from the 1982 and 1989 Monitoring the Future surveys. Site- specific data on cocaine prices and legal sanctions for the possession and sale, manufacture or distribution of cocaine and marijuana are added to the survey data. The results indicate that youth cocaine demand is sensitive to price. In addition, the estimates suggest that increased sanctions for the possession of cocaine and marijuana have a negative and statistically significant impact on use. However, the magnitude of these estimates implies that very large increases in monetary fines would be necessary.

TI Demographic Differentials in the Demand for Alcohol and Illicit Drugs. **AU** Saffer, Henry; Chaloupka, Frank.

Chami, Ralph

PD February 1999. **TI** The Stock Market Channel of Monetary Policy. **AU** Chami, Ralph; Cosimano, Thomas F.; Fullenkamp, Connel. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/22; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 21. **PR** not available. **JE** E31, E52, G12. **KW** Inflation Tax. Monetary Policy. Asset Pricing. Stock Market. Central Banks.

AB This paper argues that the stock market is an important channel of monetary policy. Monetary policy affects real economic activity because inflation levies a property tax on stocks in addition to an income tax on divided payments. Inflation thus taxes stocks more heavily than it does bonds. Households alter their required rate of return as inflation changes, and firms adjust production in order to satisfy their shareholder's demands. As the stock market channel grows in importance, the appropriate intermediate target for the central bank is the price level, with price stability being the ultimate goal.

Chan-Lau, Jorge A.

PD October 1998. **TI** Monetary Policy in a Small Open Economy with Credit Goods Production. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/153; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 18. **PR** not available. **JE** D50, E31, E42, E52, F41. **KW** Cash Goods. Credit Goods. Inflation. Monetary Policy. Open Economy.

AB The paper analyzes the effects of monetary policy in a dynamic model of a small open economy with cash and credit goods production, where government consumption is financed by seigniorage. It shows that the interrelationships between the growth rate of the monetary aggregate and the technological properties of the economy have an important bearing on the existence and uniqueness of equilibrium, the optimal inflation rate, and the occurrence of explosive hyperinflations. In consequence, the paper concludes that monetary policy does matter in the long run.

Chao, John C.

PD October 1998. **TI** Jeffreys Prior Analysis of the Simultaneous Equations Model in the Case with n+1 Endogenous Variables. **AU** Chao, John C.; Phillips, Peter C. B. **AA** Chao: University of Maryland. Phillips: Yale University and University of Auckland. **SR** Yale Cowles Foundation Discussion Paper: 1198; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 29. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C11. **KW** Cauchy Tails. Jeffreys Prior. Just Identification. Posterior Density. Simultaneous Equations.

AB This paper analyzes the behavior of posterior distributions under the Jeffreys prior in a simultaneous equations model. The case under study is that of a general limited information setup with n + 1 endogenous variables. The Jeffreys prior is shown to give rise to a marginal posterior density, which has Cauchy-like tails similar to that exhibited by the exact finite sample distribution of the corresponding LIML estimator. A stronger correspondence is established in the special case of a just-identified orthonormal canonical model, where the posterior density under the Jeffreys prior is shown to have the same functional form as the density of the finite sample distribution of the LIML estimator. The work here generalizes that of Chao and Phillips (1997), which gives analogous results for the special case of two endogenous variables.

Chateauneuf, Alain

TI Sharing Beliefs: Between Agreeing and Disagreeing. **AU** Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc.

Che, Tuong Nhu

PD November 1998. **TI** Liberalisation, Incentives and Vietnamese Agricultural Growth. **AU** Che, Tuong Nhu;

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Kompas, Tom; Vousden, Neil. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 351; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 37. **PR** no charge. **JE** O13, O41, O47, P27. **KW** Incentives. Liberalization. Agricultural Growth. Transitional Economies.

AB This paper uses a dynamic model to analyze the effects of liberalization on the long-run output and transitional growth of the Vietnamese rice sector during the period of reform from 1981 to the present. In particular, the paper attempts to allow for the incentive effects which can result if liberalization is shown to result in a higher steady-state level of physical capital and rice output. It is shown that, even with an assumed zero rate of growth in the 'Solow residual' component of total factor productivity, liberalization may increase the long-run production of rice output by an order of two times its initial value. The analysis also predicts a significantly higher transitional growth rate of rice output for the more pervasive second stage of liberalization than that for the first stage, suggesting that incentives and open markets matter greatly.

Chen, Xiaomin

TI Firm-Level Evidence on Productivity Differentials, Turnover, and Exports in Taiwanese Manufacturing. **AU** Aw, Bee Yan; Chen, Xiaomin; Roberts, Mark J.

Cheng, Leonard K.

TI Hong Kong's Business Regulation in Transition. **AU** Wu, Changqi; Cheng, Leonard K.

Chevalier, Judith

PD February 1998. **TI** Career Concerns of Mutual Fund Managers. **AU** Chevalier, Judith; Ellison, Glenn. **AA** Chevalier: University of Chicago and National Bureau of Economic Research. Ellison: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6394; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G23, G30, J41, J63, L84. **KW** Labor Markets. Mutual Funds. Managers. Turnover.

AB This paper examines the labor market for mutual fund managers and managers' response to the implicit incentives created by their career concerns. The authors find that managerial turnover is sensitive to a fund's recent performance. Consistent with the hypothesis that fund companies are learning about managers' abilities, managerial turnover is more performance-sensitive for younger fund managers. Interpreting the separation-performance relationship as an incentive scheme, several results suggest that a desire to avoid separation may induce managers at different stages of their careers to behave differently. The authors show that the shape of the job separation-performance relationship may provide an incentive for young mutual fund managers to be risk averse in selecting their fund's portfolio. Finally, results on the flow of investments into mutual funds suggest that rather than just being due to a screening process, firing decisions may also be influenced by a desire to stimulate inflows of investment.

Chiappori, Pierre-Andre

TI Collective Labor Supply: Heterogeneity and Nonparticipation. **AU** Blundell, Richard; Chiappori, Pierre-Andre; Magnac, Thierry; Meghir, Costas.

Choueiri, Nada

PD March 1999. **TI** A Model of Contagious Currency Crises with Application to Argentina. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/29; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 24. **PR** not available. **JE** F31, F34, F41, G18. **KW** Argentina. Contagion. Multiple Equilibria. Risk Aversion. Currency Crises.

AB This paper proposes a model of contagious currency crises: crises transmit across countries by raising the risk premium on government bonds. Three types of equilibria can occur: a "no-collapse" equilibrium (crises never transmit from abroad); a "collapse" equilibrium (crises are inevitably contagious); or a "fundamentals" equilibrium (crisis are contagious if domestic fundamentals are weak). A calibration exercise finds that the 1995 turmoil in Argentina coexisted with a combination of risk-averse investors and weak credibility in the currency board arrangement. This turmoil could only be attributed to a Tequila effect from the Mexican crisis alone if investors were excessively risk-averse.

Christiano, Lawrence J.

PD January 1998. **TI** Modeling Money. **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles L. **AA** Christiano and Eichenbaum: Northwestern University and National Bureau of Economic Research. Evans: Federal Reserve Bank of Chicago. **SR** National Bureau of Economic Research Working Paper: 6371; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E32, E51, E52. **KW** Business Cycles. Monetary Policy. Money.

AB We develop and implement a limited information diagnostic strategy for assessing the plausibility of monetary business cycle models. Our strategy focuses on a model's ability to reproduce empirical estimates of an actual economy's response to monetary policy shocks. A key input to this diagnostic is a univariate time series representation of the response of money to a shock in monetary policy. We find that a monetary policy shock has only a small contemporaneous effect on the monetary base and M1. Its primary effect is to signal future movements in the money supply. We implement our diagnostic strategy on a limited participation model of money which stresses the importance of credit market frictions in the monetary transmission mechanism.

PD February 1998. **TI** Monetary Policy Shocks: What Have We Learned and to What End? **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles L. **AA** Christiano and Eichenbaum: Northwestern University and National Bureau of Economic Research. Evans: Federal Reserve Bank of Chicago. **SR** National Bureau of Economic Research Working Paper: 6400; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 63. **PR** $5.00. **JE** E31, E41, E42, E52. **KW** Monetary Policy. Exogenous Shocks.

AB This paper reviews recent research that grapples with the question: What happens after an exogenous shock to monetary policy? We argue that this question is interesting because it lies

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at the center of a particular approach to assessing the empirical plausibility of structural economic models that can be used think about systematic changes in monetary policy institutions and rules. The literature has not yet converged on a particular set of assumptions for identifying the effects of an exogenous shock to monetary policy. Nevertheless, there is considerable agreement about the qualitative effects of a monetary policy shock in the sense that inference is robust across a large subset of the identification schemes that have been considered in the literature. We document the nature of this agreement as it pertains to key economic aggregates.

Christoffersen, Peter

PD January 1999. **TI** Interest Rate Arbitrage in Currency Baskets: Forecasting Weights and Measuring Risk. **AU** Christoffersen, Peter; Giorgianni, Lorenzo. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/16; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** C53, F31, G11, G15. **KW** Time-Varying Parameters. Cointegration. Exchange Rates. Kalman Filter. Currency Baskets.

AB When constructing hedged interest rate arbitrage portfolios for basket currencies, two issues arise: first, how are the unknown future basket weights optimally forecasted from past exchange rate data? And, second, how is risk -- in terms of the conditional variance of expected profits from the interest rate arbitrage portfolio -- appropriately measured when the basket weights are time-varying? Answers to these questions are provided within a time-varying parameter modeling framework estimated through the Kalman filter. An empirical application is devoted to the experience of the Thai baht currency basket (January 1992-February 1997.).

Clarida, Richard

PD November 1997. **TI** Monetary Policy Rules in Practice: Some International Evidence. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark. **AA** Clarida: Columbia University and National Bureau of Economic Research. Gali and Gertler: New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6254; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 30. **PR** $5.00. **JE** E31, E52, E58, F41. **KW** International Finance. Macroeconomics. Monetary Policy. Central Banks. Inflation.

AB This paper reports estimates of monetary policy reaction functions for two sets of countries: the G3 (Germany, Japan, and the U.S.) and the E3 (UK, France, and Italy). The authors find that since 1979 each of the G3 central banks has pursued an implicit form of inflation targeting, which may account for the broad success of monetary policy in those countries over this time period. The evidence also suggests that these central banks have been forward looking: they respond to anticipated inflation as opposed to lagged inflation. As for the E3, even prior to the emergence of the "hard ERM," the E3 central banks were heavily influenced by German monetary policy. Further, using the Bundesbank's policy rule as a benchmark, the authors find that at the time of the EMS collapse, interest rates in each of the E3 countries were much higher than domestic macroeconomic conditions warranted.

PD March 1998. **TI** Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark. **AA** Clarida: Columbia University and National Bureau of Economic Research. Gali and Gertler: New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6442; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** E31, E32, E52, E63, N10. **KW** Monetary Policy. Stabilization. Interest Rates. Policy Rules. Expected Inflation.

AB We estimate a forward-looking monetary policy reaction function for the postwar U.S. economy, pre- and post-October 1979. Our results point to substantial differences in the estimated rule across periods. In particular, interest rate policy in the Volcker-Greenspan period appears to have been much more sensitive to changes in expected inflation than in the pre-Volcker period. We then compare some of the implications of the estimated rules for the equilibrium properties of inflation and output, using a simple macroeconomic model. The pre-Volcker rule is shown to be consistent with the possibility of persistent, self- fulfilling fluctuations in inflation and output. In contrast, the Volcker-Greenspan rule is stabilizing.

Clavijo, Sergio

PD November 1998. **TI** Fiscal Effects of the 1993 Colombian Pension Reform. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/158; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** E62, G23, H55, O54. **KW** Pension Funds. Social Security. Latin America.

AB This study examines the fiscal impact of the pension reform adopted in Colombia in 1993, which established a fully funded, privately administered pension system alongside the existing pay-as-you-go state scheme. The reform increased the contribution rate and reduced the benefits of the state scheme. However, the fiscal cost of the reform was high, estimated at 1.5 to 2.3 percent of GDP annually over the next three decades. This reflects concessions made to special groups of public servants, the delay in making effective the new retirement conditions, and the minimum pension guarantee. A new generation of pension reforms needs to be adopted.

Clements, Benedict

PD December 1998. **TI** Economic Determinants of Government Subsidies. **AU** Clements, Benedict; Rodriguez, Hugo; Schwartz, Gerd. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/166; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 29. **PR** not available. **JE** E62, F41, H21, H22, H50. **KW** Government Subsidies. Government Expenditures. Globalization. Fiscal Policy.

AB The paper studies the economic determinants of government subsidies using panel data for 40 countries over 18 years (from 1975 to 1992) and finds that individual country-specific factors play a sizable role in determining government subsidies. But it also suggests several characteristics -- a small government, a small external current account deficit, and a productive structure geared more toward services and agriculture than manufacturing -- may make it easier to keep subsidy expenditures down. The paper also suggests that globalization and the associated increase in openness are not impediments to reducing subsidies. In itself, an IMF-supported

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adjustment program is found not to be a significant determinant of government subsidy expenditures.

Clifton, Eric V.

PD December 1998. **TI** The Decline of Traditional Sectors in Israel: The Role of the Exchange Rate and the Minimum Wage. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/167; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** E24, E65, F31, J31, L60. **KW** Exchange Rates. Minimum Wage. Israel. Labor Productivity. Traditional Sectors.

AB This paper examines the role of exchange rate appreciation and the minimum wage in the relative decline of traditional sectors in Israel. It finds little evidence to indicate that real exchange rate appreciation is primarily responsible for this decline. Rather, the evidence indicates that slower productivity growth in traditional sectors has led to relatively larger increases in unit labor costs compared with high-tech sectors. Although the links are only indicative, the evidence also suggests that the minimum wage has played a role in the relatively faster growth in unit labor costs.

Cochrane, John H.

PD October 1997. **TI** Where is the Market Going? Uncertian Facts and Novel Theories. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6207 ; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 56. **PR** $5.00. **JE** E32, G12. **KW** Asset Pricing. Economic Fluctuations. Growth. Stock Market.

AB Will the stock market provide high returns in the future as it has in the past? The average U.S. stock return in the postwar period has been about 8% above treasury bill rates. But that average is poorly measured: The standard confidence interval extends from 3% to 13%. Furthermore, expected returns are low at times, such as the present, of high prices. Therefore, the statistical evidence suggests a period of low average returns, followed by a slow reversion to a poorly measured long-term average. The author turns to a detailed survey of economic theory. Standard models predict nothing like the historical equity premium. After a decade of effort, a range of drastic modifications to the standard model can account for the historical equity premium. It remains to be seen whether the drastic modifications and a high equity premium, or the standard model and a low equity premium, will triumph.

Coe, David T.

PD February 1999. **TI** Are There International R&D Spillovers Among Randomly Matched Trade Partners? A Response to Keller. **AU** Coe, David T.; Hoffmaister, Alexander W. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/18; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 19. **PR** not available. **JE** C15, F12, F20, O30, O40. **KW** Research and Development. Spillovers. Technology. Total Factor Productivity. International Trade.

AB Keller (1998) reexamines Coe and Helpman's (1995) analysis of international R&D spillovers focusing on the weights used to define the foreign R&D capital stock. Keller creates "random" weights and shows that they give rise to positive estimates of international R&D spillovers, casting doubts on the robustness of Coe and Helpman's findings. We show that Keller's "random" weights are essentially simple averages with a random error. We derive alternative random weights and present regressions showing that when they are used to define the foreign R&D capital stock, the estimated international R&D spillover estimates are nonexistent, as would be expected.

Cordella, Tito

PD July 1998. **TI** Social Clause? **AU** Cordella, Tito; Grilo, Isabel. **AA** Cordella: Universitat Pompeu Fabra. Grilo: Universite Catholique de Louvain. **SR** Centre for Economic Policy Research Discussion Paper: 1931; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F12, F13, F23, J60, L13. **KW** Production Relocation. Vertical Differentiation. Social Clause. Protection. Unemployment.

AB In many countries, trade unions worried by the effect of what they call 'unfair competition', propose the adoption of a 'social clause' protecting domestic markets from commodities produced in countries were minimal labor conditions are not met. The authors analyze the effects of such a policy in the framework of a vertically differentiated Bertrand duopoly. In particular, they study the effects of such a policy on the relocation decisions of firms and perform a welfare analysis. The welfare analysis takes explicitly into account the unemployment situation in the domestic country by accounting for the workers' welfare losses due to job reductions following the relocation of firms. The authors characterize the optimal social clause policy both under domestic welfare maximization and from an efficiency point of view. The authors show that the case for a social clause policy is weaker the higher the domestic wage and the lower the foreign wage.

PD July 1998. **TI** Financial Opening, Deposit Insurance and Risk in a Model of Banking Competition. **AU** Cordella, Tito; Yeyati, Eduardo Levy. **AA** Cordella: Universitat Pompeu Fabra. Yeyati: International Monetary Fund. **SR** Centre for Economic Policy Research Discussion Paper: 1939; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 52. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D82, G14, G21, G28. **KW** Banking. Bank Competition. Deposit Insurance. Financial Opening. Information Disclosure.

AB This paper studies the impact of competition on the determination of interest rates, and on banks' risk taking behavior, under different assumptions about deposit insurance and the dissemination of financial information. We find that lower entry costs foster competition in deposit rates and reduce banks' incentives to limit risk exposure. While higher insurance coverage amplifies this effect, two alternative arrangements (risk based contributions to the deposit insurance fund, and public disclosure of financial information) contribute to reduce it. Moreover, uninsured but fully informed depositors and risk based full deposit insurance yield the same, entry cost independent, equilibrium risk level. The welfare implications of the different arrangements are also explored.

Cornelli, Francesca

PD September 1998. **TI** Patent Renewals and R&D

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Incentives. **AU** Cornelli, Francesca; Schankerman, Mark. **AA** Cornelli: London Business School. Schankerman: London School of Economics. **SR** Centre for Economic Policy Research Discussion Paper: 1971; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D82, L51, O31, O34, O38. **KW** Patent Renewals. Patent Protection. Research and Development. Mechanism Design. Asymmetric Information.

AB In a model with moral hazard and asymmetric information, we show that it can be welfare-improving to differentiate patent lives when firms have different R&D productivities. A uniform patent life provides excessive R&D incentive to low-productivity firms, and too little to high ones. The optimally differentiated patent scheme can be implemented through a menu of patent lives (or renewals) and associated fees. We characterize the optimal mechanism, and use simulation analysis to compare it with existing patent renewal systems and to illustrate the potential welfare gains from the optimal policy.

Corsetti, Giancarlo

PD December 1997. **TI** Welfare and Macroeconomic Interdependence. **AU** Corsetti, Giancarlo; Pesenti, Paolo. **AA** Corsetti: Yale University. Pesenti: Princeton University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6307; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** D60, E63, F15, F41, F42. **KW** Policy Shocks. Fiscal Policy. Monetary Policy. Welfare. Interdependence.

AB The paper develops a simple choice-theoretic model suitable for carrying out welfare analyses of the international transmission of monetary and fiscal policies. The model can be solved in closed form and illustrated in terms of the simplest graphical apparatus, so as to provide the analysis of macroeconomic interdependence, structural spillovers, policy links and strategic complementarities with rigorous but intuitive micro-foundations. In contrast with the traditional literature, our findings emphasize the positive externalities of foreign monetary expansions and foreign fiscal contractions on domestic welfare, while highlighting the ambiguous welfare effects of domestic policy shocks.

Cosimano, Thomas F.

TI The Stock Market Channel of Monetary Policy. **AU** Chami, Ralph; Cosimano, Thomas F.; Fullenkamp, Connel.

Costa, Dora L.

PD October 1997. **TI** A House of Her Own: Old Age Assistance and the Living Arrangements of Older Nonmarried Women. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6217; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** H55, J14, N12, N14, N32. **KW** Aging. American Economy. Social Security. Women. Single Households.

AB I show that the trend towards single households among older nonmarried women, the majority of whom were widows, has been ongoing only since 1940 and investigate the factors that fostered the rise in separate living quarters since mid-century by examining the impact of Old Age Assistance on living arrangements in 1940 and 1950. I find that Old Age Assistance substantially increased demand for separate living quarters, but that demand depended upon the rules of the program, in particular whether children were held legally responsible for the care of their aged parents. I argue that almost half of the decline in the fraction of older nonmarried women living with relatives from 1950 to 1990 can be attributed to rising Social Security benefits and expanded eligibility and to the fact that Social Security benefits were given with no strings attached.

PD December 1997. **TI** Unequal at Birth: A Long-Term Comparison of Income and Birth Weight. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6313; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I12, J13, N30. **KW** Birth Weight. Children. Health Inequality. Nutrition.

AB I demonstrate that although socioeconomic differences in birth weight have always been fairly small in the United States, they have narrowed since the beginning of this century. I argue that maternal height, and therefore the mother's nutritional status during her growing years, accounted for most of the socioeconomic differences in birth weight in the past, but not today, implying that in the past health inequality was transmitted across generations. I also show that children born at the beginning of this century compared favorably to modern populations in terms of birth weights, but suffered higher fetal and neonatal death rates because obstetrical and medical knowledge was poorer. In addition, children in the past were at a disadvantage relative to children today because best practice resulted in insufficient feeding. The poor average health of past populations therefore originated in part in the first days of life.

PD February 1998. **TI** The Unequal Work Day: A Long-Term View. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6419; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 7. **PR** $5.00. **JE** D31, J22, N30. **KW** Labor Supply. Time Allocation. Income Inequality.

AB This paper investigates how the distribution of daily hours worked among prime-aged men has changed since the 1890's by occupational and industrial group and by the hourly wage. The author finds that although hours of work have fallen for all workers, the decline was disproportionately large among the lowest paid workers. In the past hours worked were very unevenly distributed with the lowest paid workers working the longest day whereas today the highest paid workers work longest. The author argues that much of the change can be accounted for by changes in the number of daily hours workers are willing to supply. She shows that the unequal distribution of work hours in the past equalized income and that in recent times the unequal distribution of hours worked magnifies income disparities, suggesting that wage or wealth data may underestimate long-run improvements in the welfare of the lowest paid workers.

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Cottarelli, Carlo

TI Pension Developments and Reforms in Transition Economies. **AU** Cangiano, Marco; Cottarelli, Carlo; Cubeddu, Luis.

Crawford, Ian

TI A Quality-Constant Price Index for New Cars in the UK, 1986 to 1995. **AU** Blow, Laura; Crawford, Ian.

Crepon, Bruno

TI Does Cash Flow Cause Investment and R&D: An Exploration Using Panel Data for French, Japanese, and United States Scientific Firms. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Branstetter, Lee; Crepon, Bruno.

Crossley, Thomas F.

PD April 1998. **TI** Firms and Wages: Evidence from Displaced Workers. **AA** York University. **SR** Australian National University Working Paper in Economics and Econometrics: 344; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 33. **PR** no charge. **JE** D21, E24, J31, J32. **KW** Firms. Wages. Displaced Workers. Job Rents.

AB I use a unique data set of Canadian displaced workers to measure the effects of firm of employment on wages. This data set has the advantage of consisting of a sample of workers changing jobs for reasons (product demand shifts or technological changes) that are largely orthogonal to their individual levels of "ability." It is also drawn from a labor market with wage-setting institutions that are quite similar to the U.S. My main findings are that, even within narrowly-defined industries, there are economically large and statistically significant firm wage effects that cannot be accounted for by unobserved worker heterogeneity. For a number of reasons, including the evidence I present on tenure, these effects are not easily attributable to compensating differentials, thus suggesting a role for models in which job rents play a role.

PD April 1998. **TI** What Can We Learn From Displaced Worker Data about the Returns to Tenure? **AA** York University. **SR** Australian National University Working Paper in Economics and Econometrics: 346; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 36. **PR** no charge. **JE** E24, J31, J41. **KW** Returns to Tenure. Wages. Displaced Workers. Firm-Specific Capital.

AB This paper revisits the issue of what can be learned about wage tenure profiles from displaced worker data. The positive relationship between wages and tenure in cross section data is consistent with the accumulation of firm specific capital. Alternatively, it may be explained by unobserved heterogeneity across workers, or by on-the-job search. Displaced worker data is quite helpful in correcting for the first possible bias, but less so for the second. The relationship between various estimation strategies in the literature is illustrated. Estimates that control for individual heterogeneity and on-the-job search driven by systematic differences in the pay policies of firms are presented. In this data, 10 years of tenure appears to raise wages by about 7 percent.

Cubeddu, Luis

TI Pension Developments and Reforms in Transition Economies. **AU** Cangiano, Marco; Cottarelli, Carlo; Cubeddu, Luis.

PD December 1998. **TI** The Intragenerational Redistributive Effects of Unfunded Pension Programs. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/180; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** E62, H23, H55, H61, J10. **KW** Social Security. Demographics. Heterogeneity. Redistribution. Simulation.

AB This paper provides a quantitative evaluation of the intracohort redistributive elements of the U.S. social security system in the context of a computable general equilibrium model. It determines how the well being of individuals that differ by gender, race, and education is affected by the government's social security policy. Differences in life expectancy and labor productivity translate into differences in capital accumulation and labor supply distortions that are responsible for the observed welfare difference between individuals of the same age cohort.

Cukierman, Alex

PD September 1998. **TI** When Do Representative and Direct Democracies Lead to Similar Policy Choices. **AU** Cukierman, Alex; Spiegel, Yossi. **AA** Cukierman: Tel-Aviv University and CentER, Tilburg University. Spiegel: Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 21/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 58. **PR** no charge. **JE** D72, D78. **KW** Direct Democracy. Representative Democracy. Median Voter. Political Uncertainty.

AB The paradigm of a direct democracy in which individuals vote directly on the issues is widely used in the recent political economy literature that explicitly models the interaction between economic and political behavior. Yet, in most existing democracies policy decisions are delegated to elected officials. This paper posits a model in which elected officials are better informed than the public about exogenous circumstances, but at the same time, are also influenced by particular constituencies whose desired policies generally differ from those of the decisive voter in the population. The first and main objective of the paper is to identify conditions under which direct and representative democracies lead to similar policies and to characterize the determinants of systematic deviations between the two systems when they lead to different policies. The direction and magnitude of these deviations are fully characterized in terms of (i) the degree of political polarization, (ii) the degree of asymmetry between the parties and (iii) the distribution of electoral uncertainty. The second objective is to compare the two systems in terms of their political uncertainty.

Currie, Janet

PD December 1997. **TI** Are Public Housing Projects Good for Kids? **AU** Currie, Janet; Yelowitz, Aaron S. **AA** University of California, Los Angeles and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6305; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00.

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JE H53, I21, I32, J13, R20. **KW** Housing. Education. Children.

AB This paper combines data from several sources to provide a first look at the effect of participation in public housing projects on housing quality and on the educational attainment of children. The authors first use administrative data from the Department of Housing and Urban Development to impute the probability that a Census household lives in a public housing project. They find that a higher probability of living in a project is associated with poorer outcomes. They then use two-sample instrumental variables techniques to combine information on the probability of living in a project obtained from the 1990 to 1995 Current Population Surveys, with information on outcomes obtained from the 1990 Census. The authors find that project households are less likely to suffer from overcrowding and less likely to live in high- density complexes. Project children are also 12 to 17 percentage points less likely to have been held back in school.

PD January 1998. **TI** School Quality and the Longer-Term Effects of Head Start. **AU** Currie, Janet; Thomas, Duncan. **AA** Currie: University of California, Los Angeles and National Bureau of Economic Research. Thomas: University of California, Los Angeles. **SR** National Bureau of Economic Research Working Paper: 6362; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I21, I38, J13, J15. **KW** Education. Children. Minorities. Head Start.

AB Recent research on Head Start, an enriched preschool program for poor children, has shown that effects on test scores "fade out" more quickly for black children than for white children. This paper uses data from the 1988 wave of the National Educational Longitudinal Survey to show that black children who attended Head Start go on to attend schools of worse "quality" than other black children. The authors do not see any similar pattern among white children. Moreover, when the authors stratify by school type, they find that gaps in test scores between Head Start and other children are very similar for blacks and whites. These patterns suggest that the effects of Head Start may fade out more rapidly among black students than among whites, at least in part because black Head Start children are more likely to subsequently attend bad schools.

Darby, Michael R.

TI Capturing Technological Opportunity via Japan's Star Scientists: Evidence from Japanese Firms' Biotech Patents and Products. **AU** Zucker, Lynne G.; Darby, Michael R.

TI Fundamentals or Population Dynamics and the Geographic Distribution of U.S. Biotechnology Enterprises, 1976-1989. **AU** Zucker, Lynne G.; Darby, Michael R.; Peng, Yusheng.

Dardanoni, Valentino

PD April 1998. **TI** Horizontal Inequity Comparisons. **AU** Dardanoni, Valentino; Lambert, Peter. **AA** Dardanoni: Universita di Palermo. Lambert: University of York. **SR** Institute for Fiscal Studies Working Paper: W98/07; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 16. **PR** 3 pounds. **JE** D31, D63, H22, H23. **KW** Horizontal Equity. Reranking. Tax Systems. Living Standards.

AB In this paper, we expound the idea that horizontal inequity (HI) in different tax systems be compared by transplanting the HI from one tax system into the other, as a mapping between its pre- and post-tax living standard distributions, and then applying known results to compare the extent of association present in the two joint distributions. We make this idea operational by means of axioms which, we show, lead to an implementable procedure based on the 'copula'. Statistical inference procedures are discussed, and illustrative empirical exercises are undertaken for the United Kingdom, Canadian and Israeli tax and benefit systems.

Das, Sanjiv Ranjan

PD February 1998. **TI** Of Smiles and Smirks: A Term-Structure Perspective. **AU** Das, Sanjiv Ranjan; Sundaram, Rangarajan K. **AA** Das: Harvard University. Sundaram: New York University. **SR** New York University, Salomon Center Working Paper: S/98/12; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 39. **PR** $5.00 each; $100.00 yearly subscription. **JE** C51, G12, G13. **KW** Black-Scholes Model. Stochastic Volatility. Jumps in Returns.

AB Empirical anomalies in the Black-Scholes model have been widely documented in the Finance literature. Patterns in these anomalies (for instance, the behavior of the volatility smile or of unconditional returns at different maturities) have also been widely documented. Theoretical efforts in the literature at addressing these anomalies have largely centered around extensions of the basic Black-Scholes model. Two approaches have become especially popular in this context -- introducing jumps into the return process, and allowing volatility to be stochastic. This paper employs commonly-used versions of these two classes of models to examine the extent to which the models are theoretically capable of resolving the observed anomalies. We focus especially on the possible "term-structures" of skewness, kurtosis, and the implied volatility smile that can arise under each model. Our central finding is that each model exhibits moment patterns and implied volatility smiles that are consistent with some of the observed anomalies, but not with others. In sum, neither class of models constitutes an adequate explanation of the empirical evidence, although stochastic volatility models fare better than jumps in this regard.

PD February 1998. **TI** The Regulation of Fee Structures in Mutual Funds: A Theoretical Analysis. **AU** Das, Sanjiv Ranjan; Sundaram, Rangarajan K. **AA** Das: Harvard University. Sundaram: New York University. **SR** New York University, Salomon Center Working Paper: S/98/20; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 46. **PR** $5.00 each; $100.00 yearly subscription. **JE** G11, G23,. **KW** Mutual Funds. Fee Structures. Fulcrum Fees. Incentive Fees.

AB Existing regulations require fee structures used to compensate advisers in the mutual fund industry to be of the "fulcrum" variety, decreasing for underperforming a given index in the same way in which they increase for outperforming it. In this paper, we offer a new model for analyzing the mutual fund industry, and use this model to examine the impact of restricting the fee structures that may be employed. We find little justification for existing regulations. Indeed, we find that

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"incentive fees" in which the adviser receives a flat fee plus a bonus for exceeding a benchmark index provide Pareto-dominant outcomes with a lower level of equilibrium volatility. Our model also offers some insight into fee structures actually in use in the asset- management industry. We find that when leveraging is not permitted and a fulcrum fee must be employed, the equilibrium fee is a flat fee with no performance component; while if incentive fees are allowed and leveraging is permitted the equilibrium fee is an incentive fee with a large performance component. These results mesh well with observed fee structures in the mutual fund industry and the hedge fund industry, respectively.

Davis, Steven J.

PD October 1997. **TI** Explaining National Differences in the Size and Industry Distribution of Employment. **AU** Davis, Steven J.; Henrekson, Magnus. **AA** Davis: University of Chicago and National Bureau of Economic Research. Henrekson: IUI, The Research Institute of Industrial Economics. **SR** National Bureau of Economic Research Working Paper: 6246; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** H30, J21, J23, L11, L52. **KW** Labor Studies. Employment. Industrial Policy. Public Economics. Self Employment.

AB What factors determine national differences in the size and industry distribution of employment? The authors stress the role of the economic policy environment as determined by business taxes, employment security laws, credit market regulations, the national pension system, wage- setting institutions and the size of the public sector. They characterize these aspects of the policy environment in Sweden prior to 1990-91 and compare them to the situation in other European countries and the United States. Their characterization and international comparisons show that Swedish policies strongly disfavored less capital- intensive firms, smaller firms, entry by new firms, and individual and family ownership of business. They also compile evidence that these policies affect outcomes. Sweden's employment distribution in the mid- 1980's is sharply tilted away from low-wage industries and industries with greater employment shares for smaller firms and establishments. Compared to other European countries, Sweden has an unusually high share of employment in large firms.

Dayal-Gulati, Anuradha

TI China's Trade Flows: Changing Price Sensitivities and the Reform Process. **AU** Cerra, Valerie; Dayal-Gulati, Anuradha.

Dearden, Lorraine

PD October 1997. **TI** The Effect of School Quality on Educational Attainment and Wages. **AU** Dearden, Lorraine; Ferri, Javier; Meghir, Costas. **AA** Dearden: Institute for Fiscal Studies. Ferri: Universitat de Valencia. Meghir: University College London and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/03; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 44. **PR** 3 pounds. **JE** I21, I23, J24, J31. **KW** School Quality. Wages. Britain. Educational Inputs.

AB The paper examines the effects of school quality on educational attainment and wages using the British National Child Development Survey data. We consider the impact of the student/teacher ratio, the expenditure per pupil and average teachers' salaries in the child's local education authority. We also estimate the effects of the type of school. The results suggest that these traditional measures of school quality have little effect on the educational and wage outcomes of the population as a whole, once we control for the particularly rich information on family background, neighborhood characteristics and ability. However, we find some evidence that lower secondary student- teacher ratios and single sex schools enhance both the educational and labor market performance of women in the bottom half of the ability distribution.

PD June 1998. **TI** Ability, Families, Education and Earnings in Britain. **AA** Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/14; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 31. **PR** 3 pounds. **JE** I21, J24, J31. **KW** Returns to Education. Britain. Family Background.

AB The paper estimates the returns to education for a cohort of individuals born in Britain in March 1958 who have been followed until the age of 33. The family background data includes parental education, social class and interest shown in the child's education as well as measures of ability. This paper finds that the return to an additional year of full-time education is between 5 to 7 percent for men and 8 to 10 percent for women, even after correcting for measurement error. Individuals undertaking education involving some sort of formal qualification have significantly larger rates of return to an additional year of education than individuals who have obtained no formal education. Individuals whose highest educational qualification is an A level (the highest schooling qualification in the United Kingdom) appear to have the highest average return at around 15 percent for both men and women. There is also some evidence that individuals with lower tastes for education, have significantly higher marginal returns to education. The results also suggest that recent IV estimates of the returns to schooling, which exceed typical OLS estimates, may overestimate the average marginal return for the population as a whole.

Dekel, Eddie

PD January 1999. **TI** Sequential Voting Procedures in Symmetric Binary Elections. **AU** Dekel, Eddie; Piccione, Michele. **AA** Dekel: Northwestern University and Tel-Aviv University. Piccione: University of Southampton. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 03/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 26. **PR** no charge. **JE** C70, D72, D81, D82. **KW** Sequential Voting. Elections. Information Aggregation. Simultaneous Voting.

AB We explore sequential voting in symmetric two-option environments. We show that the (informative) symmetric equilibria of the simultaneous voting game are also equilibria in any sequential voting structure. In unanimity games, (essentially) the whole set of equilibria is the same in all sequential structures. We also explore the relationship between simultaneous and sequential voting in other contexts. We illustrate several instances where sequential voting does no better at aggregating information than simultaneous voting. The inability of the sequential structure to use additional information in voting model is distinct from that in the herd-cascade literature.

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PD January 1999. **TI** On the Evolution of Attitudes Towards Risk in Winner-Take-All Games. **AU** Dekel, Eddie; Scotchmer, Suzanne. **AA** Dekel: Northwestern University and Tel-Aviv University. Scotchmer: University of California, Berkeley. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 04/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 22. **PR** no charge. **JE** C72, D81. **KW** Evolution. Endogenous Preferences. Winner-Take-All. Risk Aversion.

AB A long-standing conjecture is that winner-take-all games such as patent races lead to the survival of risk-takers and the extinction of risk-averters. In many species a winner-take-all game determines the males right to reproduce, and the same argument suggests that males will evolve to be risk-takers. Psychological and sociological evidence buttresses the argument that males are more risk-taking than females. Using an evolutionary model of preference-formation, we investigate to what extent evolution leads to risk-taking in winner-take-all environments.

PD February 1999. **TI** Payoff Information and Self-Confirming Equilibrium. **AU** Dekel, Eddie; Fudenberg, Drew; Levine, David K. **AA** Dekel: Northwestern University and Tel-Aviv University. Fudenberg: Harvard University. Levine: University of California, Los Angeles. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 09/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 27. **PR** no charge. **JE** C72. **KW** Self-Confirming Equilibrium. Rationality. Extensive-Form Games.

AB In a self-confirming equilibrium, each player correctly forecasts the actions that opponents will take along the equilibrium path, but may be mistaken about the way that opponents would respond to deviations. This models a steady state of a learning process in which players observe actions played by their opponents, rather than a complete specification of their strategies. Consequently, players need not receive evidence that their forecasts of off-path play are incorrect. In practice, players understand that opponents are rational and have some information about their opponents' payoffs. This paper develops a refinement of self-confirming equilibrium that incorporates the effects of such information. We show that this concept is robust. We also discuss its relationship to other concepts. In particular, we show that it is closely connected to assuming almost common certainty of payoffs in an epistemic model with independent beliefs.

DelRossi, Alison F.

PD March 1998. **TI** Changing the Price of Pork: The Impact of Local Cost Sharing on Legislators' Demands for Distributive Public Goods. **AU** DelRossi, Alison F.; Inman, Robert P. **AA** DelRossi: University of Wyoming. Inman: University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6440; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** H41, H50, H70. **KW** Public Goods. Subsidization. Water Projects. Cost Sharing.

AB The provision of public services through national legislatures gives legislators the chance to fund locally-beneficial public projects using a shared national tax base. Nationally-financed, local public goods will be purchased at a subsidized price below marginal cost and may be inefficiently too large as a consequence. An important assumption behind this conclusion is that national legislators in fact demand more of the locally-beneficial project as the local price for projects declines. This paper provides the first direct test of this important assumption using legislators' project choices following the passage of the Water Resources Development Act of 1986 (WRDA'86). The authors find legislators' chosen water project sizes do fall as the local cost share rises. The requirement of WRDA'86 that local taxpayers contribute a greater share to the funding of local water projects reduced overall project spending by 35 percent and the federal outlay for project spending by 48 percent.

den Haan, Wouter J.

PD November 1997. **TI** Job Destruction and Propagation of Shocks. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel. **AA** den Haan: University of California, San Diego and National Bureau of Economic Research. Ramey and Watson: University of California, San Diego. **SR** National Bureau of Economic Research Working Paper: 6275; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E24, E32, J41, J60. **KW** Labor Markets. Matching. Job Destruction. Business Cycles. Savings.

AB We develop and quantitatively implement a dynamic general equilibrium model with labor market matching and endogenous job destruction. The model produces a close match with data on job creation and destruction. Cyclical fluctuations in the job destruction rate serve to magnify the effects of productivity shocks on output, as well as making the effects much more persistent. Interactions between household savings decisions and separation decisions in employment relationships play a key role in propagating shocks.

PD April 1999. **TI** Liquidity Flows and Fragility of Business Enterprises. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel. **AA** den Haan and Ramey: University of California, San Diego and National Bureau of Economic Research. Watson: University of California San Diego and Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1215; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 39. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** E22, E32, G21, G31, G32. **KW** Financial Intermediation. Business Cycles. Liquidity. Entrepreneurs.

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 April 1999. **TI** Contract-Theoretic Approaches to Wages and Displacement. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel. **AA** den Haan: University of California

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San Diego and National Bureau of Economic Research. Ramey: University of California San Diego. Watson: University of California San Diego and Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1216; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 27. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C78, E32, J31, J41. **KW** Employment Relationships. Contracting. Business Cycles. Moral Hazard. Liquidity.

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.

Denizer, Cevdet

PD March 1998. **TI** Household Savings in Transition Economies. **AU** Denizer, Cevdet; Wolf, Holger C. **AA** Denizer: The World Bank. Wolf: New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6457; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 12. **PR** $5.00. **JE** D91, E21, O11, O16. **KW** Saving. Transition Economies. Anticipatory Savings. Durables. Demographic Economics.

AB Based on matching household surveys for three central European countries, Bulgaria, Hungary and Poland, we explore the determinants of household saving rates in transition economies. We find savings rates to increase strongly in relative income and to be significantly higher for households owning few of the standard consumer durables, consistent with anticipatory savings prior to durable purchases in the absence of retail credit markets. The influence of demographic factors broadly matches earlier findings for developing countries. Perhaps surprisingly, variables associated with the position of the household in the transition process, notably the sector of employment, plays no significant role in determining savings rates.

Dennis, Richard

PD June 1998. **TI** Instability Under Nominal GDP Targeting: The Role of Expectations. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 347; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 32. **PR** no charge. **JE** D84, E31, E52. **KW** Inflation Expectations. Instability. Nominal GDP. Targeting.

AB Using a small closed economy model Ball (1997) shows that nominal gross domestic product (GDP) targeting can lead to instability. This paper extends Ball's model to uncover the role inflation expectations play in generating this instability. By changing the process by which inflation expectations are formed in the short-run aggregate supply curve, the paper shows that nominal GDP targeting in either level or growth form does not generally result in instability. The paper further shows that in Ball's (1997) case where exact targeting causes instability, moving to inexact targeting restores stability.

Dessus, Sebastien

TI Trade Integration with Europe, Export Diversification and Economic Growth in Egypt. **AU** Suwa-Eisenmann, Akiko; Dessus, Sebastien.

Devereux, Michael P.

PD July 1998. **TI** The Taxation of Discrete Investment Choices. **AU** Devereux, Michael P.; Griffith, Rachel. **AA** Devereux: Keele University and Institute for Fiscal Studies. Griffith: Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/16; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 27. **PR** 3 pounds. **JE** E22, H25, H32. **KW** Taxation. Capital Income. Investment Decision. Marginal Tax.

AB Traditional analysis of the taxation of income from capital has focused on the impact of tax on marginal investment decisions; the principal impact of tax is through the cost of capital, and is generally measured by an effective marginal tax rate. In this paper, we consider cases in which investors face a choice between two or more mutually exclusive projects, both of which are expected to earn at least the minimum required rate of return. Examples include the location decisions of multinationals, firms' choice of technology (e.g. R&D), and the choice of investment projects in the presence of binding financial constraints. In these cases the choice depends on the total tax levied on each project, including the tax on economic rent; an appropriate measure of the role of tax is an effective average tax rate. We describe a procedure for computing this measure and demonstrate its relationship to the conventional effective marginal tax rate. Estimates of both are presented and compared for domestic and international investment in Germany, Japan, the United Kingdom and the United States between 1979 and 1997.

Diebold, Francis X.

PD October 1997. **TI** Evaluating Density Forecasts of Inflation: The Survey of Professional Forecasters. **AU** Diebold, Francis X.; Tay, Anthony S.; Wallis, Kenneth F. **AA** Diebold: University of Pennsylvania and National Bureau of Economic Research. Tay: National University of Singapore. Wallis: University of Warwick. **SR** National Bureau of Economic Research Working Paper: 6228; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 23. **PR** $5.00. **JE** C10, C53, E31, E32, E37. **KW** Economic Fluctuations. Growth. Inflation. Forecasting.

AB Since 1968, the Survey of Professional Forecasters has asked respondents to provide a complete probability distribution of expected future inflation. We evaluate the adequacy of those density forecasts using the framework of Diebold, Gunther and Tay (1997). The analysis reveals several interesting features of the density forecasts in relation to realized inflation, including several deficiencies of the forecasts. The probability of a large negative inflation shock is generally overestimated, and in more recent years the probability of a large shock of either sign is overestimated. Inflation surprises are serially correlated, although agents eventually adapt. Expectations of low inflation are associated with reduced uncertainty. The results suggest several promising directions for future research.

PD November 1997. **TI** The Past, Present, and Future of Macroeconomic Forecasting. **AA** University of Pennsylvania

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and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6290; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E17, E27, E37, E47, F47. **KW** Forecasting. Macroeconomics. Structural Forecasting. General Equilibrium.

AB Broadly defined, macroeconomic forecasting is alive and well. Nonstructural forecasting, which is based largely on reduced-form correlation's, has always been well and continues to improve. Structural forecasting, which aligns itself with economic theory and hence rises and falls with theory, receded following the decline of Keynesian theory. In recent years, however, powerful new dynamic stochastic general equilibrium theory has been developed, and structural macroeconomic forecasting is poised for resurgence.

Diermeier, Daniel

PD October 1998. **TI** Government Turnover in Parliamentary Democracies. **AU** Diermeier, Daniel; Merco, Antonio. **AA** Diermeier: MEDS and Northwestern University. Merco: New York University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1232; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 38. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C73, D72, H19. **KW** Government Stability. Minority Coalitions. Surplus Coalitions.

AB In this paper we consider a dynamic model of government formation and termination in parliamentary democracies. Our analysis accounts for the following observed phenomena: (1) Cabinet reshuffles; (2) Cabinet replacements; (3) Early elections; (4) Surplus governments; (5) Minority governments; (6) The relative instability of minority governments.

PD December 1998. **TI** Information and Congressional Hearings. **AU** Diermeier, Daniel; Feddersen, Timothy J. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1236; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 24. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D71, D72, D73, D82. **KW** Congressional Hearings. Information Dissemination. Legislative Process.

AB While Congressional scholars agree that hearings are an important activity there is little consensus on their role in the legislative process. The traditional literature on hearings play down their role as mechanisms of disseminating information because committee members often do not appear persuaded by the information they reveal. In this paper, we explore the premise that hearings may not be informative to committees but may provide crucial information to the floor. We show that, if hearings have some intrinsic informative content and are costly, even extreme committees can transmit useful information to the floor. Furthermore, the possibility of holding hearings creates an incentive for extreme committees to specialize and reveal information simply by the decision whether to hold hearings.

DiNardo, John

PD December 1997. **TI** Unions and Managerial Pay. **AU** DiNardo, John; Hallock, Kevin; Pischke, Jorn-Steffen. **AA** DiNardo: University of California, Irvine and National Bureau of Economic Research. Hallock: University of Illinois at Urbana-Champaign. **SR** National Bureau of Economic Research Working Paper: 6318; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J31, J44, J51. **KW** Unions. Wages. Managers. Labor Markets. Professionals.

AB Unions compress the wage distribution among workers covered by union contracts. We ask whether unions also have an effect on the managers of unionized firms. To this end we collected and assembled data on unionization and managerial pay within firms and industries in the U.S. and across countries. Generally, we find a negative correlation between executive compensation and unionization in our cross-section data, but no relationship of changes in unionization on the growth of compensation of executives over time. Using NLRB elections data, we find that a loss of union members due to decertification elections is associated with higher CEO pay, although our estimates are imprecise. With CPS data we consistently find that where unions are stronger, fewer managers are employed.

DiPasquale, Denise

PD January 1998. **TI** Incentives and Social Capital: Are Homeowners Better Citizens? **AU** DiPasquale, Denise; Glaeser, Edward L. **AA** DiPasquale: University of Chicago. Glaeser: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6363; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D60, H50, J61, R21, R23. **KW** Social Capital. Homeownership. Mobility. Investment.

AB Individuals invest in their local environments by volunteering, getting involved in local government, becoming informed about their political leaders, joining non-professional organizations and even gardening. Homeownership may encourage these investments, both because homeownership gives individuals an incentive to improve their community and because homeownership creates barriers to mobility. Using the U.S. General Social Survey, the authors document that homeowners are more likely to invest in social capital, and a simple instrumental variables strategy suggests that the relationship may be causal. The authors find evidence that a large portion of the effect of homeownership on these investments may come from lower mobility rates for homeowners. Using the German Socio-Economic Panel, the authors also find a connection between homeownership and citizenship controlling for individual fixed effects. Finally, across cities and counties, areas with more homeowners have lower government spending, but spend a larger share of their government budget on education and highways.

Dixit, Avinash K.

PD January 1998. **TI** Expandability, Reversibility, and Optimal Capacity Choice. **AU** Dixit, Avinash K.; Pindyck,

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Robert S. **AA** Dixit: Princeton University. Pindyck: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6373; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 26. **PR** $5.00. **JE** D92, E22, G13. **KW** Capacity. Investment. Expansion. Intertemporal Choice.

AB We develop continuous-time models of capacity choice when demand fluctuates stochastically, and the firm's opportunities to expand or contract are limited. Specifically, we consider costs of investing or disinvesting that vary with time, or with the amount of capacity already installed. The firm's limited opportunities to expand or contract create call and put options on incremental units of capital; we show how the values of these options affect the firm's investment decisions.

PD July 1998. **TI** A Theory of Political Compromise. **AU** Dixit, Avinash K.; Grossman, Gene M.; Gul, Faruk. **AA** Princeton University. **SR** Centre for Economic Policy Research Discussion Paper: 1935; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 56. **PR** 5 pounds or 8 dollars or 8 euros. **JE** C73, D78. **KW** Policy-Making. Compromise. Risk Sharing. Political Parties. Dynamic Games.

AB We study political compromise founded on tacit cooperation. Two political parties must share a fixed pie in each of an infinite sequence of periods. In each period, the party in power has ultimate authority to divide the pie. Power evolves according to a Markov process among a set of political states corresponding to different degrees of political "strength" for the two. The political strength of each party is a state variable, and the game is dynamic, rather than repeated. Allocations in an efficient, sub-game perfect equilibrium do not follow a Markov process. Rather, a party's share reflects not only its current strength, but also how it got there in the recent history. We characterize the efficient division processes for majority rule and supermajority rule, and ask whether one regime allows greater compromise than the other.

Dolado, Juan J.

PD August 1998. **TI** The Fall in Consumption from Being Unemployed in Spain and Portugal. **AU** Dolado, Juan J.; Jimeno, Juan F.; Castillo, Sonsoles. **AA** Dolado: Banco de Espana. Jimeno: FEDEA. Castillo: Universidad de Alcala. **SR** Centre for Economic Policy Research Discussion Paper: 1953; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 28. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E21, E24, J64, J65. **KW** Consumption. Unemployment. Unemployment Insurance. Wages.

AB In Portugal real wage flexibility, at the macroeconomic level, is noticeably higher, while unemployment duration is lower, when compared to Spain. This suggests that the hardship of being unemployed is higher in Portugal. Unemployment benefits and family insurance, which are the main buffer against unemployment and have played different roles in both countries, can explain this disparity. In this chapter we present some estimates of the loss of consumption suffered by unemployed workers relative to employed workers in Spain and Portugal. The estimates come from comparable data sets (cross-sections of the Household Budget Surveys). Our results confirm our prior findings: this loss is much more sizable in Portugal.

PD August 1998. **TI** A Tale of Two Neighbour Economies: Labour Market Dynamics in Spain and Portugal. **AU** Dolado, Juan J.; Jimeno, Juan F.; Castillo, Sonsoles. **AA** Dolado: Banco de Espana. Jimeno: FEDEA. Castillo: Universidad de Alcala. **SR** Centre for Economic Policy Research Discussion Paper: 1954; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 48. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E24, E32, J23, J31, J64. **KW** Unemployment. Persistence. Shocks. Structural VAR. Labor Markets.

AB Spain and Portugal are two neighbor economies which share many characteristics. Spanish unemployment is more than double Portuguese unemployment, however. In this chapter we resort to Structural Vector Autoregression (SVAR) techniques to ascertain which shocks and what propagation mechanism underlie the functioning of the labor markets in both countries. Our results show that price adjustment is more sticky and that real wage flexibility is higher in Portugal. In line with this evidence, we find that, although shocks hitting both economies since the beginning of the eighties were not too dissimilar, their effects on unemployment were much more long-lasting in Spain than in Portugal.

Donoghue, Mark

PD November 1997. **TI** William T. Thornton on the Economics of Trade Unions: An Early Contribution to Efficient Bargaining Theory. **AU** Donoghue, Mark; Wright, Mark L. J. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 328; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 27. **PR** no charge. **JE** B13, B31, J41, J51. **KW** William T. Thornton. Efficient Bargaining. Labor Economics. Efficient Contracts.

AB The proportion of articles on unions published in major economics journals declined from 9.2 per cent in the 1940s to just 0.4 percent in the first half of the 1970s. A decade later, the field had undergone explosive growth. The catalyst for this renewed interest was the "rediscovery" of the notion of efficient contracts between unions and employers, and particularly the contribution of McDonald and Solow (1981). Efficient contract theory depicts unions and employers as rational agents negotiating Pareto-efficient bargains covering multiple aspects of the employment relationship. The contention of this paper is that an early attempt to model the union employer bargaining process can be found in William Thomas Thornton's treatise "On Labour". Thornton dismissed the then popular notion that wages were determined "by the equality of supply and demand" in favour of a model in which wages were determined by bargains between unions and employers. These bargains determined the distribution of a fund, which the authors term rents, between employers and unions. The authors find that Thornton presents a rather sophisticated analysis of union employer bargaining.

Donohue, John, III.

PD February 1998. **TI** Social Action, Private Choice, and Philanthropy: Understanding the Sources of Improvements in Black Schooling in Georgia, 1911-1960. **AU** Donohue, John, III..; Heckman, James J.; Todd, Petra E. **AA** Donohue: Stanford University. Heckman: University of Chicago and

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National Bureau of Economic Research. Todd: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6418; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I21, J15, J70, N32, N41. **KW** Education. Educational Quality. Minorities. Social Action.

AB Improvements in educational attainment and in educational quality are universally acknowledged to be major contributors to black economic progress in the twentieth century. The sources of these improvements are less well understood. Many scholars implicitly assume improvements in schooling reflect private choices. In fact, schooling is publicly provided and increases in the quality and availability of black schools in the South occurred at a time when blacks were excluded from the political process. This paper demonstrates the important roles of social action, especially NAACP litigation, and private philanthropy, in improving access and quality of public schooling in Georgia and in the rest of the South in the first half of the century. Analyses that pit rising schooling quality as an alternative to social action in explaining black progress miss the important role of social activism in promoting schooling quality and hence in elevating the economic status of black Americans.

Dooley, Michael P.

PD October 1997. **TI** Capital Mobility and Exchange Market Intervention in Developing Countries. **AU** Dooley, Michael P.; Mathieson, Donald J.; Rojas-Suarez, Liliana. **AA** Dooley: Unversity of California; Santa Cruz and National Bureau of Economic Research. Mathieson: International Monetary Fund. Rojas-Suarez: Inter-American Development Bank. **SR** National Bureau of Economic Research Working Paper: 6247; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 45. **PR** $5.00. **JE** F32, F36, F41, O19, O20. **KW** International Finance. Macroeconomics. Capital Mobility. Development.

AB This paper develops a new technique for measuring changes in the degree of capital mobility confronting a developing country that has restrictions on capital flows and official ceilings on domestic interest rates. Because such official controls rule out the use of traditional interest rate parity conditions to measure changes in the degree of capital mobility, the analysis first examines an intertemporal model of an open economy. This model describes the linkages between the cost of undertaking disguised capital flows, the current account, capital controls, domestic and external financial market conditions, and the authorities' foreign exchange market interventions. The model suggests a means of measuring changes in the cost of undertaking disguised capital flows, based on the past history of differentials between external interest rates (adjusted for exchange rate changes) and domestic ceiling interest rates, provided that the authorities' foreign exchange market activities are incorporated into the analysis.

PD December 1997. **TI** A Model of Crises in Emerging Markets. **AA** University of California, Santa Cruz and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6300; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 27. **PR** $5.00. **JE** F31, F32, F34, O16, O19. **KW** Speculative Attacks. Exchange Rates. Emerging Markets. Capital Flows.

AB First generation models of speculative attacks show that apparently random speculative attacks on policy regimes can be fully consistent with rational and well-informed speculative behavior. Unfortunately, models driven by a conflict between exchange rate policy and other macroeconomic objectives do not seem consistent with important empirical regularities surrounding recent crises in emerging markets. This has generated considerable interest in models that associate crises with self-fulfilling shifts in private expectations. This paper develops a first generation model based on an alternative policy conflict. Credit constrained governments accumulate reserve assets in order to self- insure against shocks to national consumption. Governments also insure poorly regulated domestic financial markets. Given this policy regime, a variety of internal and external shocks generate capital inflows to emerging markets followed by successful and anticipated speculative attacks. The authors argue that a common external shock generated capital inflows to emerging markets in Asia and Latin America after 1989.

Dornbusch, Rudiger

PD January 1998. **TI** The Immediate Challenges for the European Central Bank. **AU** Dornbusch, Rudiger; Favero, Carlo A.; Giavazzi, Francesco. **AA** Dornbusch: Massachusetts Institute of Technology and National Bureau of Economic Research. Favero: IGIER and Universita Bocconi. Giavazzi: IGIER, Universita Bocconi and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6369; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E44, E52, E58, F33. **KW** European Union. Monetary Union. Monetary Policy. Central Banks.

AB This paper discusses a number of issues that the newly constituted Board of the European Central Bank (ECB) will face early on. The authors show how conducting a European monetary policy is very different from living under the protective umbrella of the Bundesbank. They discuss voting on the ECB Board, and argue that the ability to communicate to the public will be a critical factor for the success of the new institution. They also ask how a single monetary policy is transmitted to the economy of the member countries. We show that the monetary process differs significantly inside EMU: initially, at least, the cost of a disinflation episode could thus fall very unequally on a few member countries. This process, moreover, is sure to evolve, in part as a result of the financial industry restructuring that is already underway, and will be accentuated by the common money.

Dowrick, Steve

TI Convergence and Technology in the Solow-Swan Growth Model: An Empirical Analysis. **AU** Rogers, Mark; Dowrick, Steve.

Driffill, John

PD July 1998. **TI** No Credit for Transition: The Maastricht Treaty and German Unemployment. **AU** Driffill, John; Miller, Marcus. **AA** Driffill: University of Southampton. Miller: University of Warwick. **SR** Centre for Economic Policy Research Discussion Paper: 1929; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website:

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www.cepr.demon.co.uk. **PG** 32. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E62, E63, J41, O52, R12. **KW** Transition. Germany. Maastricht. European Monetary Union. Instability.

AB Germany is generally regarded as the nominal anchor for Europe. Its participation is the sine qua non of EMU. It has been the largest net contributor to EU finances, the leading proponent of greater economic and political union, and the leading example of the virtues of fiscal and monetary rectitude as enshrined in the Maastricht Treaty. Reunified Germany, however, combines the prosperous western state with the transitional eastern economy, and the burdens of combining the two roles; that of being an example of fiscal and monetary prudence for the EU on the one hand, and that of financing the transition of the former East Germany on the other, are leading to high unemployment, are slowing the transition process, and may become insupportable. We argue here that Germany should be viewed as part of the problem rather than its treatment.

Dumais, Guy

PD November 1997. **TI** Geographic Concentration as a Dynamic Process. **AU** Dumais, Guy; Ellison, Glenn; Glaeser, Edward L. **AA** Dumais: Harvard University. Ellison: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6270; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 31. **PR** $5.00. **JE** L11, L60, R11, R12. **KW** Manufacturing. Geographic Concentration. Labor Market Pooling. Industrial Organization. Industry Agglomeration.

AB Geographic concentration of individual manufacturing industries in the U.S. has declined only slightly in the last twenty years. Concurrently, new plant births, plant expansions, contractions and closures have shifted large quantities of employment across plants, firms, and locations. This paper uses the Census Bureau's Longitudinal Research Database data to examine how relatively stable levels of geographic concentration emerge from this dynamic process. While industries' agglomeration levels tend to remain fairly constant, the authors find that there is greater variation in the locations of these agglomerations. They decompose aggregate concentration changes into portions attributable to plant births, expansions, contractions, and closures, and find that the location choices of new firms and differences in growth rates have played the most significant role in reducing levels of geographic concentration, while plant closures have tended to reinforce agglomeration. Finally, the authors look at coagglomeration patterns to test three of Marshall's theories of industry agglomeration.

Dungey, Mardi

PD July 1997. **TI** Credit Limits and Long-Term Covered Interest' Arbitrage. **AU** Dungey, Mardi; Gower, Luke. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 325; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 17. **PR** no charge. **JE** F31, G15, L14. **KW** Covered Interest. Interest Parity. Credit Limits. Arbitrage.

AB Covered interest parity seems to hold more strongly for short-term assets than for long-term assets. Credit limits have been suggested as a possible explanation of this phenomenon. This paper contests that hypothesis. It shows that, in a perfectly competitive environment, covered interest arbitrageurs actually need more, rather than less, capital to execute arbitrage with short-term assets. The implication is that credit limits on arbitrageurs are insufficient as an explanation of covered interest parity failure at longer maturities.

Durham, Yvonne

PD May 1997. **TI** Do the Rich Get Richer and the Poor Poorer? Experimental Tests of a Model of Power. **AU** Durham, Yvonne; Hirshleifer, Jack; Smith, Vernon L. **AA** Durham: University of Arkansas. Hirshleifer: University of California, Los Angeles. Smith: University of Arizona. **SR** University of California, Los Angeles, Department of Economics Working Paper: 770; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 32. **PR** $5.00. **JE** C72, C91, D74, H11. **KW** Paradox of Power. Economic Experiments. Conflict. Cooperation.

AB Individuals, groups, or nations -- if rational and self-interested - - will equalize the marginal returns of two main ways of generating income: (1) production combined with mutually advantageous exchange, versus (2) political or military distributive struggles. In such conflicts it might be expected that initially stronger or richer contenders would grow ever stronger and richer still, but the reverse often occurs (the "Paradox of Power"). The experiments reported here confirm the theoretical prediction that the Paradox of Power holds when m, the decisiveness of fighting effort, is low but not when m is high. In addition, subjects preponderantly arrived at the Nash rather than the cooperative solution -- though with some slippage toward cooperation in experimental treatments that fostered "learning to cooperate".

Durlauf, Steven N.

PD February 1998. **TI** The New Empirics of Economic Growth. **AU** Durlauf, Steven N.; Quah, Danny T. **AA** Durlauf: University of Wisconsin and National Bureau of Economic Research. Quah: London School of Economics. **SR** National Bureau of Economic Research Working Paper: 6422; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 71. **PR** $5.00. **JE** C21, C22, E13, O30, O41. **KW** Growth. Neoclassical Growth.

AB We provide an overview of recent empirical research on patterns of cross-country growth. The new empirical regularities considered differ from earlier ones, e.g., the well-known Kaldor stylized facts. The new research no longer makes production function accounting a central part of the analysis. Instead, attention shifts more directly to questions like. Why do some countries grow faster than others? It is this changed focus that, in our view, has motivated going beyond the neoclassical growth model.

Dustmann, Christian

PD August 1998. **TI** Attitudes to Ethnic Minorities, Ethnic Context and Location Decisions. **AU** Dustmann, Christian; Preston, Ian. **AA** Dustmann: Universitat Bielefeld. Preston: University College London. **SR** Centre for Economic Policy Research Discussion Paper: 1942; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website:

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www.cepr.demon.co.uk. **PG** 40. **PR** 5 pounds or 8 dollars or 8 euros. **JE** J15, J71, R23. **KW** Attitudes. Ethnic Minorities. Locational Choice. Social Exclusion.

AB The attitudes of ethnic majority populations towards other communities is a potentially important determinant of social exclusion and of the welfare of ethnic minorities. The suggestion that negative attitudes towards minorities may be affected by the ethnic composition of the locality in which individuals live has often been made and empirically investigated. We point to an important potential for bias in simple estimates of ethnic context effects if individual location decisions are driven in part by attitudinal factors. We also suggest an instrumental variables procedure for overcoming such bias in data with appropriate spatial information. Our results suggest that allowing for such effects is of considerable importance.

PD December 1998. **TI** Wages, Experience and Seniority. **AU** Dustmann, Christian; Meghir, Costas. **AA** Institute for Fiscal Studies and University College London. **SR** Institute for Fiscal Studies Working Paper: W99/01; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 46. **PR** 3 pounds. **JE** J24, J31, J63. **KW** Human Capital. Wage Growth. Learning by Doing. Returns to Experience.

AB This paper develops and estimates a human capital model of wage growth based on learning by doing. Learning by doing rates are assumed to be heterogeneous and firms offer different career structures in terms of the rate of acquisition of firm specific human capital. The model is estimated using a unique data set drawn from German administrative records and including a complete employment and earnings history for each worker in our sample. We find evidence of increased labor market attachments for individuals with higher returns to experience. This has important implications for the estimates. The estimated returns to experience are 2.7 percent a year. The returns to tenure are close to zero. Crucial identifying information is provided by plant closures.

Dwyer, Mark

PD August 1998. **TI** Impulse Response Prior for Discriminating Structural Vector Autoregressions. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 780; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 35. **PR** $5.00. **JE** C11, C32, C52, E51. **KW** Structural VAR. Bayes Factors. Importance Sampling. Monetary Policy.

AB The structural vector auto-regression (SVAR) has become a central tool for research in empirical macroeconomics. Because the vast majority of these models are exactly identified, researchers have traditionally relied upon the informal use of prior information to compare alternative specifications. This paper surveys some of the structural dynamic restrictions used to evaluate SVAR's. I provide a method for constructing prior distributions that incorporates this information on impulse responses. Based upon these Impulse Response Priors (IRP's) I employ a formal Bayesian model selection procedure for comparing SVAR specifications. I use this procedure to compare several alternative, six variable SVAR models of the interaction of real and monetary sectors of the U.S. economy. I make these comparisons under a variety of assumptions regarding the nature of the money supply rule, and lag length. Empirically, I find strong evidence in favor of interpreting shocks to the federal funds rate as monetary policy shocks, as opposed to non-borrowed reserves. The most favored identification is one in which monetary policy reacts to contemporaneous movements in real variables and the price level. There is less evidence that monetary policy reacts as quickly to fluctuations in money demand.

Eaton, Jonathon

PD November 1997. **TI** Technology and Bilateral Trade. **AU** Eaton, Jonathon; Kortum, Samuel. **AA** Boston University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6253; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 52. **PR** $5.00. **JE** F11, F17, O33. **KW** International Trade. Investment. Innovation. Technological Diffusion.

AB We develop a Ricardian model to explore the role of trade in spreading the benefits of innovation. The theory delivers an equation for bilateral trade that, on its surface, resembles a gravity specification, but identifies underlying parameters of technology. We estimate the equation using trade in manufactures among the OECD. The parameter estimates allow us to simulate the model to investigate the role of trade in spreading the benefits of innovation and to examine the effects of lower trade barriers. Typically, foreigners benefit by only a tenth as much as the innovating country, but in some cases the benefits to close neighbors approach those of the innovator.

Edwards, Sebastian

PD December 1997. **TI** The Mexican Peso Crisis: How Much Did We Know? When Did We Know It? **AA** University of California, Los Angeles and National Bureau of Economic Research.. **SR** National Bureau of Economic Research Working Paper: 6334; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F32, F41, O16, O23, O54. **KW** Currency Crises. Mexico. Capital Inflows. Inflation. Exchange Rates.

AB The Mexican crisis of 1994 raised a number of questions regarding the sustainability of the market oriented reform process in Latin America and other regions. Understanding the way events unfolded in Mexico during the early 1990's continues to be fundamentally important to assessing the mechanics of currency crises. As a result of the recent events in South East Asia, many observers have argued that there was a failure to revamp the early warning system that was supposed to prevent a repetition of a Mexico-style crisis. This paper analyzes the causes behind the Mexican crisis, emphasizing the role of capital inflows, inflationary inertia and real exchange rate overvaluation. The author also asks a number of questions regarding the predictability of the crisis and concludes that although the U.S. Treasury was fully aware of what was going on, most private sector analysts were unaware of the seriousness of the situation.

PD March 1998. **TI** Capital Inflows into Latin America: A Stop-Go Story? **AA** University of California, Los Angeles and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6441; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** F32, F34, F41, O16, O19. **KW** Capital

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Flows. Latin America. Savings. Monetary Policy.
AB This paper deals with Latin America's experience with capital flows during the last decade and a half. It concentrates on the effect of capital inflows on domestic savings, the way in which capital mobility affects the ability to engage in independent monetary policy, and the effectiveness of capital controls. It also addresses a number of policy dilemmas that have become topical in light of the recent East Asian currency crises, including questions related to capital account sustainability, the role of domestic banks in the intermediation of capital inflows, and the feasibility of fixed nominal exchange rates in a world of capital mobility. Latin America's experience with capital mobility should provide insights to scholars interested in other regions of the world. Indeed, during the last few years the Latin American countries have been a laboratory of sorts, where almost every possible approach towards capital mobility has been tried.

Eichberger, Jurgen

PD August 1997. **TI** On Relative Performance Contracts and Fund Manager's Incentives. **AU** Eichberger, Jurgen; Grant, Simon; King, Stephen P. **AA** Eichberger: University of Saarbrucken. Grant and King: Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 327; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 32. **PR** no charge. **JE** D21, D82, G11, J33. **KW** Principal/Agent Relationship. Relative Performance. Managed Funds. Reward Schemes.
AB For pension schemes, mutual funds, banks and other financial intermediaries, large portfolio decisions are increasingly delegated to fund managers. Recently, there has been growing concern that these managers seem to adopt extremely similar investment strategies. One possible explanation for this phenomenon may be found in reward schemes based on relative performance. We show how relative performance reward schemes may arise as optimal contracts. Our focus is the fund owners- fund manager relationship in which the manager, before making a portfolio decision on behalf of the owners, may acquire, at some cost, information that is not available to the owners. Payment schemes based on relative performance afford the owners tighter control of their manager's activities. However, if two managers of different funds both accept contracts that depend on their relative as well as absolute performances, then there may exist equilibria in the managers' subgame that result in undesirable outcomes for the owners.

Eichenbaum, Martin

TI Modeling Money. **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles L.

TI Monetary Policy Shocks: What Have We Learned and to What End? **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles L.

Eichengreen, Barry

PD January 1998. **TI** Staying Afloat When the Wind Shifts: External Factors and Emerging- Market Banking Crises. **AU** Eichengreen, Barry; Rose, Andrew K. **AA** Eichengreen: International Monetary Fund and National Bureau of Economic Research. Rose: University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6370; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E58, G21, F34, O16. **KW** Emerging Markets. Banking Crises. Interest Rates.
AB We analyze banking crises using a panel of macroeconomic and financial data for more than one hundred developing countries from 1975 through 1992. We find that banking crises in emerging markets are strongly associated with adverse external conditions. In particular, high Northern interest rates are strongly associated with the onset of banking crises in developing countries, even after taking into account a host of internal macroeconomic factors. A one percent increase in Northern interest rates is associated with an increase in the probability of Southern banking crises of around three percent. Our results also seem insensitive to the effects of differing exchange rate regimes, external debt burdens and domestic financial structures.

PD February 1998. **TI** What Explains Changing Spreads on Emerging-Market Debt: Fundamentals or Market Sentiment? **AU** Eichengreen, Barry; Mody, Ashoka. **AA** Eichengreen: International Monetary Fund and National Bureau of Economic Research. Mody: World Bank. **SR** National Bureau of Economic Research Working Paper: 6408; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 39. **PR** $5.00. **JE** F32, F34, H63, O16. **KW** Debt. Bonded Debt. Emerging Markets. Bonds. International Lending.
AB In this paper we analyze data on nearly 1,000 developing-country bonds issued in the years 1991-96, a period that spans the recent episode of heavy reliance on bonded debt. We analyze both the issue decision of debtors and the pricing decision of investors, minimizing selectivity bias by treating the two issues jointly. Overall, the results confirm that higher credit quality translates into a higher probability of issue and a lower spread. Importantly, however, we find that observed changes in fundamentals explain only a fraction of the spread compression in the period leading up to the recent crisis in emerging markets.

TI The Rise and Fall of a Barbarous Relic: The Role of Gold in the International Monetary System. **AU** Bordo, Michael D.; Eichengreen, Barry.

Ellickson, Bryan

PD April 1997. **TI** Clubs and the Market: Continuum Economics. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R. **AA** Ellickson and Zame: University of California, Los Angeles. Grodal: University of Copenhagen. Scotchmer: University of California, Berkeley. **SR** University of California, Los Angeles, Department of Economics Working Paper: 765; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 57. **PR** $5.00. **JE** D50, D51, D71. **KW** Clubs. Continuum Economies. Non-Atomic Economies. Core Equivalence.
AB This paper defines a general equilibrium model with exchange and club formation. Agents trade multiple private goods widely in the market, can belong to several clubs, and care about the characteristics of the other members of their clubs. The space of agents is a continuum, but clubs are finite. It

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is shown that (i) competitive equilibria exist, and (ii) the core coincides with the set of equilibrium states. The central subtlety is in modeling club memberships and expressing the notion that membership choices are consistent across the population.

PD April 1997. **TI** Clubs and the Market: Large Finite Economies. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R. **AA** Ellickson and Zame: University of California, Los Angeles. Grodal: University of Copenhagen. Scotchmer: University of California, Berkeley. **SR** University of California, Los Angeles, Department of Economics Working Paper: 766; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 40. **PR** $5.00. **JE** D50, D51, D71. **KW** Clubs. Core Convergence. Approximate Decentralization.
AB This paper defines a general equilibrium model with exchange and club formation. Agents trade multiple private goods widely in the market, can belong to several clubs, and care about the characteristics of the other members of their clubs. The space of agents and the number of possible club types are finite. It is shown that (i) approximate competitive equilibrium exists, (ii) the core can approximately be decentralized. The approximations are close if the economy is large. The central subtlety is in modeling club memberships and expressing the notion that membership choices are consistent across the population.

Ellison, Glenn

TI Geographic Concentration as a Dynamic Process. **AU** Dumais, Guy; Ellison, Glenn; Glaeser, Edward L.

TI Career Concerns of Mutual Fund Managers. **AU** Chevalier, Judith; Ellison, Glenn.

Ellison, Sara Fisher

PD October 1997. **TI** Gradual Incorporation of Information into Stock Prices: Empirical Strategies. **AU** Ellison, Sara Fisher; Mullin, Wallace P. **AA** Ellison: Massachusetts Institute of Technology. Mullin: Michigan State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6218; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C10, C40, G12, G14, L65. **KW** Asset Pricing. Event Study. Information Incorporation. Private Information.
AB This paper explores environments in which either the revelation or diffusion of information, or its incorporation into stock prices, is gradual, and develops appropriate estimation techniques. This paper has implications both for event study methodology and for understanding the process by which stock prices incorporate information. Two environments are highlighted. First, information is often not revealed in one announcement but through a process of gradual public revelation, which may not be completely observable. The authors examine the effect of the evolution of the Clinton health care reform proposal on pharmaceutical stock prices. They estimate the expected path of market-adjusted pharmaceutical prices over September 1992- October 1993. Second, the trading process itself may incorporate private information into stock prices gradually. The authors use the functional form predictions from the Kyle (1985) model in their estimation, and the results from a sample of targets of tender offers are consistent with the model.

Emmerson, Carl

PD 1998. **TI** The Impact of Expenditure Limitations on Local Government Spending: Evidence from the UK. **AU** Emmerson, Carl; Hall, John; Ridge, Michael. **AA** Emmerson and Hall: Institute for Fiscal Studies. Ridge: Brunel University and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/05; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 9. **PR** 3 pounds. **JE** H50, H52, H53, H72. **KW** Government Spending. Expenditure Capping. Expenditure Limitation. Service Provision.
AB A panel of over 450 local authorities in England and Wales over the 8 year period from 1983 to 1990 is used to investigate the impact of expenditure limitation or "capping" on both local authority spending and the quality of local service provision. We control for other influences on local spending over the period such as government grants and local economic and political conditions. Our results suggest that capping may reduce local spending by some 8 percent of total spending. The impact of capping varies between individual services such as education and social services (4 percent), transport (7 percent) and libraries (3 percent). Spending cuts are found to reduce the quality of provision for education and library services, but not for social services.

Engel, Eduardo M. R. A.

TI Nonlinear Aggregate Investment Dynamics: Theory and Evidence. **AU** Caballero, Ricardo J.; Engel, Eduardo M. R. A.

Engle, Robert F.

TI Option Hedging Using Empirical Pricing Kernels. **AU** Rosenberg, Joshua V.; Engle, Robert F.

PD December 1997. **TI** Empirical Pricing Kernels. **AU** Engle, Robert F.; Rosenberg, Joshua V. **AA** Engle: University of California, San Diego. Rosenberg: New York University. **SR** New York University, Salomon Center Working Paper: S/98/15; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 25. **PR** $5.00 each; $100.00 yearly subscription. **JE** G12, G13. **KW** Time-Varying Preferences. EPK. Pricing Kernel. Black-Scholes.
AB This paper develops a methodology for estimating time-varying investor preferences over return states, which are represented using an empirical pricing kernel (EPK). The EPK measures the state price per unity probability, using contemporaneously estimated state prices and conditional state probabilities. Investor preferences over equity return states are found to be time-varying rather than constant as postulated in a Black-Scholes setting. In addition, the power pricing kernel specification implied by Black-Scholes is observed to underestimate the value of payoffs in large negative return states and overestimate the value of payoffs in large positive return states. A daily summary measure of the empirical level of risk aversion over return states is constructed, and empirical risk aversion is found to be strongly positively autocorrelated, negatively correlated with S&P500 returns, and positively correlated with the spread between implied and objective volatility's. To test the predictive information in the estimated preferences, an option hedging methodology is developed that

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is compatible with time-varying preferences and probabilities. The time-varying preference hedge exhibits superior performance compared to standard alternatives in hedging S&P500 index put options. This suggests that the time-varying preferences represented by the EPK are an important factor in the day-to-day price changes of S&P500 options.

PD February 1998. **TI** Testing the Volatility Term Structure Using Option Hedging Criteria. **AU** Engle, Robert F.; Rosenberg, Joshua V. **AA** Engle: University of California, San Diego. Rosenberg: New York University. **SR** New York University, Salomon Center Working Paper: S/98/14; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 18. **PR** $5.00 each; $100.00 yearly subscription. **JE** G12, G13. **KW** VTS. Asset Volatility. Term Structure. Hedging. Option Prices.

AB The volatility term structure (VTS) reflects market expectations of asset volatility over different horizons. These expectations change over time, giving dynamic structure to the VTS. This paper evaluates volatility models on the basis of their performance in hedging option price changes due to shifts in the VTS. An innovative feature of the hedging approach is its increased sensitivity to several important forms of model misspecification relative to previous testing methods. Volatility hedge parameters are derived for several volatility models incorporating different predicted VTS dynamics and information variables. Hedging tests using S&P500 index options indicate that the GARCH components with leverage VTS estimate is most accurate. Evidence is obtained for mean-reversion in volatility and correlation between VTS shifts and S&P500 returns. While a convexity hedge dominates the volatility hedges for the observed sample, this result appears to be due to sample selection bias.

Englund, Peter

TI Another Look at the Capitalization of Interest Subsidies: Evidence from Sweden. **AU** Berger, Tommy; Englund, Peter; Hendershott, Patric H.; Turner, Bengt.

Errico, Luca

PD January 1999. **TI** Offshore Banking: An Analysis of Micro- and Macro-Prudential Issues. **AU** Errico, Luca; Musalem, Alberto. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/05; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 54. **PR** not available. **JE** E58, F21, F34, G18, P51. **KW** Offshore Banking. Capital Flows. Banking Problems. Financial Crises. Prudential Regulations.

AB The paper takes a closer look at offshore banking -- a pervasive practice that has played a role in recent crises. Offshore banking is an increasingly attractive alternative to the sometimes heavily regulated financial markets of emerging economies. From a microeconomic vantage point, offshore banks seem to exploit the risk-return tradeoff by being more profitable than onshore banks, and in many instances also more leveraged. Risks stemming from offshore activities may be easily transmitted onshore with systematic consequences. Current prudential and supervisory frameworks are broadly adequate for risk management if effectively and universally implemented.

Evans, Charles L.

TI Modeling Money. **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles L.

TI Monetary Policy Shocks: What Have We Learned and to What End? **AU** Christiano, Lawrence J.; Eichenbaum, Martin; Evans, Charles L.

Fairlie, Robert W.

PD November 1997. **TI** Does Immigration Hurt African-American Self-Employment? **AU** Fairlie, Robert W.; Meyer, Bruce D. **AA** Fairlie: University of California, Santa Cruz. Meyer: Northwestern University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6265; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F22, J15, J23, J31, J61. **KW** Immigration. Self-Employment. Employment. Wages. Minorities.

AB Previous studies tend to find that immigration has a weak negative effect on the employment and earnings of native-born workers. These studies generally overlook the effect of immigration on the self- employed. The authors use Census of Population microdata to examine if black self-employment levels are lower in labor markets which have a higher share of immigrants. They define labor markets as metropolitan areas (MA's) and use the variation across 94 MA's in the U.S. to examine the relationship in both 1980 and 1990. To control for permanent differences across MA's in other influences, the authors also estimate the effect of the change in immigration from 1980 to 1990 on the change in black self-employment over this period. The authors find that immigration has no effect or only a small negative but statistically insignificant effect on black male or female self-employment. Their findings are similar for alternative estimation techniques and specifications.

Faure-Grimaud, Antoine

PD September 1998. **TI** A Theory of Supervision with Endogenous Transaction Costs. **AU** Faure-Grimaud, Antoine; Laffont, Jean-Jacques; Martimort, David. **AA** Faure-Grimaud: London School of Economics. Laffont and Martimort: IDEI. **SR** Centre for Economic Policy Research Discussion Paper: 1967; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D82, G14, G32, J41, L51. **KW** Supervision. Soft Information. Collusion. Transaction Costs. Agency Problems.

AB We propose a theory of supervision with endogenous transaction costs. A principle 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 hieracrchy'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.

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Faust, Jon

PD March 1998. **TI** Transparency and Credibility: Monetary Policy with Unobservable Goals. **AU** Faust, Jon; Svensson, Lars E. O. **AA** Faust: Board of Governors of the Federal Reserve System, Washington D.C. Svensson: Stockholm University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6452; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 38. **PR** $5.00. **JE** E52, E58, L14. **KW** Central Banks. Monetary Policy. Transparency. Credibility. Reputation.

AB We define and study transparency, credibility, and reputation in a model where the central bank's characteristics are unobservable to the private sector and are inferred from the policy outcome. A low- credibility bank optimally conducts a more inflationary policy than a high-credibility bank, in the sense that it induces higher inflation, but a less expansionary policy in the sense that it induces lower inflation and employment than expected. Increased transparency makes the bank's reputation and credibility more sensitive to its actions. This has a moderating influence on the bank's policy. Full transparency of the central bank's intentions is generally socially beneficial, but frequently not in the interest of the bank. Somewhat paradoxically, direct observability of idiosyncratic central bank goals removes the moderating incentive on the bank and leads to the worst equilibrium.

Favero, Carlo A.

TI The Immediate Challenges for the European Central Bank. **AU** Dornbusch, Rudiger; Favero, Carlo A.; Giavazzi, Francesco.

Feddersen, Timothy J.

TI Information and Congressional Hearings. **AU** Diermeier, Daniel; Feddersen, Timothy J.

Ferri, Javier

TI The Effect of School Quality on Educational Attainment and Wages. **AU** Dearden, Lorraine; Ferri, Javier; Meghir, Costas.

Fershtman, Chaim

PD November 1998. **TI** Trust and Discrimination in a Segmented Society: An Experimental Approach. **AU** Fershtman, Chaim; Gneezy, Uri. **AA** Fershtman: Tel-Aviv University. Gneezy: University of Haifa. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 25/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 28. **PR** no charge. **JE** C71, C91, D63, J71. **KW** Trust. Discrimination. Game Theory. Ethnicity.

AB An experimental approach is used to study ethnic discrimination within the Israeli Jewish society. Our experiment indicates that the segmented structure of Israeli society manifests itself in a consistent pattern of mistrust. In a trust game that we studied, money transferred to players of Eastern ethnic origin (Sephardic Jew) was significantly less than that transferred to players of Western origin (Ashkenazic Jew). What is surprising is that this ethnic discrimination was entirely a male phenomenon. Women, in our experiment, transferred a similar amount of money to their partners whether of Eastern or Western background; at the same time, the distribution of transfers to Eastern women was similar to that of Western women. Thus, the ethnic discrimination identified in our experiment is only toward male players and by male players. Moreover, this systematic mistrust against men of Eastern origin is common not just among Western men but also among Eastern men themselves. Examination of whether trust is gender- dependent showed that Western women are trusted less than Western men while Eastern women are trusted more than Eastern men. The possibility of statistical discrimination was also examined, but no evidence for such an effect was found.

PD December 1998. **TI** A Dynamic Oligopoly with Collusion and Price Wars. **AU** Fershtman, Chaim; Pakes, Ariel. **AA** Fershtman: Tel-Aviv University, and CentER, Tilburg University. Pakes: Yale University, National Bureau of Economic Research and University of Chicago. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 26/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 41. **PR** no charge. **JE** C72, C73, L13, L41. **KW** Collusion. Price War. Oligopoly. Investment.

AB Most theoretical work on collusion and price wars assumes identical firms and an unchanging environment. These assumptions are unrealistic for most industries, and furthermore, they only allow us to investigate the impact of collusion on prices. The ability to collude may also affect the variety, cost, and quality of products. This paper allows for heterogeneity among firms, investment, entry, and exit. The focus is on a model with symmetric information in which it is hard to sustain collusion when there is an active firm that is likely to exit in the near future. Not only is it hard to punish a firm who is likely to exit after it deviates, but the other incumbent(s) has an incentive to price predatorily. The paper compares the numerical results from an institutional structure that allows for collusion to one which does not. Only the collusive industry generates price wars. The collusive industry offers both more and higher quality products to consumers, albeit often at a higher price. The positive effect of collusion on the variety and quality of products marketed more than compensates consumers for the negative effect of collusive prices, so that consumer surplus is larger in the collusive environment.

Ferson, Wayne

TI Conditional Market Timing with Benchmark Investors. **AU** Becker, Connie; Ferson, Wayne; Myers, David; Schill, Michael.

Figlewski, Stephen

PD December 1997. **TI** Derivatives Risks, Old and New. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/08; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 41. **PR** $5.00 each; $100.00 yearly subscription. **JE** G12, G13. **KW** Derivative Risks. Model Risk. Valuation Models. Risk Management.

AB There has been much discussion of risks tied to trading in derivatives, with some well-informed objective observers arguing that derivatives risks are not significantly greater or

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different from those associated with traditional financial instruments. Financial risks are often broken down into market risk, credit risk, operational risk and legal risk. We review the standard classification and observe that while derivatives are exposes to these types of risk, they are manifested quite differently in derivatives than in traditional securities. We then consider a "new" type of risk that is particularly important for derivatives: model risk. Derivatives trading depends heavily on the theoretical valuation models, but these are susceptible to error from incorrect assumptions about the underlying asset price process, estimation error on volatility and other inputs that must be forecasted, errors in implementing the theoretical models, and differences between market prices and theoretical values. Empirical evidence drawn from several important asset markets shows that model error can be quite large and can be expected to lead to significant risk in derivatives pricing and risk management.

Fischer, Andreas

PD September 1998. **TI** Are Interventions Self-Exciting? **AU** Fischer, Andreas; Zurlinden, Mathias. **AA** Swiss National Bank. **SR** Centre for Economic Policy Research Discussion Paper: 1964; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 24. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E44, E52, E58, F31. **KW** Exchange Rate Intervention. Duration. Monetary Policy. Central Banks. Risk Premia.

AB It is often argued that interventions provide news on changes in risk premia or in future monetary policy. If so, the timing of interventions offers important information for central bank watchers. One method to study the reaction function of a central bank is to consider whether the duration intervals of past interventions matter for future interventions. The time deformation of interventions is modeled as an autoregressive process following the class of ACD models first proposed by Engle and Russell (1994). The analysis considers the persistence of interventions by the Federal Reserve, the Bundesbank and the Swiss National Bank.

Fischer, Peter A.

TI Why do People Stay? The Insider Advantages Approach: Empirical Evidence from Swedish Labour Markets. **AU** Straubhaar, Thomas; Fischer, Peter A.; Holm, Einar; Malmberg, Gunnar.

Flabbi, Luca

TI Productivity, Seniority and Wages: New Evidence from Personnel Data. **AU** Ichino, Andrea; Flabbi, Luca.

Flavin, Marjorie

PD January 1998. **TI** Owner-Occupied Housing and the Composition of the Household Portfolio Over the Life Cycle. **AU** Flavin, Marjorie; Yamashita, Takashi. **AA** Flavin: University of California, San Diego and National Bureau of Economic Research. Yamashita: University of California, San Diego. **SR** National Bureau of Economic Research Working Paper: 6389; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** E21, G11, R21. **KW** Portfolio Choice. Housing Demand. Life Cycle. Risk Aversion. Consumption.

AB This paper studies the impact of the portfolio constraint imposed by the consumption demand for housing (the "housing constraint") on the household's optimal holdings of financial assets. Since the ratio of housing to net worth declines as the household accumulates wealth, the housing constraint induces a life-cycle pattern in the portfolio shares of stocks and bonds. The changes in portfolio composition over the life cycle can be dramatic. Using data from the PSID on home values to construct household level panel data on the real after-tax return to owner-occupied housing, as well as data on the returns to financial assets, the paper estimates the vector of expected returns and the covariance matrix for the set of assets consisting of housing, mortgages, stocks, Treasury bonds, and T-bills. Numerical methods are used to calculate the mean-variance efficient frontier and the optimal portfolios associated with different levels of relative risk aversion.

Flood, Robert P.

PD January 1998. **TI** Perspectives on the Recent Currency Crisis Literature. **AU** Flood, Robert P.; Marion, Nancy. **AA** Flood: International Monetary Fund. Marion: Dartmouth College. **SR** National Bureau of Economic Research Working Paper: 6380; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E44, E63, F31, F32, F36. **KW** Currency Crises. Speculative Attacks. Exchange Rates. Policy Coordination.

AB In the 1990's, currency crises in Europe, Mexico and Southeast Asia have drawn worldwide attention to speculative attacks on government- controlled exchange rates. To improve our understanding of these events, researchers have undertaken new theoretical and empirical work. In this paper, we provide some perspective on this work and relate it to earlier research in the area. Then we derive the optimal commitment to a fixed exchange rate and propose a common framework for analyzing currency crises that draws from both the early first-generation work and the more recent second-generation approach. The cross-generational framework stresses the important role of speculators and also recognizes that the government's commitment to a fixed exchange rate is constrained by other policy goals. In the final section we study the crisis prediction literature and find that some crises may be particularly difficult to predict using currently popular methods.

PD August 1998. **TI** Understanding Exchange Rate Volatility Without the Contrivance of Macroeconomics. **AU** Flood, Robert P.; Rose, Andrew K. **AA** Flood: International Monetary Fund. Rose: University of California, Berkeley. **SR** Centre for Economic Policy Research Discussion Paper: 1944; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 24. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F33, G15. **KW** Exchange Rate Regimes. International Finance. Foreign Exchange. Monetary Policy. Market Structure.

AB Exchange rate regimes differ primarily by the activity of the exchange rate, not observable macroeconomic 'fundamentals'. Fixed exchange rates are typically stable and floating exchange rates are volatile, but macro phenomena are regime-independent. Fundamentals only seem to be relevant for exchange rates at low frequencies or when inflation is high. A basic task of international finance is explaining these cross-regime differences in exchange rate volatility. The evidence suggests that a switch in exchange rate policy is accompanied by a change in market structure; macroeconomic considerations

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are superfluous. We formalize this observation in a non-linear model with multiple equilibria.

Fontagne, Lionel

PD September 1998. **TI** Intra-Industry Trade and the Single Market: Quality Matters. **AU** Fontagne, Lionel; Freudenberg, Michael; Peridy, Nicolas. **AA** Fontagne: TEAM. Freudenberg: OECD. Peridy: University of Nantes. **SR** Centre for Economic Policy Research Discussion Paper: 1959; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F12, F14, F15, F40, L15. **KW** Intra-Industry Trade. European Integration. Product Differentiation. Unit Values. Division of Labor.

AB Analyzing data on values and unit values of bilateral trade flows at a very detailed level, the authors examine the nature of intra-EC trade over the period 1980-94, identify its general determinants, and then estimate the specific impact of the Single European Market program. Trade patterns are identified by breaking up total trade into three trade types: one-way (i.e. inter-"industry") trade, two-way (i.e. intra-"industry") trade in horizontally differentiated products, and two-way trade in vertically differentiated products. One of the main findings is that the observed increase in intra-'industry' trade in Europe is almost entirely due to two-way trade in vertical differentiation: thus, the 1980-94 period is characterized by increasing specialization of countries along ranges of qualities within products. The authors conclude that the first years of the Single market have neither validated the optimistic scenario entailed in ex-ante studies, nor led to a more pronounced inter-industry specialization of European members.

Foote, Christopher L.

PD October 1997. **TI** The Surprising Symmetry of Gross Job Flows. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6226; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E24, E32, J23. **KW** Labor Studies. Sectoral Shifts. Job Destruction. Job Creation. Business Cycles.

AB A large literature attempts to explain the asymmetric behavior of job destruction and job creation over the business cycle. This paper contends that much of this asymmetry is spurious. Analyzing gross flows in relation to the net flow virtually eliminates cyclical asymmetry in annual data and substantially reduces it in quarterly data. To the extent that gross flows are symmetric, there is a fundamental identification problem in moving between gross flows and the net flow that is reminiscent of the earlier empirical literature on sectoral shifts.

Foresi, Silverio

TI The Central Tendency: A Second Factor in Bond Yields. **AU** Balduzzi, Pierluigi; Ranjan Das, Sanjiv; Foresi, Silverio.

TI Predictable Changes in Yields and Forward Rates. **AU** Backus, David; Foresi, Silverio; Mozumdar, Abon; Wu, Liuren.

Francesconi, Marco

TI Glass Ceilings or Sticky Floors? **AU** Booth, Alison L.; Frank, Jeff; Francesconi, Marco.

Frank, Jeff

TI Glass Ceilings or Sticky Floors? **AU** Booth, Alison L.; Frank, Jeff; Francesconi, Marco.

Frank, Richard G.

TI Impact of Managed Behavioral Health Care Carved-Out: A Case Study of One HMO. **AU** Brisson, Anne E.; Frank, Richard G.; Notman, Elizabeth S.; Gazmararian, Julie A.

PD February 1998. **TI** Price Indexes for the Treatment of Depression. **AU** Frank, Richard G.; Berndt, Ernst R.; Busch, Susan H. **AA** Frank: Harvard Medical School and National Bureau of Economic Research. Busch: Harvard Medical School. Berndt: Massachusetts Institute of Technology. **SR** National Bureau of Economic Research Working Paper: 6417; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C43, E31, I11. **KW** Price Indexes. Depression. Health Care. Index Numbers.

AB The authors construct price indexes for treatment of a specific illness, acute phase major depression, using treatment episodes of care to define quantity. They identify different treatment service bundles that combine varying quantities of prescription drugs, medical management and psychotherapy. They make use of results from clinical research and official government guidelines for standards of care to identify therapeutically similar treatment bundles. They employ various index number formulae that involve differing assumptions on the extent of ex ante substitutability among these treatment bundles. Rather than using list prices, the authors utilize actual transactions data based on a MEDSTAT retrospective medical claims data base covering more than 400,000 individuals over 1991-95. They distinguish between consumers' direct payments (CPI index) and total payments received by providers (PPI). Although not directly comparable to BLS indexes indicating 15-25% price growth over 1991-95, the authors' CPI and PPI price indexes decline 20-30%.

Franz, Wolfgang

PD October 1997. **TI** Young and Out in Germany: On Youths' Chances of Labor Market Entrance in Germany. **AU** Franz, Wolfgang; Inkmann, Joachim; Pohlmeier, Winfried; Zimmermann, Volker. **AA** Franz and Zimmermann: Centre for European Economic Research. Inkmann and Pohlmeier: University of Konstanz. **SR** National Bureau of Economic Research Working Paper: 6212; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 45. **PR** $5.00. **JE** C25, C41, J21, J24, J64. **KW** Labor Studies. Youth. Employment. Duration. Vocational Training.

AB This paper deals with the labor market entrance of young people in the Federal Republic of Germany. The main focus is on failures during this stage. First, an overview of the youth labor market in Germany is given. Then, the transition from vocational training to work is analyzed: The duration of the first spell of non-employment after completion of formal vocational training is analyzed by means of a proportional hazard function approach. Besides the strong influence of the human capital variables there is a striking effect of the family background of the youths. The following section addresses the extent to which early failures in the work history have long-lasting effects on future incomes. There is some evidence for a

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permanent income reduction.

Freudenberg, Michael

TI Intra-Industry Trade and the Single Market: Quality Matters. **AU** Fontagne, Lionel; Freudenberg, Michael; Peridy, Nicolas.

Friedberg, Leora

PD February 1998. **TI** Did Unilateral Divorce Raise Divorce Rates? Evidence from Panel Data. **AA** University of California, San Diego and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6398; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 17. **PR** $5.00. **JE** J12, K39. **KW** Divorce. Law. Unilateral Divorce. Demographic Economics.

AB This paper revisits the evidence on the impact of unilateral divorce laws on divorce rates in the United States. Most states switched from requiring mutual consent to allowing unilateral or no-fault divorce between 1970 and 1985, while the national divorce rate more than doubled after 1965. According to the Coase theorem, however, the legal shift should have had no effect on divorce rates. This paper uses a panel of state-level divorce rates which includes virtually every divorce in the U.S. over the entire period of the law changes. Adding comprehensive controls -- year and state fixed effects and state fixed trends -- for changing unobservable divorce propensities reveals that the divorce rate would have been about 6 percent lower if states had not switched to unilateral divorce. Additional results in this paper demonstrate that the type of unilateral divorce law that states adopted matters.

Friedman, Ezra

PD November 1998. **TI** Public Debate Among Experts. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1234; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 30. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D70, D82. **KW** Experts. Aggregation of Information. Information. Adverse Selection.

AB This paper presents a model of public debate in which experts attempt to influence public policy by making recommendations about controversial issues. However the decision to become an expert is taken to be endogenous, and consequently depends on the potential expert's bias. Under certain conditions there exist multiple equilibria. There may be one uninformative equilibrium in which only agents with strong biases are likely to become experts, and as a result the public gives experts little credibility. However there might also exist another more informative equilibrium, in which more moderates function as experts, and the public places more weight on their reports. In the most informative equilibrium, increasing the heterogeneity of the public or decreasing the number of potential experts leads to an improvement in public information.

PD November 1998. **TI** Risk Sharing and the Dynamics of Inequality. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1235; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 32. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D31, D63, D81, D82. **KW** Inequality. Risk Sharing. Moral Hazard. Dynamic Insurance. Repeated Contracts.

AB Risk averse agents who engage in risky production activities frequently participate in some sort of arrangement to share risk. When there are issues of moral hazard, optimal risk sharing typically involves spreading risk over time as well as over space. Agents who suffer bad outcomes can spread risk over time by borrowing against future earnings to supplement present consumption. In this paper I analyze the effect that such intertemporal risk sharing has on the distribution of consumption and utility. I find that in most cases intertemporal risk sharing leads to a spreading of the utility weight distribution. Under the optimal contract agents who suffer negative shocks respond by working harder and bearing more risk, exposing them to the likelihood of more negative shocks.

Frydl, Edward J.

PD March 1999. **TI** The Length and Cost of Banking Crises. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/30; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 31. **PR** not available. **JE** G21, G28. **KW** Banking Crises. Bank Supervision. Resolution Cost.

AB This paper reviews how recent studies of banking crises differ with regard to the dating, length, and costs of the crises. Significant discrepancies in these features suggest the absence of analytical consensus. The data allow an examination of the relation between perceived crisis length, as an index of delay in taking actions to resolve a crisis, and crisis costs. Cross-sectional evidence does not show that the length of a crisis is a significant contributor to its resolution cost. A measure of economic cost, the growth shortfall in the crisis period, shows more evidence of a link.

Fudenberg, Drew

TI Payoff Information and Self-Confirming Equilibrium. **AU** Dekel, Eddie; Fudenberg, Drew; Levine, David K.

Fullenkamp, Connel

TI The Stock Market Channel of Monetary Policy. **AU** Chami, Ralph; Cosimano, Thomas F.; Fullenkamp, Connel.

Galenson, David W.

PD December 1997. **TI** The Careers of Modern Artists: Evidence from Auctions of Contemporary Paintings. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6331; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J10, J24, J31. **KW** Artists. Wages. Human Capital. Labor Productivity. Age.

AB Using transactions from fine art auctions for 42 leading

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American contemporary artists, the author estimates the relationship between the value of a painting and the artist's age at the date of its execution. The econometric estimates show that artists born before 1920 were likely to have done most of their most valuable work late in their careers, while in contrast artists born in the 1920's and 30's were more likely to have done their most valuable work at an early age. Comparison of these results to evidence drawn from art history textbooks and museum exhibitions indicates that these artists' most valuable work has also been that most highly regarded by scholars. The author argues that the shift across generations in the shape of these artists' age-price profiles resulted from both the evolution of modern painting and a growth in the demand for contemporary American art during the 1950's and 60's.

Gali, Jordi

TI Monetary Policy Rules in Practice: Some International Evidence. AU Clarida, Richard; Gali, Jordi; Gertler, Mark.

TI Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory. AU Clarida, Richard; Gali, Jordi; Gertler, Mark.

Galor, Oded

PD September 1998. TI Ability Biased Technological Transition, Wage Inequality and Growth. AU Galor, Oded; Moav, Omer. AA Galor: Brown University. Moav: Hebrew University. SR Centre for Economic Policy Research Discussion Paper: 1972; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. PG 56. PR 5 pounds or 8 dollars or 8 euros. JE J24, J31, O11, O33, O40. KW Growth. Technological Change. Wage Inequality. Skill. Productivity Slowdown.

AB This paper develops a growth model in which the endogenous evolution of technological progress and wage inequality is consistent with the observed pattern in the United States and several European economies in the last two centuries. The model accounts for: a) the rise in wage inequality between and within groups of skilled and unskilled workers, the increase in the average wage of skilled workers despite the increase in supply, and the decline in the average wage of unskilled workers, as observed during the 1980's and 1990's; b) the rise in wage inequality within groups and the decline in wage inequality between groups during the 1970's; c) the cyclical evolution of the wage differential between skilled and unskilled workers in the last centuries; and d) the productivity slowdown.

Gandal, Neil

PD January 1999. TI Good Neighbors/Bad Citizens: Personal Value Priorities of Economists. AU Gandal, Neil; Roccas, Sonia. AA Gandal: Tel-Aviv University. Roccas: The Open University. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 01/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. PG 14. PR no charge. JE A12, A13, A14. KW Social Values. Self-Interest. Economists. Universalism.

AB Several recent studies found that the behavior of economists was less cooperative than the behavior of non-economists. However, other studies found that economists behaved no differently than other individuals. In this paper, we study this issue by examining personal value priorities of economics students and students from other disciplines. Values are desirable goals that transcend specific situations and serve as guiding principles in peoples lives. We find that the value priorities reported by students of economics are different from those reported by students from other fields: Economists attribute more importance to achievement and power values and less importance to universalism. Our findings also indicate that the value differences between students of economics and students from other disciplines were already apparent before students were exposed to training in economics.

Garber, Alan, M.

PD October 1997. TI Persistence of Medicare Expenditures Among Elderly Beneficiaries. AU Garber, Alan, M.; MaCurdy, Thomas E.; McClellan, Mark C. AA Garber: Stanford Medical School and National Bureau of Economic Research. MaCurdy and McClellan: Stanford University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6249; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 29. PR $5.00. JE H51, I11, I18, J14. KW Aging. Health Care. Medicare.

AB The highly uneven distribution of Medicare payments among elderly beneficiaries, combined with the predictability of some of the expenditures, poses several challenges to the Medicare program. The authors present information about the distribution of Medicare expenditures among beneficiaries in specific years, accompanied by new evidence on the extent to which Medicare payments for the care of individual beneficiaries persist over long time periods. The analysis is based on a longitudinal population of Medicare enrollees during the years 1987-1995. The authors find that high-cost users accounted for a disproportionate share of the growth of Medicare Part A (hospital) payments, but that an increase in the number of beneficiaries using covered services was largely responsible for the growth of Medicare Part B payments. Few beneficiaries are in the highest-cost categories for multiple years. Nevertheless, individuals with high expenditures in one year are likely to have higher than average expenditures in other years.

Garcia-Penalosa, Cecilia

TI Uncovering some Causal Relationships Between Inequality and Economic Growth. AU Aghion, Philippe; Caroli, Eve; Garcia-Penalosa, Cecilia.

Geanakoplos, John

TI The Hierarchical Approach to Modeling Knowledge and Common Knowledge. AU Ronald, Fagin; Geanakoplos, John; Halpern, Joseph Y.; Vardi, Moshe Y.

Gehrig, Thomas

PD September 1998. TI Screening, Cross-Border Banking and the Allocation of Credit. AA Universitat Freiburg. SR Centre for Economic Policy Research Discussion Paper: 1973; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. PG 24. PR 5 pounds or 8 dollars or 8 euros. JE D83, G21, L15. KW Creditworthiness Tests. Banking Competition. Imperfect Information. Screening. Credit Markets.

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AB We analyze competition among banks when banks can use creditworthiness tests that generate (imperfect) information about borrowers. When banks can strategically adjust the test characteristics by investing resources in the screening technology, we show that credit markets are not easily contestable. An increase in the intensity of competition may have little effects on incumbents' conduct and overall market shares. Moreover, we provide conditions under which screening efforts are reduced by competition. In such situations, the quality of the overall loan portfolio declines and the economy incurs higher aggregate risk due to the lower quality of banks' information production. The welfare gains from integrating fragmented loan markets can actually be negative.

Gelos, Gaston

PD March 1999. **TI** Financial Liberalization, Credit Constraints, and Collateral: Investment in the Mexican Manufacturing Sector. **AU** Gelos, Gaston; Werner, Alejandro M. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/25; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** E22, E44, G14, G21, O16. **KW** Investment. Financial Constraints. Collateral. Real Estate. Lending Booms.

AB This paper examines the impact of financial liberalization on fixed investment in Mexico, using establishment-level data from the manufacturing sector. It analyzes changes in cash-flow sensitivities and uses an innovative approach to explore the role of real estate as collateral and deal with a potential censoring problem. The results suggest that financial constraints were eased for small firms but not for large ones. However, banks' reliance on collateral in their lending operations increased the importance of real estate. The results provide microeconomic evidence consistent with the role attributed to "financial accelerator" mechanisms during lending booms and during recessions that stem from financial crises.

Gentry, William M.

PD February 1998. **TI** Fundamental Tax Reform and Corporate Financial Policy. **AU** Gentry, William M.; Hubbard, R. Glenn. **AA** Columbia University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6433; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** G31, H22, H24, H25. **KW** Tax Reform. Corporate Finance. Income Taxes. Consumption Taxes. Capital Formation.

AB How tax reform affects corporate financial decisions helps determine whether reform will increase capital formation and simplify the tax system. This paper describes the effects of fundamental tax reform on corporate tax planning and summarizes economists' knowledge of the magnitude of these effects. The authors analyze income tax reform, consisting of integrating corporate and personal income taxes, and moving to a broad-based consumption tax. As prototypes of reform, the authors use the U.S. Treasury's Comprehensive Business Income Tax proposal for income tax reform and the Flat Tax for consumption tax reform. The critical difference between these reforms is that the consumption tax gives firms immediate deductions for capital outlays. Tax reform can affect organizational form, capital structure, and timing decisions. The authors' major theme is that the two types of reform will have similar effects on business financial decisions because they both integrate corporate and personal income taxes.

PD February 1998. **TI** The Tax Benefits of Not-For-Profit Hospitals. **AU** Gentry, William M.; Penrod, John R. **AA** Gentry: Columbia University and National Bureau of Economic Research. Penrod: McGill University. **SR** National Bureau of Economic Research Working Paper: 6435; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 46. **PR** $5.00. **JE** H25, H71, I18. **KW** Hospitals. Nonprofit Hospitals. Taxation. Capital Taxes.

AB This paper investigates three special tax provisions for not-for- profit (NFP) hospitals. First, they are exempt from capital taxes -- both income and property taxes. Second, they issue tax-exempt bonds so lenders do not pay income taxes on interest received. Third, donors deduct charitable contributions from their income tax bases. The rationale for these policies is that the NFP hospitals provide community benefits, the definition of which is often loosely-specified. The value of capital tax exemptions depends on the capital intensity of NFP hospitals, and for income taxes, the hospitals' profitability. The value of the property tax exemption varies across hospitals depending on state and local tax policies and the hospital asset mix. Tax-exempt bonds and deductible contributions are concentrated among larger hospitals. Almost half of existing bond debt could be replaced by using hospital endowments. For charitable contributions, roughly four percent of hospitals receive 71 percent of the contributions.

Gertler, Mark

TI Monetary Policy Rules in Practice: Some International Evidence. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark.

TI Monetary Policy Rules and Macroeconomic Stability: Evidence and Some Theory. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark.

TI The Financial Accelerator in a Quantitative Business Cycle Framework. **AU** Bernanke, Ben; Gertler, Mark; Gilchrist, Simon.

Giannini, Curzio

PD January 1999. **TI** "Enemy of None but a Common Friend of All"? An International Perspective on the Lender-of-Last-Resort Function. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/10; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 52. **PR** not available. **JE** E58, F33, F34. **KW** Central Banks. Lending of Last Resort. International Monetary Fund. Liquidity Support.

AB The paper explores whether and how national lender-of-last-resort practices can be adapted internationally. Nationally, the effectiveness of such practices is based on a blend of resource availability, technical discretion as to the conditions attached, ex ante supervision, and powers of enforcement. Some features of the international environment, however, make it difficult to replicate this structure, which may explain why recent large-scale rescue packages have worked less than satisfactorily. Private contingent credit facilities and IMF (International Monetary Fund) lending into arrears in the context of internationally-approved, temporary moratoria on foreign debt may nonetheless offer some scope for effective, although limited in aims and resources, international liquidity support, but this would require amending the IMF's Articles of

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Agreement.

Giavazzi, Francesco

TI Managing the Public Debt in Fiscal Stabilizations: The Evidence. AU Missale, Alessandro; Giavazzi, Francesco; Benigno, Pierpaolo.

TI The Immediate Challenges for the European Central Bank. AU Dornbusch, Rudiger; Favero, Carlo A.; Giavazzi, Francesco.

Gibbons, Robert

PD March 1998. TI A Theory of Wage and Promotion Dynamics in Internal Labor Markets. AU Gibbons, Robert; Waldman, Michael. AA Gibbons: Massachusetts Institute of Technology and National Bureau of Economic Research. Waldman: University of Chicago. SR National Bureau of Economic Research Working Paper: 6454; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 36. PR $5.00. JE J23, J24, J31, J41. KW Internal Labor Markets. Wages. Promotions. Human Capital.

AB The authors attempt to explain employment practices in internal labor markets using models that combine job assignment, on-the-job human- capital acquisition, and learning. They show that a framework that integrates these familiar ideas captures a number of recent empirical findings concerning wage and promotion dynamics in internal labor markets. First, real wage decreases are not rare, while demotions are very rare. Second, there is significant serial correlation in wage increases. Third, promotions are associated with particularly large wage increases, but these wage increases are small relative to the difference between average wages across levels of a job ladder. Fourth, on average, workers who receive large wage increases early in their stay at one level of a job ladder are promoted more quickly to the next level. Fifth, individuals promoted from one level of a job ladder to the next come disproportionately from the top of the lower job's wage distribution.

Gilboa, Itzhak

TI Sharing Beliefs: Between Agreeing and Disagreeing. AU Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc.

TI Sharing Beliefs: Between Agreeing and Disagreeing. AU Billot, Antoine; Chateauneuf, Alain; Gilboa, Itzhak; Tallon, Jean-Marc.

Gilchrist, Simon

TI The Financial Accelerator in a Quantitative Business Cycle Framework. AU Bernanke, Ben; Gertler, Mark; Gilchrist, Simon.

Giorgianni, Lorenzo

TI Interest Rate Arbitrage in Currency Baskets: Forecasting Weights and Measuring Risk. AU Christoffersen, Peter; Giorgianni, Lorenzo.

Glaeser, Edward L.

PD October 1997. TI The Misallocation of Housing Under Rent Control. AU Glaeser, Edward L.; Luttmer, Erzo F. P. AA Glaeser: Harvard University and National Bureau of Economic Research. Luttmer: Harvard University. SR National Bureau of Economic Research Working Paper: 6220; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 31. PR $5.00. JE D45, D61, E65, H80, R20. KW Public Economics. Housing. Rent Control. Allocative Efficiency. New York City.

AB When there are binding price controls, there are shortages and the allocation of goods across consumers may not be efficient. In general, the misallocation costs of price controls are first order, while the classic welfare losses due to undersupply are second order. This paper presents an empirical methodology for estimating the degree of misallocation of housing units due to rent control in New York City. This methodology involves comparing the relative consumption of different demographic groups within the rent controlled area with the relative levels of consumption in a free market area. Our best estimate of the costs of rent control in New York due to the misallocation of rental apartments is 200 dollars per apartment annually.

TI Geographic Concentration as a Dynamic Process. AU Dumais, Guy; Ellison, Glenn; Glaeser, Edward L.

PD November 1997. TI Learning in Cities. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6271; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 19. PR $5.00. JE J24, O15, R10. KW Industrial Agglomerations. Skills. Learning. Urban Economics. Human Capital.

AB Alfred Marshall argues that industrial agglomerations exist in part because individuals can learn skills from each other when they live and work in close proximity to one another. This paper formalizes Marshall's theory in a model where individuals acquire skills by interacting with one another, and urban areas increase the speed of interactions. The model predicts that cities will have a higher mean and higher variance of skills. Cities will attract young people who are not too risk averse and who benefit most from learning. Older, more skilled workers will stay in cities only if they can internalize some of the benefits that their presence creates for young people. The level of urbanization will rise when the demand for skills rises, when the ability to learn by imitation rises, or when the level of health in the economy rises. Empirical evidence on urban wages supports the learning view of cities.

TI Incentives and Social Capital: Are Homeowners Better Citizens? AU DiPasquale, Denise; Glaeser, Edward L.

Glen, Jack

PD March 1999. TI How Intensive is Competition in the Emerging Markets? An Analysis of Corporate Rates of Return from Nine Emerging Markets. AU Glen, Jack; Singh, Ajit; Matthias, Rudolph. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/99/32; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 41. PR not available. JE F13, G30, L11, O10. KW Rates of Return. Competition Intensity. Emerging Markets. Corporate Profitability. Trade Liberalization.

AB This large empirical study of corporate profitability in emerging markets during the 1980's and 1990's measures the intensity of competition. Data on corporate rates of return, profit margins, and output-capital ratios reveal that the recent liberalization has been associated with reduced corporate profit

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margins and improved capital utilization efficiency. The paper also analyzes persistency in corporate profitability and finds that competitiveness was no less intense in developing countries than in advanced countries. Although the paper is not directly concerned with the Asian crisis, it provides evidence on important structural hypothesis about the crisis.

Glick, Reuven

TI Contagion and Trade: Why are Currency Crises Regional. **AU** Rose, Andrew K.; Glick, Reuven.

Glied, Sherry

PD November 1997. **TI** Graduation to Health Insurance Coverage 1981-1996. **AU** Glied, Sherry; Stabile, Mark. **AA** Glied: Columbia School of Public Health and National Bureau of Economic Research. Stabile: Columbia University. **SR** National Bureau of Economic Research Working Paper: 6276; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 22. **PR** $5.00. **JE** G22, I11, J10, J21, J30. **KW** Health Insurance. Insurance Coverage. Labor Markets. Youth.

AB The health insurance experience of young men, who are new labor market entrants, provides an early indicator of the strengths and weaknesses of the employer-sponsored health insurance system. Insurance coverage for these men has fallen sharply over the past 15 years. The authors examine patterns of health insurance coverage for cohorts of young men using successive cross-sectional surveys and longitudinal data. They find that coverage declines persist and are exacerbated as young men age. Not only did cohorts of men born during the 1950's fail to age into employer-sponsored coverage as they reached their 30's and 40's, they actually lost such coverage as they grew older. The authors show that most of this decline was due to the substantial increase in health insurance costs during the 1980's. The authors show that structural changes in the labor market cannot explain any of the decline in coverage within cohorts.

PD November 1997. **TI** Avoiding Health Insurance Crowd-Out: Evidence From the Medicare as Secondary Payer Legislation. **AU** Glied, Sherry; Stabile, Mark. **AA** Glied: Columbia School of Public Health and National Bureau of Economic Research. Stabile: Columbia University. **SR** National Bureau of Economic Research Working Paper: 6277; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 26. **PR** $5.00. **JE** G22, H22, H26, I11, I18. **KW** Health Insurance. Medicare. Taxation.

AB The cost of efforts to expand health insurance coverage to the currently uninsured increases when people who would otherwise purchase private insurance obtain subsidized public coverage. Legislators are interested in mechanisms that target insurance benefits to those who need them most. This paper investigates the effects of one of the first such targeting efforts, the 1982 Medicare as Secondary Payer (MSP) provisions. The MSP rules require employers who offer insurance coverage to their employees under 65 to offer coverage on the same terms to their Medicare-eligible employees. This coverage then becomes "primary" to Medicare. The authors examine the incidence of this implicit tax, the magnitude of tax avoidance efforts, and the extent of tax compliance. They find little evidence that the MSP rules affected the wages or employment of affected workers. They find weak evidence suggesting that the MSP shifted the composition of employment of older workers toward MSP-exempt jobs.

PD November 1997. **TI** The Market and the Estimators: Forecasting the Cost of Medicare Catastrophic Coverage. **AU** Glied, Sherry; Brooks, Tama. **AA** Glied: Columbia School of Public Health and National Bureau of Economic Research. Brooks: National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6287; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** G10, H51, I18, L65. **KW** Medicare. Pharmaceuticals. Financial Markets. Government Expenditures. Health Care.

AB This paper uses data from the stock market to measure how market participants gauged the likely pharmaceutical consequence of the 1988 Medicare Catastrophic Coverage Act (MCCA) and to compare the market estimate with Congressional Budget Office (CBO) and Department of Health and Human Services (HHS) estimates, which varied substantially. The authors examine the market response to events linked to passage and repeal of MCCA for brand name and generic pharmaceutical producers. The effect of the MCCA on the stock price of pharmaceutical firms would depend on the elasticity of demand for pharmaceuticals. Differences in assumptions about this elasticity were a key component of the differences between CBO and HHS estimates. Using the market returns to evaluate these elasticities, the authors find that market participants shared the CBO's view that demand responses to the legislation would be small. The authors also find that the market anticipated MCCA favoring generic manufacturers.

Gneezy, Uri

TI Trust and Discrimination in a Segmented Society: An Experimental Approach. **AU** Fershtman, Chaim; Gneezy, Uri.

Goetzmann, William N.

TI The Dow Theory: William Peter Hamilton's Track Record Re-Considered. **AU** Brown, Stephen J.; Goetzmann, William N.; Kumar, Alok.

TI The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi.

TI Offshore Hedge Funds: Survival & Performance 1989-1995. **AU** Brown, Stephen J.; Goetzmann, William N.; Ibbotson, Roger G.

TI The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi.

TI Positive Portfolio Factors. **AU** Brown, Stephen J.; Goetzmann, William N.; Grinblatt, Mark.

PD February 1998. **TI** High Water Marks. **AU** Goetzmann, William N.; Ingersoll, Jonathan, Jr..; Ross, Stephen A. **AA** Goetzmann and Ross: Yale University and National Bureau of Economic Research. Ingersoll: Yale University. **SR** National Bureau of Economic Research Working Paper: 6413; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G23,

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G30, J41, J44. **KW** Money Managers. Incentives. Contracts. Returns to Scale. Mutual Funds.

AB Incentive fees for money managers are frequently accompanied by high water mark provisions which condition the payment of the incentive upon exceeding the maximum achieved share value. In this paper, we show that these high water mark contracts are valuable to money managers, and conversely represent a claim on a significant proportion of investor wealth. We provide a closed-form solution to the high water mark contract under certain conditions. This solution shows that managers have an incentive to take risks. We conjecture that the existence of high water mark compensation is due to decreasing returns to scale in the industry. Empirical evidence on the relationship between fund return and net money flows into and out of funds suggests that successful managers, and large fund managers are less willing to take new money than small fund managers.

TI Hedge Funds and the Asian Currency Crisis of 1997. **AU** Brown, Stephen J.; Goetzmann, William N.; Park, James.

Goldberg, Linda S.

PD December 1997. **TI** Foreign Direct Investment, Trade and Real Exchange Rate Linkages in Southeast Asia and Latin America. **AU** Goldberg, Linda S.; Klein, Michael W. **AA** Goldberg: Federal Reserve Bank of New York and National Bureau of Economic Research. Klein: Tufts University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6344; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 24. **PR** $5.00. **JE** F14, F21, F31. **KW** Foreign Direct Investment. International Trade. Exchange Rates.

AB We investigate the relationships among trade, foreign direct investment and the real exchange rate between a set of Southeast Asian and Latin American countries and both the United States and Japan. Foreign direct investment by both Japan and the United States to the Southeast Asian countries in our sample is significantly affected by bilateral real exchange rates. Also, trade between the countries in our sample and the United States and Japan is significantly affected by foreign direct investment. These sets of relationships, between the real exchange rate and foreign direct investment, and between foreign direct investment and trade, support two channels through which the real exchange rate affects trade: a direct effect on the relative price of goods and an indirect effect through foreign direct investment.

Goldfajn, Ilan

TI Financial Market Contagion in the Asian Crisis. **AU** Baig, Taimur; Goldfajn, Ilan.

PD December 1998. **TI** Monetary Policy in the Aftermath of Currency Crises: The Case of Asia. **AU** Goldfajn, Ilan; Baig, Taimur. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/170; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 29. **PR** not available. **JE** E44, E52, E58, E63, F31. **KW** Monetary Policy. Interest Rates. Inflation. Exchange Rates. Asian Crisis.

AB This paper evaluates monetary policy and its relationship with the exchange rate in five Asian crisis countries. The findings are compared with previous currency crises in recent history. The paper finds no evidence of overly tight monetary policy in the Asian crisis countries in 1997 and early 1998, or evidence that high interest rates led to weaker exchange rates. The usual trade-off between inflation and output when raising interest rates suggested the need for a softer monetary policy in the crisis countries to combat recession. However, in some countries, corporate balance sheet considerations called for the reversal of overly depreciated currencies through firmer monetary policy.

Goldin, Claudia

PD March 1998. **TI** Human Capital and Social Capital: The Rise of Secondary Schooling in America, 1910 to 1940. **AU** Goldin, Claudia; Katz, Lawrence F. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6439; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 27. **PR** $5.00. **JE** I21, J31, N31, N32. **KW** Education. Human Capital. Social Capital. Economic History. Returns to Schooling.

AB The United States led all other nations in the development of universal and publicly-funded secondary school education and much of the growth occurred from 1910 to 1940. The focus here is on the reasons for the "high school movement" in America generally and why it occurred so early and swiftly in America's heartland. The authors use information from the unique 1915 Iowa State Census to explore the factors, at both the county and individual levels, that propelled states like Iowa to embrace secondary school education very early. In an analysis at the national level, the authors find that greater homogeneity of income or wealth, a higher level of wealth, greater community stability, and more ethnic and religious homogeneity fostered high school expansion from 1910 to 1930. The pecuniary returns to secondary school education were high providing substantial private incentives for high school attendance.

Gonzalez-Hermosillo, Brenda

PD March 1999. **TI** Determinants of Ex-Ante Banking System Distress: A Macro-Micro Empirical Exploration of Some Recent Episodes. **AA** Dunaway, Steven V. **SR** International Monetary Fund Working Paper: WP/99/33; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 111. **PR** not available. **JE** E44, G21. **KW** Banking Crisis. Banking Sector Fragility.

AB This paper empirically analyzes the contribution of microeconomic and macroeconomic factors in five episodes of banking system problems in the U.S. Southwest (1986-92), Northeast (1991-92), and California (1992-93); Mexico (1994-95); and Colombia (1982-87). The paper finds that a low capital equity and reserve coverage of problem loans ratio is a leading indicator of bank distress, signaling a high likelihood of near-term failure. Distress is shown to be a function of the same fundamental macro-micro sources of risk that determine bank failures. Focusing on distress has the advantage that the fragility of the banking system can be assessed before a crisis actually occurs.

Goolsbee, Austan

PD December 1997. **TI** What Happens When You Tax the Rich? Evidence from Executive Compensation. **AA** University of Chicago and National Bureau of Economic

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Research. **SR** National Bureau of Economic Research Working Paper: 6333; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H22, H24, J30. **KW** Taxation. Taxable Income. Compensation. Corporate Executives. Stock Options.

AB This paper reexamines the responsiveness of taxable income to changes in marginal tax rates using detailed compensation data on several thousand corporate executives from 1991 to 1995. The data confirm that the higher marginal rates of 1993 led to a significant decline in taxable income. The decline, however, is almost entirely a short-run shift in timing of compensation rather than a permanent reduction in taxable income. The response comes almost entirely from a large increase in the exercise of stock options in the year before the tax change, followed by a decline in the year of the tax change. Other types of compensation such as salary and bonus or non-taxed income are either not responsive to tax rates or not large enough to make a difference. The estimated elasticities indicate that the dread weight loss of recent tax increases was around 15 to 25 percent of the revenue generated.

PD December 1997. **TI** Estimating Adjustment Costs with Data on Heterogeneous Capital Goods. **AU** Goolsbee, Austan; Gross, David B. **AA** Goolsbee: University of Chicago and National Bureau of Economic Research. Gross: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6342; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E22, L93. **KW** Capital. Adjustment Costs. Investment. Airline Industry. Utilization.

AB This paper estimates the micro-level costs of adjusting capital using detailed data on investment decisions in the U.S. airline industry. The data include the capital stock, investment, retirement, market values, operating costs, and utilization rates of 16 different types of capital goods for each airline. This data on heterogeneous capital goods allows us to estimate the desired stock of capital for each type of plane while controlling for unobserved changes in airline profitability. The results show clear evidence of non-convex adjustment costs, with a region of inaction for capital investment and quadratic adjustment costs conditional on positive or negative investment. The adjustment costs for utilization show similar non-convexities but with smaller adjustment costs. Aggregating to the firm level or using accounting data obscures the non-convexities and biases the estimated adjustment costs upward.

PD February 1998. **TI** The Business Cycle, Financial Performance, and the Retirement of Capital Goods. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6392; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D24, E22, E32, L93, O33. **KW** Investment. Capital Retirement. Depreciation. Airline Industry. Embodied Technology.

AB The neoclassical investment literature assumes that capital is homogenous, lives forever and has a constant depreciation rate. More recent theories of investment have shown that when there are distinct capital vintages with embodied technologies, depreciation and capital retirement become economic decisions and this raises important problems with existing empirical work. This paper uses new data on the service lives of individual capital goods in the airline industry to empirically examine the impact that economic factors have on capital retirement. The results strongly support the view that retirement is fundamentally an economic decision. Retirement is much more likely in recessions, when the cost of capital is low, or when a firm has good financial performance. Factor prices and industry regulation are also important. Since many of these factors also influence capital expenditures, the results imply that estimates from the conventional investment literature may substantially overstate the case.

PD February 1998. **TI** It's Not About the Money: Why Natural Experiments Don't Work on the Rich. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6395; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 20. **PR** $5.00. **JE** H21, H24, H30. **KW** Taxation. Corporate Executives. Natural Experiments. Income Elasticity.

AB High estimated elasticities of taxable income with respect to the net of tax share imply that cutting taxes on the rich does not lose much revenue and that progressivity generates a large amount of dead weight loss. To identify this elasticity, previous studies have conducted "natural experiments" comparing the rich to other income groups and assuming that they are the same except for changes in their tax rates. This paper tests the natural experiment assumption using alternative data on the compensation of a panel of several thousand corporate executives and finds it to be false. Relatively, the very rich have incomes which trend upward at a faster rate, are more sensitive to economic conditions, and are more likely to be in a form whose timing can be shifted in the short run. Interpreted broadly, these facts might reduce existing elasticity estimates by as much as 75 percent.

Gosling, Amanda

PD April 1998. **TI** The Changing Distribution of Male Wages in the UK. **AU** Gosling, Amanda; Machin, Stephen; Meghir, Costas. **AA** Gosling and Meghir: Institute for Fiscal Studies and University College London. Machin: Institute for Fiscal Studies, London School of Economics and University College London. **SR** Institute for Fiscal Studies Working Paper: W98/09; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 51. **PR** 3 pounds. **JE** D31, I21, J31. **KW** Wage Dispersion. Returns to Education. Cohort Effects. Wage Inequality.

AB This paper uses microeconomic data from the United Kingdom Family Expenditure Surveys (FES) and the General Household Surveys (GHS) to describe and explain changes in the distribution of male wages. Since the late 1970's wage inequality has risen very fast in the United Kingdom, and this rise is characterized both by increasing education and age differentials. We show that the changes in the United Kingdom can be summarized quite simply as increases in education differentials and a decline of growth of entry level wages which persist subsequently. This fact we interpret as cohort effects. We also show that, like in the United States, an important aspect of rising wage inequality is increased within-group wage dispersion. Finally we use the GHS to evaluate the role of alternative education measures.

Gower, Luke

TI Credit Limits and Long-Term Covered Interest Arbitrage. **AU** Dungey, Mardi; Gower, Luke.

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Grant, Simon

PD July 1997. **TI** Temporal Resolution of Uncertainty and Recursive Non-Expected Utility Models. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben. **AA** Grant: Australian National University. Kajii: University of Tsukuba. Polak: Yale University. **SR** Australian National University Working Paper in Economics and Econometrics: 324; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 14. **PR** no charge. **JE** D11, D80, D83. **KW** Early Resolution. Rank Dependence. Recursivity. Betweenness.

AB If an agent (weakly) prefers early resolution of uncertainty then the recursive forms of both the most commonly used non-expected utility models, betweenness and rank dependence, almost reduce to Kreps and Porteus's (1978) recursive expected utility.

PD August 1997. **TI** Intrinsic Preference for Information. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben. **AA** Grant: Australian National University. Kajii: University of Tsukuba. Polak: Yale University. **SR** Australian National University Working Paper in Economics and Econometrics: 323; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 26. **PR** no charge. **JE** D11, D81, D83. **KW** Preference for Information. Non-Expected Utility. Risk Aversion. Recursivity.

AB Suppose, following Kreps & Porteus (1978), that an agent values information not only to make contingent plans but also for itself; that is, intrinsically. What, then, is the relationship between an agent's attitude towards information and her attitude towards risk? If an agent always prefers more information, does this imply that she obeys the independence axiom? We generalize the recursive expected utility model, dropping both recursivity and expected utility. Exploiting the geometric analogy between risk and information, we characterize intrinsic information loving, for general preferences, in terms of a substitution property analogous to multivariate risk loving; and, for smooth preferences, in terms of the convexity of the Gateaux derivatives. Even with recursivity, preference for information does not imply expected utility: we provide an example. We examine, for all recursive preferences, the connection between information loving and comparative risk aversion for early versus late resolving risks.

PD August 1997. **TI** Dynamic Consistency and Preference for Information. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben. **AA** Grant: Australian National University. Kajii: University of Tsukuba. Polak: Yale University. **SR** Australian National University Working Paper in Economics and Econometrics: 326; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 17. **PR** no charge. **JE** D11, D80, D83. **KW** Dynamic Consistency. Information. Non-Expected Utility. Recursivity.

AB We give sufficient conditions for an agent to always prefer more informative signals. As neither recursivity nor reduction are needed, the agent need not conform to expected utility. We argue, however, that if an agent desires information, for example, to relieve anxiety then there are reasons to expect her to be dynamically inconsistent.

TI On Relative Performance Contracts and Fund Manager's Incentives. **AU** Eichberger, Jurgen; Grant, Simon; King, Stephen P.

PD December 1998. **TI** Decomposable Choice under Uncertainty. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben. **AA** Grant: Australian National University. Kajii: University of Tsukuba. Polak: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1207; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 34. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C72, D81, D82. **KW** Sure-Thing Principle. Decomposability. Uncertainty. Dynamic Programming. Non-Expected Utility.

AB Savage motivated his Sure Thing Principle by arguing that, whenever an act would be preferred if an event obtains and preferred if that 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. The authors show that it does not require the full separability across events implicit in Savage's axiom. They formulate a weaker axiom that suffices for decomposability, and show that this implies an implicit additive representation. Their decomposability property makes local necessary conditions for optimality, globally sufficient. Thus, it is useful in computing optimal acts. It enables Nash behavior in games of incomplete information to be decentralized to the agent-normal form. None of these results rely on probabilistic sophistication. If probabilistic sophistication is assumed, the axiom holds if and only if the agent's induced preferences over lotteries satisfy betweenness.

PD December 1998. **TI** Preference for Information and Dynamic Consistency. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben. **AA** Grant: Australian National University. Kajii: University of Tsukuba. Polak: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1208; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 19. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D82, D83. **KW** Information. Non-Expected Utility. Dynamic Consistency. Randomization. Anxiety.

AB We provide necessary and sufficient conditions for a dynamically consistent agent always to prefer more informative signals (in single- agent problems). These conditions do not imply recursivity, reduction or independence. We provide a simple definition of dynamically consistent behavior, and we discuss whether an intrinsic information lover (say, an anxious person) is likely to be dynamically consistent.

Griffin, John M.

PD October 1997. **TI** International Competition and Exchange Rate Shocks: A Cross-Country Industry Analysis of Stock Returns. **AU** Griffin, John M.; Stulz, Rene M. **AA** Griffin: Arizona State University. Stulz: Ohio State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6243; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 41. **PR** $5.00. **JE** F23, F31, G12, L10. **KW** Asset Pricing. Exchange Rates. International Trade.

AB It is widely accepted that, for some industries, competition across countries is economically important and that this competition is strongly affected by exchange rate

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changes. This paper explores the validity of this view using weekly stock return data on 320 industry pairs in six countries from 1975 to 1997. It is found that common shocks to industries across countries are more important than competitive shocks. Weekly exchange rate shocks explain almost nothing of the relative performance of industries. Using returns measured over longer horizons, the importance of exchange rate shocks increases slightly and the importance of common shocks to industries increases more substantially. Both industry and exchange rate shocks are more important for industries that produce goods traded internationally, but the importance of these shocks is economically small for these industries as well.

Griffith, Rachel

TI The Taxation of Discrete Investment Choices. **AU** Devereux, Michael P.; Griffith, Rachel.

TI Individual Effects and Dynamics in Count Data Models. **AU** Blundell, Richard; Griffith, Rachel; Windmeijer, Frank.

PD January 1999. **TI** Using the ARD Establishment Level Data to Look at Foreign Ownership and Productivity in the UK. **AA** Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W99/06; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 32. **PR** 3 pounds. **JE** D20, F23, L62. **KW** Micro Data. Panel Data. UK Plants. Foreign Ownership.
AB Recently the data underlying the Annual Census of Production has been made available to academic economists in the United Kingdom. The data provides information on production activity in the United Kingdom at the plant level. This paper provides some preliminary description of the data and discusses a few of its advantages and some of the problems associated with using it. A brief review of current empirical work using the Annual Business Inquiry Respondents Database (ARD) data is given. A particular application, looking at differences between foreign and domestic-owned establishments, is described in more detail.

Grilo, Isabel

TI Social Clause? **AU** Cordella, Tito; Grilo, Isabel.

Grinblatt, Mark

TI Positive Portfolio Factors. **AU** Brown, Stephen J.; Goetzmann, William N.; Grinblatt, Mark.

Grisanti, Alejandro

TI Institutional Arrangements and Fiscal Performance: The Latin American Experience. **AU** Stein, Ernesto; Talvi, Ernesto; Grisanti, Alejandro.

Grodal, Birgit

TI Clubs and the Market: Continuum Economics. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R.

TI Clubs and the Market: Large Finite Economies. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R.

Grogger, Jeff

PD January 1998. **TI** The Introduction of Crack Cocaine and the Rise in Urban Crime Rates. **AU** Grogger, Jeff; Willis, Mike. **AA** Grogger: University of California, Los Angeles and National Bureau of Economic Research. Willis: University of California, Santa Barbara. **SR** National Bureau of Economic Research Working Paper: 6353; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 26. **PR** $5.00. **JE** I12, K42, O30. **KW** Crime. Cocaine. Drug Use. Violent Crime. Innovation.
AB Despite widespread popular accounts linking crack cocaine to inner- city decay, little systematic research has analyzed the effect of the introduction of crack on urban crime. The authors study this question using FBI crime rates for 27 metropolitan areas and two sources of information on the date at which crack first appeared in those cities. Using methods designed to control for confounding time trends and unobserved differences among metropolitan areas, the authors find that the introduction of crack has substantial effects on violent crime but essentially no effect on property crime. They explain these results by characterizing crack cocaine as a technological innovation in the market for cocaine intoxication and by positing that different types of crimes play different roles in the market for illegal drugs. In a market with incomplete property rights and inelastic demand, a technological innovation increases violence by distributors but decreases property crime by consumers.

Gross, David B.

TI Estimating Adjustment Costs with Data on Heterogeneous Capital Goods. **AU** Goolsbee, Austan; Gross, David B.

Grossman, Gene M.

PD October 1997. **TI** Free Trade vs. Strategic Trade: A Peek into Pandora's Box. **AU** Grossman, Gene M.; Maggi, Giovanni. **AA** Grossman: Princeton University and National Bureau of Economic Research. Maggi: Princeton University. **SR** National Bureau of Economic Research Working Paper: 6211; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** $5.00. **JE** F13, H25. **KW** International Trade. Investment. Private Information. Free Trade.
AB We investigate whether a welfare-maximizing government ought to pursue a program of strategic trade intervention or instead commit itself to free trade when, in the former case, domestic firms will have an opportunity to manipulate the government's choice of the level of intervention. Domestic firms may overinvest in physical and knowledge capital in a regime of strategic intervention in order to influence the government's choice of subsidy. In this event, a commitment to free trade may be desirable even in settings where profit-shifting would be possible. We analyze the desirability of such a commitment when the government is well informed about firms' types and actions, and when it suffers from an informational disadvantage.

TI A Theory of Political Compromise. **AU** Dixit, Avinash K.; Grossman, Gene M.; Gul, Faruk.

Grossman, Herschel I.

PD November 1997. **TI** "Make Us a King": Anarchy, Predation, and the State. **AA** Brown University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6289; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge,

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MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D61, D71, D72, E62, H40. **KW** Predation. Monarchy. Production. Collective Choice. Fiscal Policy.

AB In order to enforce a collective choice to allocate resources to guarding against predators, producers must subject themselves to the state's sovereign power to tax and to spend. But, with these sovereign powers in hand the state can exploit the producers by taxing and spending for its own purposes. Using a general equilibrium model in which people can choose to be either producers or predators, this paper rationalizes the biblical request, "Make us a king." The analysis shows that, if the technology of predation is sufficiently good, then having a "king" is better for everyone, including both producers and potential predators, than not having a king, even though the king maximizes the consumption of a ruling elite.

PD December 1997. **TI** Predation, Efficiency, and Inequality. **AU** Grossman, Herschel I.; Kim, Minseong. **AA** Grossman: Brown University and National Bureau of Economic Research. Kim: University of Pittsburgh. **SR** National Bureau of Economic Research Working Paper: 6301; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 16. **PR** $5.00. **JE** D31, D61, D63, D74, E21. **KW** Predation. Consumption. Production. Welfare.

AB This paper shows how predation breaks the links between an economy's aggregate resource endowment and aggregate consumption and between the interpersonal distribution of endowments and the interpersonal distribution of consumption. The authors construct a general-equilibrium model in which some people are well endowed with resources and other people are poorly endowed and in which each person can choose to be either a producer or a predator. In this model the choice by some people to be predators decreases aggregate consumption, both because the resources of predators are used unproductively and because producers sacrifice some production to guard against predators. The authors find that the minimum equilibrium ratio of predators to producers depends only on the technology of predation. In addition, the equilibrium ratio of predators to producers equals its minimum value if and only if the ratio of unprivileged people to privileged people is not larger than this minimum value.

PD February 1998. **TI** Human Capital and Predation: A Positive Theory of Educational Policy. **AU** Grossman, Herschel I.; Kim, Minseong. **AA** Grossman: Brown University and National Bureau of Economic Research. Kim: University of Pittsburgh. **SR** National Bureau of Economic Research Working Paper: 6403; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D31, D74, J24, H40, I28. **KW** Education. Human Capital. Public Policy. Predation.

AB This paper offers an explanation for observed difference across countries in educational policies and in resulting interpersonal distributions of human capital. The authors analyze a general- equilibrium model in which some people can be well endowed with human capital, whereas other people are poorly endowed. The authors assume that people can choose to be either producers or predators. An increase in a person's human capital makes predation a less attractive choice for that person. As a result, it is possible that by using some of their human capital to educate the poorly endowed people rather than to produce consumables the well endowed people can increase their own consumption. The authors also find that the nature of the educational policy that maximizes the consumption of the well endowed people depends on the ability of producers to enforce a collective choice of the amount of resources to be allocated to guarding against predators.

Grossman, Michael

TI Alcohol Regulation and Violence Towards Children. **AU** Markowitz, Sara; Grossman, Michael.

TI The Demand for Cocaine and Marijuana by Youth. **AU** Chaloupka, Frank; Grossman, Michael; Tauras, John A.

Gruber, Jonathan

PD September 1997. **TI** Public Health Insurance and Private Savings. **AU** Gruber, Jonathan; Yelowitz, Aaron S. **AA** Gruber: Massachusetts Institute of Technology. Yelowitz: University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 772; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 48. **PR** $5.00. **JE** E21, H51, H53, I18. **KW** Medicaid. Savings. Asset-Tested Programs. Crowd Out.

AB Recent theoretical work suggests that means and asset-tested social insurance programs can explain the low savings of lower income households in the U.S. This paper investigates the effect of Medicaid, the health insurance program for low income women and children, on savings behavior. The paper uses data on asset holdings from the Survey of Income and Program Participation, and data on consumption from the Consumer Expenditure Survey, matched to information on the eligibility of each household for Medicaid. Exogenous variation in Medicaid eligibility is provided by the dramatic expansion of this program over the 1984-1993 period. Medicaid eligibility is found to have a sizable and significant negative effect on wealth holdings; in 1993 the Medicaid program lowered wealth holdings by 17.7 percent among the eligible population. The authors confirm this finding by showing a strong positive association between Medicaid eligibility and consumption expenditures; in 1993, the program raised consumption expenditures among eligibles by 5.2 percent. The fact that asset testing was phased out by the Medicaid program over this period is used to document that these Medicaid effects are stronger in the presence of an asset test, confirming the importance of asset testing for household savings decisions.

PD December 1997. **TI** Social Security and Retirement in Canada. **AA** U.S. Treasury Department and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6308; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H55, J14, J22, J26. **KW** Social Security. Retirement.

AB Government transfers to older persons in Canada are one of the largest and fastest growing components of the government budget. The author provides an overview of the interaction between these transfer programs and retirement behavior. He begins by documenting historical trends in labor force participation and program receipt, and contemporaneous patterns of work and income receipt for the current cohort of older persons. He then presents an overview of the structure of this system of Canadian transfer programs. Finally, the author presents results of a simulation model, which measures the implicit tax/subsidy rate on work after age 55. He finds that, for

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married male workers, there are modest taxes on work through age 64, that rise to fairly high levels thereafter. But these taxes are substantially lower for single workers, since they do not have wives eligible for means- tested transfers, and for workers with substantial other sources of income.

Grubert, Harry

TI Has U.S. Investment Abroad Become More Sensitive to Tax Rates? **AU** Altshuler, Rosanne; Grubert, Harry; Newlon, T. Scott.

Gul, Faruk

TI A Theory of Political Compromise. **AU** Dixit, Avinash K.; Grossman, Gene M.; Gul, Faruk.

Gupta, Anurag

PD March 1998. **TI** An Empirical Examination of the Convexity Bias in the Pricing of Interest Rate Swaps. **AU** Gupta, Anurag; Subrahmanyam, Marti G. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/27; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 33. **PR** $5.00 each; $100.00 yearly subscription. **JE** E43, G11, G12, G13. **KW** Convexity Bias. Interest Rate. Swaps. Eurocurrency Futures.

AB This paper examines the convexity bias introduced by pricing interest rate swaps off the Eurocurrency futures curve and the market's adjustment of this bias in prices. The bias arises because of the difference between a futures versus a forward contract on interest rates, since the payoff to the latter is non-linear in interest rates. Using daily data from 1987-1996, the difference between market swap rates and the swap rates implied from Eurocurrency futures prices are studied for major interest rate swap markets. The evidence suggests that swaps were being priced off the futures curve (i.e. by ignoring the convexity adjustment) during the earlier years of the study, after which the market swap rates drifted below the rates implied by futures prices. Empirically, this spread between the market and futures-implied swap rates cannot be explained by default risk differences, term structure effects, liquidity differences or information asymmetries. Using alternative term structure models (Vasicek, Cox-Ingersoll and Ross, Hull and White, and Black and Karasinski), the theoretical value of the convexity bias is found to be related to the empirically observed swap-futures differential. This is evidence of early mispricing of swap rates, which is gradually eliminated by a convexity adjustment.

Gupta, Sanjeev

PD February 1999. **TI** Does Higher Government Spending Buy Better Results in Education and Health Care? **AU** Gupta, Sanjeev; Verhoeven, Marijn; Tiongson, Erwin. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/21; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 20. **PR** not available. **JE** H51, I12, I18, I21, I31. **KW** Public Expenditures. Education. Health Care. Intrasectoral Spending. Social Indicators.

AB There is little empirical evidence to support the claim that public spending improves education and health indicators. This paper uses cross-sectional data for 50 developing and transition countries to show that expenditure allocations within the two social sectors improve both access to and attainment in schools and reduce mortality rates for infants and children. The size and efficiency of these allocations are important for promoting equity and furthering second-generation reforms.

Gustman, Alan L.

TI Trends in Male Labor Force Participation and Retirement: Some Evidence on the Role of Pensions and Social Security in the 1970's and 1980's. **AU** Anderson, Patricia M.; Gustman, Alan L.; Steinmeier, Thomas L.

Haaland, Jan I.

PD July 1998. **TI** International Competition for Multinational Investment. **AU** Haaland, Jan I.; Wooton, Ian. **AA** Haaland: Norwegian School of Economics and Business Administration. Wooton: University of Glasgow. **SR** Centre for Economic Policy Research Discussion Paper: 1937; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F12, F21, F23, H87, R12. **KW** Multinational Firms. Foreign Direct Investment. Location. Policy Competition. Agglomeration.

AB We examine the economic justification for providing investment subsidies to foreign-owned multinationals. These provide employment opportunities and generate demand for domestic intermediate inputs, produced by domestic workers with increasing returns to scale. Offering subsidies to multinationals may be in the national interest if the investment raises the net value of domestic production. When agglomerative forces are sufficiently strong, a subsidy that attracts the first foreign firm may induce several to enter, establishing a thriving modern sector. With a limited number of foreign enterprises, countries may compete to attract investment. This subsidy competition transfers much of the rents to the multinationals.

Hahm, Joon-Ho

PD April 1998. **TI** Consumption Adjustment Under Changing Income Uncertainty. **AU** Hahm, Joon-Ho; Steigerwald, Douglas. **AA** Hahm: Korea Development Institute. Steigerwald: University of California, Santa Barbara. **SR** Australian National University Working Paper in Economics and Econometrics: 345; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 27. **PR** no charge. **JE** D81, D84, D91, E21. **KW** Income Uncertainty. Consumption. Precautionary Saving. Time-Series Variation.

AB We study the effect of income uncertainty on consumption in a model that includes precautionary saving. In contrast to previous studies, we focus on time-series variation in income uncertainty. Our time-series measure of income uncertainty is constructed from a panel of forecasts. We find evidence of precautionary saving in that increases in income uncertainty are related to increases in aggregate rates of saving. We also find evidence that anticipated income growth rates have less explanatory power for consumption growth rates after conditioning on income uncertainty. The evidence indicates the presence of forward- looking consumers who gradually adjust precautionary savings in response to changing income uncertainty.

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Hall, Brian J.

PD October 1997. **TI** Are CEOs Really Paid Like Bureaucrats?. **AU** Hall, Brian J.; Liebman, Jeffery B. **AA** Hall: Harvard Business School and National Bureau of Economic Research. Liebman: Harvard University. **SR** National Bureau of Economic Research Working Paper: 6213; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G30, J33, M10. **KW** Corporate Finance. Stock Options. Productivity. Chief Executive Officers. Firm Performance.

AB A common view of CEO compensation is that there is essentially no correlation between firm performance and CEO pay. This calls into question an important component of effective corporate governance. This "zero correlation" belief is based on the widely cited result that CEO wealth rises by only $3.25 for every $1,000 increase in firm value (Jensen and Murphy, 1990b) and findings that the elasticity of CEO salary and bonus with respect to firm market value is only 0.1. The authors use a new 15-year panel data set of CEO's in the largest U.S. firms and focus on a broad measure of "compensation" that includes changes in the value of CEO holdings of stock and stock options. They find very large pay to performance sensitivity. They also document that both the level of CEO compensation and the sensitivity of CEO compensation to firm performance have grown dramatically over the past 15 years.

Hall, Bronwyn H.

PD March 1998. **TI** Firm-Level Investment in France and the United States: An Exploration of What We have Learned in Twenty Years. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Mulkay, Benoit. **AA** Hall: Nuffield College, Oxford, University of California, Berkeley, Institute for Fiscal Studies and National Bureau of Economic Research. Mairesse: INSEE-CREST, EHESS and National Bureau of Economic Research. Mulkay: Universite des Antilles et de la Guyane. **SR** Institute for Fiscal Studies Working Paper: W98/10; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 28. **PR** 3 pounds. **JE** B41, C23, C51, E22. **KW** Investment Modeling. Econometric Methodology. Panel Data. Error Correction.

AB We review the changes in modeling strategy and econometric methodology when estimating a firm-level investment equation on panel data during the past twenty years, in order to assess which of these changes result from new estimation methods and changes in the practice of panel data econometrics, and which are "real" and due to the evolution of the economy. Thus our paper consists of a series of comparisons: a simple accelerator-profit specification versus one with error correction, traditional between- and within-firm estimation versus Generalized Method of Moments estimation, the investment behavior of French firms versus that of U.S. firms, and investment behavior today versus ten to twenty years ago. Although the econometric advances have perhaps not been as successful as we had hoped, we do find some real change in firm behavior and some improvement in equation specification and interpretation during the past twenty years.

PD April 1998. **TI** Does Cash Flow Cause Investment and R&D: An Exploration Using Panel Data for French, Japanese, and United States Scientific Firms. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Branstetter, Lee; Crepon, Bruno. **AA** Hall: Nuffield College, Oxford, University of California, Berkeley, Institute for Fiscal Studies and National Bureau of Economic Research. Mairesse: INSEE-CREST, EHESS and National Bureau of Economic Research. Branstetter: University of California, Davis and National Bureau of Economic Research. Crepon: INSEE-CREST. **SR** Institute for Fiscal Studies Working Paper: W98/11; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 23. **PR** 3 pounds. **JE** C23, E22, G31, O32. **KW** Corporate Finance. Panel Data. Liquidity Constraints. International Comparisons.

AB The role of financial institutions and corporate governance in the conduct and performance of industrial firms, especially in the area of technological innovation and international competition has been hotly debated in the recent past. The results presented here are a contribution to the empirical evidence on the behavior of individual firms that exist in somewhat different institutional environments. Using a Panel Data version of the Vector Auto Regressive (VAR) methodology, we test for causal relationships among sales and cash flow on the one hand and investment and R&D on the other, using three large panels of firms in the scientific (high technology) sectors in the United States, France, and Japan. Our findings are that both investment and R&D are more highly sensitive to cash flow and sales in the United States than in France and Japan. Correspondingly, both investment and R&D predict both cash flow and sales positively in the United States, while the impact is somewhat more mixed in the other countries.

Hall, John

TI The Impact of Expenditure Limitations on Local Government Spending: Evidence from the UK. **AU** Emmerson, Carl; Hall, John; Ridge, Michael.

PD February 1998. **TI** Tax Price Effects on Attitudes to Hypothecated Tax Increases. **AU** Hall, John; Preston, Ian. **AA** Hall: Institute for Fiscal Studies. Preston: University College London and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/06; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 22. **PR** 3 pounds. **JE** H21, H22, H24, H40. **KW** Tax Price. Tax Increases. Public Services. Attitudes.

AB Perceptions of private benefits from hypothecated tax increases may be correlated with income either because individuals with different incomes are more or less interested in public services or because they anticipate bearing different shares of the implied tax burden. Without being specific about the nature of the tax instrument involved in a way that permits tax prices to vary independently of income, it can be difficult to distinguish between income and price effects in responses to survey on this subject. We report on analysis of cross-sectional data from the United Kingdom in which respondents have been randomly allocated to different but precisely specified tax instruments. The data also contains information on perceptions of implied tax costs. We estimate perceptions of tax costs and attitudes to tax increases jointly, finding little effect from tax prices on perceptions of private benefits from increased public spending. Possible explanations are discussed.

PD November 1998. **TI** Public and Private Choice in UK Health Insurance. **AU** Hall, John; Preston, Ian. **AA** Hall: Institute for Fiscal Studies. Preston: University College London and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/19; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 24.

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PR 3 pounds. **JE** H42, H51, I11. **KW** Health Insurance. Public Choice. Public Spending. Public Health.

AB Many parts of the public sector coexist with private provision of similar services and in such circumstances we may expect to find interaction between public and private choices. Quality of publicly provided services will be a central influence on decisions whether to make use of private substitutes and use of private substitutes will feed back into attitudes towards the level of public spending. In this paper we present evidence using the British Social Attitudes Survey to show that individual take up of private medical insurance inhibits support for spending on the public health sector. Such effects have been shown to be appreciable and allowance for the joint determination of insurance decisions and attitudes magnifies the size of the estimated effects.

Hallerberg, Mark

PD December 1997. **TI** Electoral Institutions, Cabinet Negotiations, and Budget Deficits in the European Union. **AU** Hallerberg, Mark; von Hagen, Jurgen. **AA** Hallerberg: Georgia Institute of Technology. von Hagen: University of Bonn. **SR** National Bureau of Economic Research Working Paper: 6341; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 23. **PR** $5.00. **JE** D73, H61, H62, K40. **KW** Electoral Institutions. Deficit. Budget. Fiscal Contracts. Delegation.

AB A rough consensus has emerged that states with proportional representation systems are likely to run larger deficits than plurality states. The authors argue that electoral institutions matter because they restrict the type of budgetary institution at the governmental phase. Cabinet members may willingly delegate authority to a finance minister who can monitor spending ministers and punish those who "defect" in a process the authors label "delegation," and this procedure is feasible in states where one-party governments are the norm. Such states usually have plurality electoral systems. In multi-party governments, which are common in states with proportional representation, the coalition members are not willing to delegate to one actor the ability to monitor and punish the others. Negotiated targets in the form of fiscal contracts provide an alternative in multi-party governments. It is the presence or absence of one of these budgetary institutions, which has the greatest impact on debt levels.

Hallock, Kevin

TI Unions and Managerial Pay. **AU** DiNardo, John; Hallock, Kevin; Pischke, Jorn-Steffen.

Halpern, Joseph Y.

TI The Hierarchical Approach to Modeling Knowledge and Common Knowledge. **AU** Ronald, Fagin; Geanakoplos, John; Halpern, Joseph Y.; Vardi, Moshe Y.

Hammour, Mohamad L.

TI Jobless Growth: Appropriability, Factor Stabilization, and Unemployment. **AU** Caballero, Ricardo J.; Hammour, Mohamad L.

Hansen, Daniel

TI Has Job Stability Declined Yet? New Evidence for the 1990's. **AU** Neumark, David; Polsky, Daniel; Hansen, Daniel.

Hanson, Gordon H.

PD February 1998. **TI** Market Potential, Increasing Returns, and Geographic Concentration. **AA** University of Texas and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6429; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** F12, L11, R12, R30. **KW** Geographic Concentration. Labor Demand. Spatial Distribution. Scale Economies.

AB This paper examines the relationship between increasing returns to scale and the geographic concentration of economic activity. Using data on U.S. counties, the author estimates the structural parameters of the Krugman (1991) model of economic geography. The specification the author uses resembles a spatial labor demand function, as it is proximity to consumer markets that determines nominal wages and employment in a given location. Parameter estimates show support for small but significant scale economies. The parameter estimates also suggest that geographic concentration is a stable feature of the spatial distribution of economic activity. As a prelude to the analysis, the author estimates a reduced form of the Krugman model. The estimation results indicate how far demand linkages extend across space and how shocks to income in one location affect wages and employment in other locations. Demand linkages between regions are strong and growing over time, but limited in geographic scope.

Haque, Nadeem Ul

PD November 1998. **TI** The Quality of Governance: "Second-Generation" Civil Service Reform in Africa. **AU** Haque, Nadeem Ul.; Aziz, Jahangir. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/164; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** F22, J24, J31, O15, O55. **KW** Public Sector. Human Capital. Migration. Growth. Africa.

AB This paper argues that the development of human capital in the public sector should be an important ingredient in any proposed set of "second- generation" reforms for Africa. In the post-colonial era the quality of governance has seriously declined, and the stock of human capital in the public sector has been eroded by a flight of human capital from many countries, in response to compression of wages. The paper develops a simple theoretical framework to discuss these issues and the continent's experience with foreign technical assistance in supplementing the low level of domestic human capital.

PD December 1998. **TI** Do IMF-Supported Programs Work? A Survey of the Cross-Country Empirical Evidence. **AU** Haque, Nadeem Ul.; Khan, Mohsin S. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/169; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** E63, F33, F34, F41, O19. **KW** IMF Programs. Cross-Country Studies. Program Evaluation. Development. Stabilization.

AB Over the last two decades a number of cross-country empirical studies have been undertaken to assess whether IMF-supported adjustment programs have led to an improved balance of payments and current account balance, lower inflation, and higher growth. These studies use a variety of methodologies and cover different country samples and time periods. This paper critically surveys the evidence yielded by

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the cross-country studies, paying special attention to the pros and cons of the respective empirical methodologies employed. These studies, particularly the more recent ones, conclude that IMF-supported programs have generally been successful in stabilizing the economy.

Harhoff, Dietmar

TI Investment, R&D and Financial Constraints in Britain and Germany. **AU** Bond, Stephen; Harhoff, Dietmar; Van Reenen, John.

Hart, Oliver

PD November 1997. **TI** A New Bankruptcy Procedure That Uses Multiple Auctions. **AU** Hart, Oliver; Lopez-de-Silanes, Florencio; La Porta, Rafael; Moore, John. **AA** Hart and Lopez-de-Silanes: Harvard University and National Bureau of Economic Research. La Porta: Harvard University. Moore: London School of Economics. **SR** National Bureau of Economic Research Working Paper: 6278; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 17. **PR** $5.00. **JE** D44, G33, K22. **KW** Bankruptcy. Auctions. Corporation Law. Capital Markets.

AB We develop a new bankruptcy procedure that makes use of multiple auctions. The procedure is designed to work even when capital markets do not function well (for example in developing economies, or in economies in transition) -- although it can be used in all economies.

PD February 1998. **TI** Cooperatives vs. Outside Ownership. **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: 6421; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D21, G32, G33, L20. **KW** Firm Behavior. Contracting. Ownership Structure. Nonprofit Cooperatives. Corporate Governance.

AB This paper is concerned with the design of a constitution for a firm. The authors focus attention on two polar constitutions: nonprofit cooperatives and outside ownership. In the former, ownership is shared among a group of consumers on a one member, one vote basis. In the latter, all control rights and rights to residual income are allocated to an outsider. There are two main results. First, in the case of perfect competition, an outside owner achieves the first-best; a cooperative typically does not because the rent from any cost advantage relative to the market is used to shield members from competitive pressure, and the median voter's preferences may not reflect average preferences. Second, in the case where the members of a cooperative have common preference orderings they unanimously vote for the first-best; an outside owner typically makes inefficient decisions, tailored to the marginal rather than to the average customer.

Harvey, Campbell R.

TI Foreign Speculators and Emerging Equity Markets. **AU** Bekaert, Geert; Harvey, Campbell R.

Haskel, Jonathan E.

PD July 1998. **TI** Does the Sector Bias of Skill-Biased Technical Change Explain Changing Wage Inequality? **AU** Haskel, Jonathan E.; Slaughter, Matthew J. **AA** Haskel: Queen Mary and Westfield College. Slaughter: Dartmouth College and National Bureau of Economic Research. **SR** Centre for Economic Policy Research Discussion Paper: 1940; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 48. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F10, J24, J31, O14, O33. **KW** Wage Inequality. Technical Change. Trade. Skill. Sector Bias.

AB This paper examines whether the sector bias of skill-biased technical change (SBTC) explains changing skill premia within countries in recent decades. First, using a two-factor, two-sector, two-country model the authors demonstrate that in many cases it is the sector bias of SBTC that determines SBTC's effect on relative factor prices, not its factor bias. Thus, rising (falling) skill premia are caused by more extensive SBTC in skill-intensive (unskill-intensive) sectors. Second, the authors test the sector-bias hypothesis using industry data for many countries in recent decades. An initial consistency check strongly supports the hypothesis. The hypothesis is also strongly supported by more structural estimation on UK and U.S. data of the economy-wide wage changes "mandated" to maintain zero profits in all sectors in response to the sector bias of SBTC. The suggestive mandated-wage estimates match the direction of actual wage changes in both countries during both the 1970's and the 1980's.

Hatton, Timothy J.

PD November 1998. **TI** Migration, Migrants and Policy in the United Kingdom. **AU** Hatton, Timothy J.; Wheatley Price, Stephen. **AA** Hatton: University of Essex. Wheatley Price: University of Sheffield. **SR** Centre for Economic Policy Research Discussion Paper: 1960; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 72. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F22, J15, J21, J61, J71. **KW** International Migration. Immigration Policy. Immigrant Assimilation. Labor Markets. Discrimination.

AB This paper draws together, in the form of a survey, a number of different aspects of the United Kingdom's international migration experience since the Second World War. The areas covered include changes in the volume and composition of international migration and the factors influencing migration; the background to, and the development of, restrictions on immigration; and the links between immigration policy and race relations. This is followed by an examination of the education and labor market status of immigrants and ethnic minorities as compared with native-born whites. Results from recent econometric research on wage and employment differentials are presented and interpreted in the wider context. Finally, the possible effects of migration on the economy at large are briefly discussed.

Hausman, Jerry

PD November 1997. **TI** Taxation by Telecommunications Regulation. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6260; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** $5.00. **JE** H21, L51, L96. **KW** Industrial Organization. Public Economics. Telecommunications.

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Taxation. Regulation.

AB Telecommunications regulation in the U.S. is replete with a system of subsidies and taxes. Because of budgetary spending limits, Congress is increasingly unable to increase general taxes to pay for social programs and thus funds these programs from taxes on specific sectors of the economy. This paper considers the Congressional legislation which established a program so that all public schools and libraries in the U.S. will receive subsidized service to the Internet. Congress passed legislation that directed all users of interstate telephone service to pay for the program. Using analytical methods from public finance, the author calculates the efficiency cost to the economy of the increased taxation of interstate telephone services to fund the Internet access discounts. The cost to the economy is extraordinarily high compared to other taxes used by the Federal government to raise revenues. The author discusses an alternative which would have a near zero cost.

Havrylyshyn, Oleh

PD January 1999. **TI** Privatization in Transition Countries: A Sampling of the Literature. **AU** Havrylyshyn, Oleh; McGettigan, Donal. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/06; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 38. **PR** not available. **JE** L10, L32, L33, P20, P31. **KW** Privatization. Transition. Public Enterprises. De Novo Enterprises. Vouchers.

AB This paper reviews a selection of studies on privatization experiences in transition countries. Empirical studies almost invariably show privatized enterprises outperform state enterprises. Moreover, the literature identifies de novo firms as being clearly the best performers, followed by outsider-dominated firms, while insider- dominated firms are the least efficient among those newly privatized. The importance of de novo firms in enlarging the private sector in transition economies is reviewed, along with the question of whether privatization efforts support or hinder de novo private sector development. Finally, the paper discusses the importance of providing a suitable market environment for successful private-sector development.

Heaney, Richard

PD November 1997. **TI** An Examination of the Variation in Equity Market Returns and Volatility in the Asia Pacific Region. **AU** Heaney, Richard; Hooper, Vince. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 333; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 29. **PR** no charge. **JE** F36, G10, G15, O53. **KW** Stock Returns. Asia Pacific. Equity Markets. Risk Indices.

AB This paper focuses on the impact that regional and world effects have upon the returns generated in a selection of Asia Pacific markets. The results support the hypothesis that equity markets are driven by both regional and global factors. In addition, the explanatory power of political, economic and financial risk indices is investigated with respect to country-specific stock market volatility. Financial risk indices provide consistent explanatory power.

Heckman, James J.

PD January 1998. **TI** Explaining Rising Wage Inequality: Explorations with a Dynamic General Equilibrium Model of Labor Earnings with Heterogeneous Agents. **AU** Heckman, James J.; Lochner, Lance; Taber, Christopher. **AA** Heckman: University of Chicago and National Bureau of Economic Research. Lochner: University of Chicago. Taber: Northwestern University. **SR** National Bureau of Economic Research Working Paper: 6384; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D31, D33, D58, J24, J31. **KW** Wage Inequality. Skill. Human Capital. General Equilibrium. Technological Change.

AB This paper develops and estimates an overlapping generations general equilibrium model of labor earnings, skill formation and physical capital accumulation with heterogeneous human capital. The model analyzes both schooling choices and post-school on the job investment in skills in a framework in which different schooling levels index different skills. A key insight in the model is that accounting for the distinction between skill prices and measured wages is important for analyzing the changing wage structure. New methods are developed and applied to estimate the demand for unobserved human capital and to determine the substitution relationships in aggregate technology among skills and capital. The authors estimate skill-specific human capital accumulation equations that are consistent with the general equilibrium predictions of the model. They find that a model of skill-biased technical change with a trend estimated from their aggregate technology is consistent with the central feature of rising wage inequality.

TI Life Cycle Schooling and Dynamic Selection Bias: Models and Evidence for Five Cohorts of American Males. **AU** Cameron, Stephen V.; Heckman, James J.

TI Cognitive Ability and the Rising Return to Education. **AU** Cawley, John; Heckman, James J.; Vytlacil, Edward.

TI Social Action, Private Choice, and Philanthropy: Understanding the Sources of Improvements in Black Schooling in Georgia, 1911-1960. **AU** Donohue, John, III..; Heckman, James J.; Todd, Petra E.

PD February 1998. **TI** General Equilibrium Treatment Effects: A Study of Tuition Policy. **AU** Heckman, James J.; Lochner, Lance; Taber, Christopher. **AA** Heckman: University of Chicago and National Bureau of Economic Research. Lochner: University of Chicago. Taber: Northwestern University. **SR** National Bureau of Economic Research Working Paper: 6426; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 8. **PR** $5.00. **JE** D50, E60, I21, I28, J24. **KW** Treatment Effects. General Equilibrium. Tuition Policy. Policy Interventions. Human Capital.

AB This paper defines and estimates general equilibrium treatment effects. The conventional approach in the literature on treatment effects ignores interactions among individuals induced by the policy interventions being studied. Focusing on the impact of tuition policy, and using estimates from our dynamic overlapping generations general equilibrium model of capital and human capital formation, we find that general equilibrium impacts of tuition on college enrollment are an order of magnitude smaller than those reported in the literature on microeconomic treatment effects. The assumptions used to justify the LATE parameter in a partial equilibrium setting do not hold in a general equilibrium setting. Policy changes induce

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two way flows. We extend the LATE concept to a general equilibrium setting. We present a more comprehensive evaluation to program evaluation by considering both the tax and benefit consequences of the program being evaluated and placing the analysis in a market setting.

TI Meritocracy in America: Wages Within and Across Occupations. AU Cawley, John; Heckman, James J.; Vytlacil, Edward.

Heijdra, Ben J.

PD December 1998. TI The Dynamic Macroeconomic Effects of Tax Policy in an Overlapping Generations Model. AU Heijdra, Ben J.; Ligthart, Jenny E. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/98/182; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 27. PR not available. JE D60, E62, H22, H23, H63. KW Blanchard Model. Labor Supply. Overlapping Generations. Tax Incidence. Tax Policy.

AB The paper studies the dynamic allocation effects of tax policy in the context of an overlapping generations model of the Blanchard-Yaari type. The model is extended to allow for endogenous labor supply and three tax instruments: a capital income tax, labor income tax, and consumption income tax. Analytical expressions and simple diagrams are used to discuss the impact, transition, and long-run effects of tax policy changes. It is shown that a part of the long-run incidence of capital and consumption taxes falls on capital when households' horizons are finite, whereas labor would fully bear the burden of these taxes in an infinite horizon model.

Hellerstein, Judith K.

PD December 1997. TI Market Forces and Sex Discrimination. AU Hellerstein, Judith K.; Neumark, David; Troske, Kenneth R. AA Hellerstein: University of Maryland and National Bureau of Economic Research. Neumark: Michigan State University and National Bureau of Economic Research. Troske: University of Missouri. SR National Bureau of Economic Research Working Paper: 6321; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG not available. PR $5.00. JE J16, J24, J71, L13. KW Sex Discrimination. Wages. Market Power.

AB This paper reports new evidence on the existence of sex discrimination in wages and whether competitive market forces act to reduce or eliminate discrimination. Specifically, the authors use plant- and firm-level data to examine the relationships between profitability, growth and ownership changes, product market power, and the sex composition of a plant's or firm's workforce. Their strongest finding is that among plants with high levels of product market power, those that employ relatively more women are more profitable. No such relationship exists for plants with apparently low levels market power. This is consistent with sex discrimination in wages in the short run in markets where plants have product market power. The authors also examine evidence on the longer-run effects of market forces on discrimination, asking whether discriminatory employers with market power are punished over time through lower growth than non-discriminatory employers, or whether discriminatory employers are bought out by non-discriminators.

Helpman, Elhanan

PD August 1998. TI The Structure of Foreign Trade. AA Tel-Aviv University. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 18/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. PG 40. PR no charge. JE F11, F12, F14. KW Trade Structure. Factor Content. Increasing Returns.

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.

PD August 1998. TI Adjusting to a New Technology: Experience and Training. AU Helpman, Elhanan; Rangel, Antonio. AA Helpman: The Eitan Berglas School of Economics. Rangel: CALTECH. SR Centre for Economic Policy Research Discussion Paper: 1930; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. PG 52. PR 5 pounds or 8 dollars or 8 euros. JE E32, J24, O14, O33. KW Technological Change. Training. Experience. Output Adjustment. Human Capital.

AB In this paper we study how aggregate output responds to the arrival of a new General Purpose Technology (GPT) by looking at adjustment mechanisms that operate through labor markets. We show that under a wide set of circumstances the arrival of a new GPT that raises long-run output can trigger a recession in the short run. Furthermore, we characterize features of the GPT that produce a cyclical adjustment path. An initial recession occurs whenever a higher education level is required to operate the new GPT. But a recession can also occur when the new GPT has lower educational requirements. A cyclical adjustment path is more likely when inexperienced workers are less productive with the new technology and the faster productivity rises with experience in the new sector.

Hendershott, Patric H.

TI Another Look at the Capitalization of Interest Subsidies: Evidence from Sweden. AU Berger, Tommy; Englund, Peter; Hendershott, Patric H.; Turner, Bengt.

Henrekson, Magnus

TI Explaining National Differences in the Size and Industry Distribution of Employment. AU Davis, Steven J.; Henrekson, Magnus.

Hercowitz, Zvi

PD January 1999. TI Cyclical Bias in Government Spending: Evidence from the OECD. AU Hercowitz, Zvi; Strawczynski, Michel. AA Herocwitz: Tel-Aviv University and Bank of Israel. Strawczynski: Bank of Israel. SR Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 06/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. PG 24. PR no charge. JE E32, E62, H50, H60. KW Cyclical Bias. Government Spending. Output Drift.

AB This paper studies the role of business cycles in the phenomenon of increasing government spending/gross domestic product ratios in the OECD countries. Using a panel

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data set covering the 1975-1995 period, the main finding is that the prolonged rise in this ratio is linked to a cyclical bias; the spending/gross domestic product ratio increased during recessions and stayed approximately constant during expansions. Also analyzed are the cyclical changes in the composition of government spending (goods and services, transfers and subsidies, and capital expenditure), in tax revenues, and a possible link between the cyclical bias and an index of government weakness.

Herings, P. J. J.

PD June 1998. **TI** Pareto Improving Price Regulation When the Asset Market is Incomplete. **AU** Herings, P. J. J.; Polemarchakis, H. M. **AA** Herings: CentER and Tilburg University. Polemarchakis: Univesite Catholique de Louvain. **SR** Yale Cowles Foundation Discussion Paper: 1210; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 45. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D45, D52, D60, L51. **KW** Incomplete Asset Market. Fix-Price Equilibrium. Pareto Improvement. Price Regulation.

AB The asset market is incomplete. Fix-price equilibria exist. Price regulation pareto improves on a competitive allocation.

Herrendorf, Berthold

PD October 1998. **TI** The Political Economy of Inflation, Labour Market Distortions and Central Bank Independence. **AU** Herrendorf, Berthold; Neumann, Manfred J. M. **AA** Herrendorf: University of Warwick. Neumann: Universitat Bonn. **SR** Centre for Economic Policy Research Discussion Paper: 1969; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 40. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D72, E24, E31, E52, E58. **KW** Central Banks. Central Bank Independence. Median Voter. Partisan Business Cycle. Representative Democracy.

AB Using the citizen-candidate model, we relate the monetary policy objective to individuals' voting decisions and characterize equilibrium inflation and employment under central bank dependence and independence. We also endogenize the decisions about the labor market distortion and central bank independence. Our results are consistent with the fact that across OECD countries, independence is negatively correlated with average inflation and inflation variability and uncorrelated with employment variability. Moreover, we can explain why: (i) in several countries, central banks became independent while labor market distortions remained; (ii) notwithstanding McCallum's (1995) critique, delegation of monetary policy is effective; (iii) some independent central banks do not generate an inflation bias yet stabilize.

Hiraki, Takato

TI The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi.

TI The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi.

TI The Japanese Open-End Fund Puzzle. **AU** Brown, Stephen J.; Goetzmann, William N.; Hiraki, Takato; Otsuki, Toshiyuki; Shiraishi, Noriyoshi.

Hirshleifer, Jack

PD May 1997. **TI** Stability of Anarchic Societies. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 769; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 28. **PR** $5.00. **JE** D71, D74, P40. **KW** Anarchy. Conflict. Hegemony. Social Systems.

AB Anarchy, a system in which contenders maintain resource accumulations de facto though not de jure, is a fragile social order. It may dissolve into formless "amorphy", or may be displaced either by a system of vertical (Hobbesian) or horizontal (Lockian) social regulation. As against the vertical hegemonic alternative, anarchy is sustainable only when there are strongly diminishing returns to fighting effort; the "decisiveness" of fighting helps determine the equilibrium polarity (number of surviving contenders). As against the horizontal alternative, anarchy is sustained by various forces -- among them kinship, reciprocation, strategy complementarities, and group selection -- promoting voluntary provision of cooperative acts as a public good. Social regulation, the punishment or incapacitation of potential offenders, is a second-order public good; its provision is dependent upon the same forces. Emergence from anarchy at one level of social aggregation may sharpen the anarchic struggle at higher levels.

TI Do the Rich Get Richer and the Poor Poorer? Experimental Tests of a Model of Power. **AU** Durham, Yvonne; Hirshleifer, Jack; Smith, Vernon L.

PD August 1997. **TI** A Review of Matt Ridley's The Origins of Virtue: Human Instincts and the Evolution of Cooperation. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 771; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 10. **PR** $5.00. **JE** A13, D70, D71, D74. **KW** Virtue. Cooperation. Instincts. Sociobiology.

AB The paradox addressed by Ridley is how to reconcile the extent of cooperation among humans with the "selfish gene" postulated by sociobiology. Apart from mutual aid that is merely incidental to pursuit of self-interest, or that can be attributed to kinship, Ridley attributes observed cooperation on the human level to a single force: reciprocity. He argues that reciprocity is not just sound business calculation, but is supported by evolved human instincts. Granted these instinctive motivations, government is supposedly unnecessary. But reciprocity alone cannot bear the weight that Ridley replaces on it; the problem remains of controlling thieves and cheaters. Absent external enforcement through government, a different kind of virtue is required: willingness to engage in disinterested moral aggression against violators. Such an instinct could have risen by cultural evolution or by group selection.

PD April 1998. **TI** The Bioeconomic Causes of War. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 777; Department of Economics, University of

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California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** not available. **PR** $5.00. **JE** A13, H56. **KW** War. Bioeconomics. Sociobiology. Causes of War.

AB Wars are fought not only for material goals but for considerations like honor and prestige. Mainline economics does not address the sources of the preferences that constitute the final causes of human action. According to bioeconomics, preferences have evolved to promote survival in a world of competition and scarcity. Benevolent preferences, complementary opportunities, and agreed perceptions improve the prospects for peace. Sociobiologists emphasize kinship as a source of benevolence. Similarly, malevolence may evolve toward persons less closely related. Nature may also have instilled aversions or liking towards others as a function of their status as competitors. Larger societies are to some degree unified by an "affiliative instinct" generating a fictive sense of brotherhood. In biological terms the ultimate functional motives for fighting are food and sex, the essential elements of reproductive success. Humans seek food and sex directly, but also indirectly via dominance and prestige. In modern times the food and sex motives for warfare have waned. But, although largely disconnected from reproductive success, the "intangible" ends of prestige, dominance, and respect -- amplified by the "affiliative instinct" - continue to be causes of war.

PD May 1998. **TI** There are Many Evolutionary Pathways to Cooperation. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 778; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** not available. **PR** $5.00. **JE** A13, C71, D62, D64, D71. **KW** Cooperation. Evolution. Mutual Helping. Rationality.

AB Current sociobiological discussions attribute the emergence of cooperation to two main influences: kinship and reciprocity. The degree to which these influences promote cooperation in evolutionary contexts was compared with the outcome under rational pursuit of self-interest for a range of payoff patterns (Prisoner's Dilemma, Chicken, and Tender Trap) and protocols or "rules of the game". The pro-social influence of kinship works through modifying the payoffs from selfish versus unselfish behaviors. Reciprocity requires protocols of play that widen the available strategy sets in comparison with the simple more cooperative versus less cooperative choices in the underlying 2 by 2 payoff matrices. When payoff modifications and/or more elaborate protocols are considered, however, many other routes to cooperation become available -- among them punishment options, complementary strategy mixes, recognition effects, coordination using external clues, and group selection.

Hoffmaister, Alexander W.

PD January 1999. **TI** Inflation Targeting in Korea: An Empirical Exploration. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/07; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 51. **PR** not available. **JE** C50, E31, E52. **KW** Inflation Targeting. Monetary Policy. Korea. Price Stability.

AB The revised Bank of Korea Act states that the primary goal of monetary policy is price stability, suggesting that monetary policy will move toward an inflation-targeting framework. The paper explores some of the practical aspects of this move, including such issues as the predictability of inflation, the definition of the price index, the inflation target's time horizon, and the width of the inflation-target bands. On balance, the empirical evidence suggests that Korea is likely to be successful in adopting an inflation-targeting framework over the medium term.

TI Are There International R&D Spillovers Among Randomly Matched Trade Partners? A Response to Keller. **AU** Coe, David T.; Hoffmaister, Alexander W.

Hogan, Vincent

PD September 1998. **TI** Explaining the Recent Behavior of Inflation and Unemployment in the United States. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/145; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 10. **PR** not available. **JE** E24, E31, E37. **KW** Inflation. Phillips Curve. Unemployment.

AB Low rates of inflation have been recorded in recent years, despite a decline in the unemployment rate. This phenomenon could be the result of a series of transitory shocks or of a permanent change in the structure of the economy leading to a lower NAIRU. The paper suggests that, while the NAIRU may have fallen slightly, it has not fallen by an amount sufficient to explain the recent behavior of inflation. A leading explanation for recent inflation performance appears to be favorable price shocks; in particular, the cost of imports has fallen sharply as the dollar has appreciated.

Holm, Einar

TI Why do People Stay? The Insider Advantages Approach: Empirical Evidence from Swedish Labour Markets. **AU** Straubhaar, Thomas; Fischer, Peter A.; Holm, Einar; Malmberg, Gunnar.

Holmlund, Bertil

PD November 1997. **TI** Unemployment Insurance in Theory and Practice. **AA** Australian National University and Uppsala University. **SR** Australian National University Working Paper in Economics and Econometrics: 336; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 27. **PR** no charge. **JE** B41, C51, J64, J65. **KW** Unemployment Insurance. Job-Search Theory. Empirical Methodology. Labor Theory.

AB A hallmark of modern labor economics is the close interplay between the development of theory, data sources and econometric testing. The evolution of the economic analysis of unemployment insurance (UI) provides a good illustration. The economics of UI has been a very active research area over the past 25 years or so. New theoretical approaches, in particular job-search theory, have inspired a large amount of empirical research, some of it methodologically innovative and most of it highly relevant for economic policy. The paper presents a broad survey and an assessment of the economic analysis of UI as it has evolved since the 1970's.

Holtz-Eakin, Douglas

TI Apocalypse Now? Fundamental Tax Reform and Residential Housing Values. **AU** Bruce, Donald; Holtz-

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Eakin, Douglas.

TI Entrepreneurs, Income Taxes, and Investment. **AU** Carroll, Robert; Holtz-Eakin, Douglas; Rider, Mark; Rosen, Harvey S.

Hong, Harrison

PD December 1997. **TI** A Unified Theory of Underreaction, Momentum Trading and Overreaction in Asset Markets. **AU** Hong, Harrison; Stein, Jeremy, C. **AA** Hong: Stanford University. Stein: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6324; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D82, G12, G14. **KW** Asset Markets. Bounded Rationality. Private Information.

AB We model an asset market populated by two groups of boundedly rational agents -- "news watchers" and "momentum traders" -- each of whom can only process a subset of all available information. The bounded rationality of the news watchers creates a tendency for prices to underreact to private information in the short run. This underreaction in turn means that the momentum traders can make money by trend chasing. However, if they are restricted to following simple (i.e., univariate) strategies, their best attempts at arbitrage, though profitable, must inevitably lead to overreaction at long horizons. In addition to providing a unified account of asset-market under- and overreactions, the model generates a number of other distinctive testable implications.

Hooper, Vince

TI An Examination of the Variation in Equity Market Returns and Volatility in the Asia Pacific Region. **AU** Heaney, Richard; Hooper, Vince.

TI The Impact of Obsolescence Risk on the After-Tax Value of a Project. **AU** Pointon, John; Hooper, Vince.

Hoxby, Caroline M.

PD December 1997. **TI** How the Changing Market Structure of U.S. Higher Education Explains College Tuition. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6323; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I21, I28, L11. **KW** Education. Market Structure. College Tuition.

AB This paper presents theoretical and empirical evidence demonstrating the ways in which the changing market structure of American higher education from 1940 to the present affected college prices and college quality. Over this period, the market for baccalaureate education became significantly more competitive, as it was transformed from a collection of local autarkies to a nationally integrated market. The author demonstrates that the results of increased competition were what industrial organization models would predict: higher average college quality and tuition, greater between-college variation in tuition, greater between-college variation in student quality, less within- college variation in student quality, higher average subsidies to students, and greater between-college variation in subsidies. Changing market structure can explain real tuition increases of approximately 50 percent for selective private colleges. Panel data from 1940 to 1991 on 1121 baccalaureate-granting colleges are employed, including data on students' home residences.

Huang, Haizhou

PD March 1999. **TI** Institutions, Innovations, and Growth. **AU** Huang, Haizhou; Xu, Chenggang. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/34; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 9. **PR** not available. **JE** E20, G21, G28, O31, O40. **KW** Financial Institutions. Technological Innovations. Economic Growth. Research and Development.

AB The fundamental importance of economic institutions for economic growth through their impact on technological change has been argued, reconfirmed by recent empirical studies, but not examined theoretically. This paper tries to fill that gap. In the model proposed, economic growth is affected by the efficiency and riskiness of research and development (*R&D*), which are endogenized through financial institutions. The theory and its results shed lights on the debate of convergence versus divergence; the "East Asia miracle" versus the East Asia financial crisis; and the rise and fall of centralized economies.

Hubbard, R. Glenn

TI Fundamental Tax Reform and Corporate Financial Policy. **AU** Gentry, William M.; Hubbard, R. Glenn.

Hubbard, Thomas N.

PD October 1997. **TI** Consumer Beliefs and Buyer and Seller Behavior in the Vehicle Inspection Market. **AA** University of California, Los Angeles and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6245; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 28. **PR** $5.00. **JE** D83, L14, L15, L80. **KW** Industrial Organization. Reputation. Automobile Emissions. Learning. Asymmetric Information.

AB Moral hazard exists in "diagnosis-cure" markets because sellers have an incentive to shade their reports of buyers' condition to increase the short-run demand for the treatments they supply. The California vehicle emission inspection market offers a rare opportunity to examine how incentives operate in such markets. This paper investigates why sellers help vehicles pass inspections, focusing on multiperiod mechanisms such as those in reputation models. Consumers are 30% more likely to return to a firm at which they previously passed than one at which they previously failed. If, over the long run, an independent garage fails one additional vehicle per month, this decreases demand by 5.6 inspections per month on the average. Consumers' behavior is consistent with a learning model in which they have diffuse initial priors regarding the probability they fail at individual firms, and Bayesian update using two to three inspection outcomes at each firm.

Huizinga, Harry

PD July 1998. **TI** Is Coordination of Fiscal Deficits Necessary? **AU** Huizinga, Harry; Nielsen, Soren Bo. **AA** Huizinga: CentER and Tilburg University. Nielsen: Copenhagen Business School. **SR** Centre for Economic Policy Research Discussion Paper: 1936; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB,

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United Kingdom. Website: www.cepr.demon.co.uk. **PG** 32. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E61, E62, F36, H62, H87. **KW** Deficits. Fiscal Rules. Interest Rates. Taxation. Government Expenditures.

AB National budget deficits can create externalities through their effects on international interest rates. This paper examines the scope for fiscal rules restricting government borrowing for the case where government revenues (on the margin) stem from capital income taxation. There is no need to coordinate national borrowing, if governments have access to both a saving and an investment tax instrument. In the absence of a saving tax, however, national fiscal policies affect welfare abroad through the international interest rate. A reduction in first period deficits tied to increased government spending later is always welfare improving. Reducing first period deficits without further coordination of subsequent tax and spending policies will generally not improve welfare.

Hvide, Hans Krogh

PD January 1999. **TI** Signalling and Self-Insight in the Job Market. **AA** Norwegian School of Economics, Business (LOS) and Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 02/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 26. **PR** no charge. **JE** D82, D83, I21, J24, J31. **KW** Education. Labor Market. Occupational Choice. Signaling.

AB This paper studies an environment where certain actions can serve both to signal belief about own abilities and to acquire information about own abilities. The specific context we analyze is the job market; education can serve both to signal ability to potential employers and to acquire information about own abilities. Given this dual function of education, who undertakes education, and what are the welfare properties of education? In contrast to established theories we predict that - under a moderately weak condition -- the mediocre educate and the equilibrium amount of education is efficient.

PD January 1999. **TI** Risk Taking in Selection Contests. **AU** Hvide, Hans Krogh; Kristiansen, Eirik G. **AA** Hvide: Norwegian School of Economics, Business (LOS) and Tel-Aviv University. Kristiansen: Central Bank of Norway. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 05/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 19. **PR** no charge. **JE** C44, C72, D80, J41. **KW** Contest. Selection Contests. Selection Efficiency. Risk Taking.

AB We study selection contests in which the strategic variable is degree of risk rather than amount of effort. The selection efficiency of such contests is examined. We show that the selection efficiency of a contest may be improved by limiting the competition in two ways; a) by having a small number of contestants, and b) by restricting contestant quality. The results contribute to our understanding of such diverse phenomena as promotion processes in large firms, selection of fund managers and research tournaments.

Ibbotson, Roger G.

TI Offshore Hedge Funds: Survival & Performance 1989-1995. **AU** Brown, Stephen J.; Goetzmann, William N.; Ibbotson, Roger G.

Iben, Andreas

TI The Reform of Pension Systems: Winners and Losers Across Generations. **AU** Miles, David; Iben, Andreas.

Ichino, Andrea

PD September 1998. **TI** Productivity, Seniority and Wages: New Evidence from Personnel Data. **AU** Ichino, Andrea; Flabbi, Luca. **AA** Ichino: IGIER, Universita Bocconi. Flabbi: Universita Bocconi. **SR** Centre for Economic Policy Research Discussion Paper: 1966; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **PG** 32. **PR** 5 pounds or 8 dollars or 8 euros. **JE** J24, J31. **KW** Wage Determination. Seniority. Productivity. Human Capital. Self Selection.

AB Wages may be observed to increase with seniority because of firm- specific human capital accumulation or because of self-selection of better workers in longer jobs. In both these cases the upward sloping wage profile in cross-sectional regressions would reflect higher productivity of more senior workers. If this were true, the observation of an effect of seniority on wages would depend on the presence of controls for individual productivity. In this paper the authors replicate, using personnel data from a large Italian firm, the results of the pioneering work of Medoff and Abraham (1980 and 1981) in which supervisors' evaluations were used as productivity indicators. The authors extend the work of Medoff and Abraham using different direct measures of productivity based on recorded absenteeism and misconduct episodes. Both these indicators and supervisors' evaluations suggest that the observed effect of seniority on wages does not reflect a higher productivity of more senior workers.

Ingersoll, Jonathan, Jr.

TI High Water Marks. **AU** Goetzmann, William N.; Ingersoll, Jonathan, Jr..; Ross, Stephen A.

Inkmann, Joachim

TI Young and Out in Germany: On Youths' Chances of Labor Market Entrance in Germany. **AU** Franz, Wolfgang; Inkmann, Joachim; Pohlmeier, Winfried; Zimmermann, Volker.

Inman, Robert P.

TI Changing the Price of Pork: The Impact of Local Cost Sharing on Legislators' Demands for Distributive Public Goods. **AU** DelRossi, Alison F.; Inman, Robert P.

Irwin, Douglas A.

PD October 1997. **TI** Higher Tariffs, Lower Revenues? Analyzing the Fiscal Aspects of the "Great Tariff Debate of 1888". **AA** Dartmouth College and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6239; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F13, H61, H63, N71. **KW** Development. American Economy. International Trade. Tariffs. Economic History.

AB After the Civil War, Congress justified high import tariffs (relative to their prewar levels) as necessary in order to raise sufficient revenue to pay off the public debt. By the early 1880's, the federal government was running large and seemingly intractable fiscal surpluses -- revenues exceeded expenditures (including debt service and repurchases) by over 40 percent during that decade. The political parties proposed

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alternative plans to deal with the surplus: the Democrats proposed a tariff reduction to reduce customs revenue, the Republicans offered higher tariffs to reduce imports and customs revenue. This paper examines this debate and attempts to determine the revenue effects of the proposed tariff changes. The results indicate that, given the height of the tariff and the price elasticity of U.S. import demand during the 1880's, the actual tariff was below the maximum revenue rate, and therefore a tariff reduction would have reduced customs revenue.

Jack, William

PD March 1998. **TI** Equilibrium in Competitive Insurance Markets with Ex Ante Adverse Selection and Ex Post Moral Hazard. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 340; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 36. **PR** no charge. **JE** C62, D82, I11. **KW** Adverse Selection. Moral Hazard. Insurance Markets. Equilibrium.

AB Existence of pure strategy equilibria is studied in insurance markets that exhibit both ex ante adverse selection of the Rothschild-Stiglitz- Wilson type, and ex post hidden information moral hazard. It is found that ex post moral hazard has two offsetting effects on the existence of equilibrium, and that in general it is difficult to say whether an equilibrium is more or less likely to exist. Numerical simulations suggest that under plausible assumptions, moral hazard may increase the likelihood of equilibrium. These results are interpreted as evidence that Health Maintenance Organization (HMO) markets could be less likely to exhibit stable equilibria than are fee-for-service insurance markets.

PD March 1998. **TI** Controlling Risk Selection Incentives When Health Insurance Contracts are Endogenous. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 341; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 29. **PR** no charge. **JE** D08, H51, I11, I18, L51. **KW** Risk Selection. Health Insurance. Regulation. Risk Pooling.

AB The paper examines the nature of health insurance contracts when insurance companies are forced to pool high and low risk individuals. Insurers have an incentive to design contracts so as to attract only better risks, and equilibrium contracts are generally characterized by less coverage and lower cost-reducing effort on the part of the insurer than in the absence of these incentives. Public transfers positively related to claims tend to increase coverage but reduce effort, so the optimal transfer rate may be positive or negative.

Jackson, Matthew O.

PD May 1998. **TI** Bayesian Representation of Stochastic Processes under Learning: de Finetti Revisited. **AU** Jackson, Matthew O.; Kalai, Ehud; Smorodinsky, Rann. **AA** Jackson: California Institute of Technology. Kalai: Northern University. Smorodinsky: Israel Institute of Technology. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1228; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 28. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C11, C44, C73, D83. **KW** Bayesian Representations. Stochastic Processes. De Finetti Theorem. Bayesian Learning.

AB A probability distribution governing the evolution of a stochastic process has infinitely many Bayesian representations of the form mu = the integral over theta of mu[subscript theta] delta lambda (theta). Among these, a natural representation is one whose components (mu[subscript theta]'s) are 'learnable' (one can approximate mu[subscript theta] by conditioning mu on observation of the process) and 'sufficient for prediction' (mu[subscript theta]'s predictions are not aided by conditioning on observation of the process). The authors show the existence and uniqueness of such a representation under a suitable asymptotic mixing condition on the process. This representation can be obtained by conditioning on the tail-field of the process, and any learnable representation that is sufficient for prediction is asymptotically like the tail-field representation. This result is related to the celebrated de Finetti theorem, but with exchangeability weakened to an asymptotic mixing condition, and with his conclusion of a decomposition into i.i.d. component distributions weakened to components that are learnable and sufficient for prediction.

Jaffe, Adam B.

TI The Induced Innovation Hypothesis and Energy-Saving Technological Change. **AU** Newell, Richard G.; Jaffe, Adam B.; Stavins, Robert N.

James, Sallie

TI On the Need for More Economic Assessment of Quarantine/SPS Policies. **AU** Anderson, Kym; James, Sallie.

Jang, Byung K.

PD March 1999. **TI** Capital Controls and Trade Liberalization in a Monetary Economy. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/24; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** F13, F32, F41. **KW** Capital Controls. Trade Liberalization. Consumption Smoothing.

AB This paper reexamines Aizenman's (1985) results on the effects of capital controls during unanticipated trade liberalization using an intertemporal optimizing monetary model. Unlike in Aizenman's model, which is based on the currency substitution model, foreign money is an interest-bearing asset in this paper, and its major role is to smooth intertemporal consumption. With this modification, Aizenman's results are reversed, thus showing that the effects of capital controls during trade liberalization would vary greatly depending on the role of foreign money in a country. The effects of anticipated trade liberalization are also studied.

Jeanne, Olivier

PD November 1997. **TI** Generating Real Persistent Effects of Monetary Shocks: How Much Nominal Rigidity Do We Really Need? **AA** Ecole Nationale des Ponts et Chaussees. **SR** National Bureau of Economic Research Working Paper: 6258; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E10,

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E24, E32. KW Monetary Economics. Business Cycles. Money. Wage Rigidity. Sticky Prices.
AB This paper attempts to assess whether money can generate persistent economic fluctuations in dynamic general equilibrium models of the business cycle. We show that a small nominal friction in the goods market can make the response of output to monetary shocks large and persistent if it is amplified by real wage rigidity in the labor market. We also argue that given the level of real wage rigidity that is observed in developed countries, a small degree of nominal stickiness might be sufficient for money to produce economic fluctuations as persistent as those observed in the data.

Jehiel, Philippe

PD October 1998. TI Auctions with Downstream Interaction Among Buyers. AU Jehiel, Philippe; Moldovanu, Benny. AA Jehiel: CERAS and University of College London. Moldovanu: University of Mannheim. SR Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1243; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. PG 29. PR $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. JE D43, D44, D62, L13. KW Auctions. Externalities. Oligopolistic Competition. Reserve Prices.
AB This paper studies auctions for an indivisible object. The outcome of the auction influences the future interaction among agents. The impact of that interaction on agent i is assumed to be a function of the agents' valuations. While agent i's valuation is private information to i, other valuations are not observable by i at the time of the auction. The authors derive equilibrium bidding strategies for second price auctions in which the seller may impose reserve prices or entry fees, and the paper points out differences between the cases where impacts (called externalities) are positive or negative. Finally, the paper studies the effect of reserve prices and entry fees on the seller's revenue.

PD December 1998. TI Efficient Design with Interdependent Valuations. AU Jehiel, Philippe; Moldovanu, Benny. AA Jehiel: CERAS and University of College London. Moldovanu: Northwestern University. SR Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1244; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. PG 28. PR $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. JE D44, D61, D62, D71. KW Interdependent Values. Efficient Mechanisms. Multi-Object Auctions. Signals.
AB We study efficient, Bayes-Nash incentive compatible mechanisms in a general social choice setting that allows for informationally interdependent valuations and for allocative externalities. We show that such mechanisms exist only if a congruence condition relating private and social rates of information substitution is satisfied. If signals are multi-dimensional, the congruence condition is determined by a complex integrability constraint, and it can hold only in non-generic cases such as the private value case or the symmetric case. If signals are one-dimensional, the congruence condition reduces to a monotonicity constraint and it can be generically satisfied. We apply the results to the study of multi-object auctions, and we discuss why such auctions cannot be reduced to one-dimensional models without loss of generality.

Jensen, J. Bradford

TI Exceptional Exporter Performance: Cause, Effect, or Both? AU Bernard, Andrew B.; Jensen, J. Bradford.

TI Understanding the U.S. Export Boom. AU Bernard, Andrew B.; Jensen, J. Bradford.

Jermann, Urban J.

PD January 1998. TI International Portfolio Diversification and Labor/Leisure Choice. AA University of Pennsylvania and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 6382; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 25. PR $5.00. JE F21, F30, G11. KW Portfolio Choice. Consumption. Leisure. Labor Supply. International Economics.
AB When marginal utility of consumption depends on leisure, investors will take this into account when allocating their wealth among different assets. This paper presents a multi-country general equilibrium model driven by productivity shocks, where labor-leisure and consumption are chosen endogenously. We use this framework to study the effect of leisure for optimal international diversification. We find that in the symmetric case the model's ability to help explain home-bias depends crucially on the level of substitutability between consumption and leisure.

Jimeno, Juan F.

TI The Fall in Consumption from Being Unemployed in Spain and Portugal. AU Dolado, Juan J.; Jimeno, Juan F.; Castillo, Sonsoles.

TI A Tale of Two Neighbour Economies: Labour Market Dynamics in Spain and Portugal. AU Dolado, Juan J.; Jimeno, Juan F.; Castillo, Sonsoles.

Johnston, R. Barry

PD December 1998. TI Why Do Countries Use Capital Controls? AU Johnston, R. Barry; Tamirisa, Natalia T. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/98/181; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 34. PR not available. JE E61, F21, F32, O16, O20. KW Capital Controls. Development. Balance of Payments. Capital Flows.
AB Recourse to controls on capital flows among developing economies is generally quite pervasive. This paper examines the structure and determinants of capital controls based on a cross-sectional study of developing and transition economies. It identifies categories of capital transactions that can be aggregated for analytical purposes. Controls are found to be related to the balance of payments, macroeconomic management, market and institutional evolution, prudential and other factors. The relationship with the balance of payments, however, is not robust to simultaneous equation analysis.

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Jones, Charles I.

PD November 1997. **TI** The Upcoming Slowdown in U.S. Economic Growth. **AA** Stanford University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6284; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F43, O30, O40. **KW** Growth. Globalization. Openness. Human Capital.

AB At least since 1950, the United States has been stimulated by increases in educational attainment, increases in research intensity, and the increased openness and development of the world economy. Such changes suggest, contrary to the conventional view, that the U.S. economy is far from its steady state balanced growth path. The theoretical framework analyzed here provides a coherent interpretation of this evidence and indicates that when these increases cease and the U.S. economy reaches its steady state, U.S. per capita growth can be expected to fall to a rate of approximately 1/4 its post-war average.

PD November 1997. **TI** Growth. **AA** Stanford University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6285; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E23, O30, O41. **KW** Growth. Per Capita Income. Increasing Returns. Fertility.

AB Why do economies exhibit sustained growth in per capita income? This paper argues that endogenous fertility and increasing returns to scale are the fundamental ingredients in understanding endogenous growth. Endogenous fertility leads the scale of the economy to grow over time. Increasing returns translates this increase in scale into rising per capita income. A justification for increasing returns rather than linearity in the equation for technological progress is the fundamental insight of the idea-based growth literature according to this view. Endogenous fertility together with the increasing returns associated with the nonrivalry of ideas generates endogenous growth.

Jovanovic, Boyan

PD February 1998. **TI** Vintage Capital and Inequality. **AA** New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6416; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D30, J24, O15, O31, O33. **KW** Income Inequality. Capital. Labor Productivity. Technology. Migration.

AB If machines are indivisible, a vintage capital model must give rise to income inequality. If new machines are always better than old ones and if society cannot provide everyone with a new machine all of the time, inequality will result. The author explores this mechanism in detail. If technology resides in machines and if a firm or worker must use just one technology at a time, a variety of machines will be in use, and workers' productivities will differ. If machine quality and skill are complements, a worker who is paired with the best machine will acquire more skill, and inequality persists indefinitely. Moreover, if the used equipment market or the process of labor turnover function without frictions, a perfect positive assignment between the quality of labor and of capital can be maintained by a process of continual reassignment. This serves to enhance the degree of equilibrium inequality.

Ju, Jiandong

PD November 1997. **TI** Welfare and Market Access Effects of Piecemeal Tariff Reform. **AU** Ju, Jiandong; Krishna, Kala. **AA** Ju: University of Oklahoma. Krishna: Pennsylvania State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6294; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F13, F41, F42. **KW** Tariffs. Exports. Welfare. International Trade. Commercial Policy.

AB In a situation where tariff reforms are being negotiated between two parties, one of which aims to raise its exports and the other aims to raise its welfare, tariff cuts must be in the interest of at least one party. It is possible for the interests of the two sides to conflict. Conflict is certain if the excess demand for exported goods does not respond to changes in the prices of imported goods. In this case, any policy which raises imports must also reduce welfare.

Kaestner, Robert

PD February 1998. **TI** Does Drug Use Cause Poverty? **AA** National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6406; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I12, I32. **KW** Drug Use. Poverty. Health. Youth.

AB In this study, I examine the effect of drug use on poverty. The main objective of the paper is to provide descriptive empirical information about the relationship between drug use and poverty, and to explore, in a preliminary fashion, the question of whether drug use causes poverty. Toward this end, I present the results of both descriptive and multivariate analyses of the relationship between drug use and poverty for two national samples of young adults. One sample is drawn from the National Household Survey of Drug Abuse (NHSDA), and the other from the National Longitudinal Survey of Youth (NLSY). The results of the analysis indicate that for both samples, drug use is associated with greater poverty.

Kajii, Atsushi

TI Temporal Resolution of Uncertainty and Recursive Non-Expected Utility Models. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Intrinsic Preference for Information. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Dynamic Consistency and Preference for Information. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Decomposable Choice under Uncertainty. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Preference for Information and Dynamic Consistency. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

Kalai, Ehud

TI Bayesian Representation of Stochastic Processes under Learning: de Finetti Revisited. **AU** Jackson, Matthew O.; Kalai, Ehud; Smorodinsky, Rann.

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Kane, Edward J.

PD March 1998. **TI** A Contracting-Theory Interpretation of the Origins of Federal Deposit Insurance. **AU** Kane, Edward J.; Wilson, Berry K. **AA** Kane: Boston College and National Bureau of Economic Research. Wilson: Federal Communications Commission. **SR** National Bureau of Economic Research Working Paper: 6451; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 30. **PR** $5.00. **JE** D82, G21, G28, K20, N22. **KW** Banking. Federal Deposit Insurance. Corporate Finance. Asymmetric Information. Agency Costs.

AB Conventional wisdom holds that the enactment of federal deposit insurance helped small rural banks at the expense of large urban institutions. This paper uses asymmetric information, agency-cost paradigms from corporate finance theory and data on bank stock prices to show how deposit insurance could and did help stockholders of large banks. The broadening stockholder distribution of large banks during the stock market bubble of the late 1920's undermined the efficiency of double liability provisions in controlling incentive conflict among large bank stakeholders. Federal deposit insurance restored depositor confidence by asking government officials to take over and bond the task of monitoring managerial performance and solvency at U.S. banks.

Kang, Jun-Koo

PD October 1997. **TI** Is Bank-Centered Corporate Governance Worth It? A Cross-Sectional Analysis of the Performance of Japanese Firms During the Asset Price Deflation. **AU** Kang, Jun-Koo; Stulz, Rene M. **AA** Kang: Korea Universtity. Stulz: Ohio State University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6238; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E44, G12, G21, G31, G33. **KW** Corporate Finance. Financial Markets. Stock Prices. Banking. Debt.

AB This paper examines the determinants of firm stock-price performance from 1990 to 1993 in Japan. During that period of time, the typical firm on the Tokyo Stock Exchange lost more than half its value and banks experienced severe adverse shocks. We show that firms whose debt had a higher fraction of bank loans in 1989 performed worse from 1990 to 1993. This effect is statistically as well as economically significant and holds when we control for a variety of variables that affect performance during this period of time. We find that firms that were more bank- dependent also invested less during this period than other firms. This evidence points to an adverse effect of bank-centered corporate governance, namely that firms suffer when their banks are experiencing difficulties.

Kaplow, Louis

PD November 1997. **TI** On the Superiority of Corrective Taxes to Quantity Regulation. **AU** Kaplow, Louis; Shavell, Steven. **AA** Harvard Law School and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6251; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 17. **PR** $5.00. **JE** D62, H23, H25, K32, L51. **KW** Public Economics. Regulation. Taxation. Externalities. Pollution.

AB The traditional view of economists has been that corrective taxes are superior to direct regulation of harmful externalities when the state's information about control costs is incomplete. In recent years, however, many economists seem to have adopted the view that either corrective taxes or quantity regulation could be superior to the other. One argument for this view holds only if the state is constrained to use a fixed tax rate even when harm is nonlinear. Corrective taxes are indeed superior if the state can impose a nonlinear tax equal to the schedule of harm or can adjust the tax rate upon learning that it diverges from marginal harm. Another argument is that quantity regulation gains appeal when the state is uncertain about the harm caused by an externality. In this case, however, a corrective tax schedule (equal to the expected harm schedule) is superior to quantity regulation.

PD December 1997. **TI** Transfer Motives and Tax Policy. **AA** Harvard University. **SR** National Bureau of Economic Research Working Paper: 6340; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D64, H21, H23, H24, K34. **KW** Transfers. Optimal Taxation. Redistribution. Income Taxes. Estate Taxes.

AB This paper considers the optimal tax treatment of voluntary transfers to individuals in a framework that integrates redistributive income taxation and estate and gift taxation. Under this formulation, redistributive considerations become secondary. The optimal tax treatment of transfers depends upon the differences between expenditures on transfers and ordinary personal consumption. It turns out that some types of transfers confer a sort of positive externality on donees, some create tax revenue externalities, and some affect donors' and donees' marginal utilities of income in a manner relevant to the optimal taxation problem. Different types of transfers have qualitatively different effects.

Karni, Edi

PD December 1998. **TI** Saving Behavior in Stationary Equilibrium with Random Discounting. **AU** Karni, Edi; Zilcha, Itzhak. **AA** Karni: John Hopkins University. Zilcha: Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 29/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 21. **PR** no charge. **JE** D31, D81, D91, E21. **KW** Saving. Steady State. Random Discounting. Discount Rates.

AB In this paper we study the implications of random discount rates of future generations for saving behavior and capital holdings in steady- state competitive equilibrium. We examine conditions under which this randomness is sufficient for households other than the most patient to save, thus providing a simple and natural way to overcome a difficulty encountered in deterministic models.

Kasher, Asa

PD September 1998. **TI** On the Question "Who is a J?" A Social Approach. **AU** Kasher, Asa; Rubinstein, Ariel. **AA** Kasher: Tel-Aviv University. Rubinstein: Tel-Aviv University and Princeton University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 20/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 13. **PR** no charge. **JE** D71, Z10. **KW** Aggregation of Views. Social Choice.

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Identity. Social Identity.
AB The determination of "who is a J" within a society is treated as an aggregation of the views of the members of the society regarding this question. Methods, similar to those used in Social Choice theory are applied to axiomatize three criteria for determining who is a J: 1) a J is whoever defines oneself to be a J. 2) a J is whoever a "dictator" determines is a J. 3) a J is whoever an "oligarchy" of individuals agrees is a J.

Katz, Barbara G.

PD January 1998. **TI** The Impact of Voucher Privatization on Efficiency. **AU** Katz, Barbara G.; Owen, Joel. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/21; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 27. **PR** $5.00 each; $100.00 yearly subscription. **JE** D44, G11, L33, P21. **KW** Economics of Transition. Voucher Privatization. Privatization Funds. Voucher Investment. Corporate Governance.
AB We consider a transition economy that has decided to privatize using the voucher method and ask whether voucher privatization, in theory, is able to induce the maximization of the sum of the profits of the privatized firms. To answer this question, we study the portfolio problem facing individuals who invest their vouchers in voucher privatization funds (VPF's) which, in turn, are expected to use their skills to alter the performances of the firms in which they acquire shares. We model this portfolio problem when the VPF's have different skills and when the VPF's, by their bids and subsequent joint ownership patterns, affect the performances of the firms in their funds. The circumstances under which individual investors will choose to allocate their vouchers to the VPF's in a manner inducing the maximum economy- wide profit are explored. We show that even in the case in which voucher holders have identical and full information, and wish to allocate their vouchers in a manner consistent with the maximization of economy-wide profit, a coordination failure generally prevents the implementation of this efficient outcome. Uncertainty, as well as differing payouts by the VPF's, is shown to exacerbate the problem.

Katz, Lawrence F.

TI Human Capital and Social Capital: The Rise of Secondary Schooling in America, 1910 to 1940. **AU** Goldin, Claudia; Katz, Lawrence F.

Keane, Michael

PD January 1999. **TI** Consumption and Income Inequality in Poland During the Economic Transition. **AU** Keane, Michael; Prasad, Eswar S. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/14; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 47. **PR** not available. **JE** D31, E21, I32, J31, O15. **KW** Income Inequality. Transition Economies. Consumption. Poverty. Earnings Inequality.
AB This paper challenges the conventional wisdom that income inequality in Poland increased substantially following the economic transition in 1989-90. The results, based on micro data from the 1985-92 Household Budget Surveys, indicate that overall income inequality increased during the initial stages of the transition but then declined to pre-transition levels. Consumption distributions reveal a similar pattern. However, earnings inequality did increase markedly after the transition and the relative well being of different socio-economic groups was altered. Absolute poverty levels increased during the transition, but this increase is attributable to declines in mean income and consumption rather than to change in inequality.

Kenkel, Don

PD February 1998. **TI** Are Alcoholics in Bad Jobs? **AU** Kenkel, Don; Wang, Ping. **AA** Kenkel: Cornell University. Wang: Pennsylvania State University. **SR** National Bureau of Economic Research Working Paper: 6401; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I10, J23, J24, J31, J33. **KW** Alcoholism. Labor Productivity. Wages. Nonwage Compensation. Employment Determination.
AB Alcohol abuse has important implications for the productivity of the U.S. workforce. This paper provides evidence on whether the drinking choices of young adults also have long-ranging consequences for future jobs and lifetime earnings. The authors extend previous research on the productivity effects of alcohol to include non-wage job attributes as part of total employee compensation. The goal of this research is to establish benchmark empirical patterns describing relationships between alcoholism and job choice. The authors' empirical results based on the National Longitudinal Survey of Young (NLSY) data show that male alcoholics are less likely to receive a variety of fringe benefits, are more likely to be injured on the job, and work for smaller firms. The data also show that male alcoholics are less likely to be in a white collar occupation but conditional upon being in a white collar occupation their earnings are similar to their non-alcoholic peers.

Kessler, Daniel P.

PD November 1997. **TI** The Role of Discretion in the Criminal Justice System. **AU** Kessler, Daniel P.; Piehl, Anne Morrison. **AA** Kessler: Stanford University and National Bureau of Economic Research. Piehl: University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6261; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** D73, K14, K41. **KW** Law. Economics. Discretion. Social Norms. Criminal Law.
AB Studies in the empirical literature on discretion generally hypothesize that discretion plays one of two roles: either it serves as the means by which changing broad social norms against crime causes changes in sentencing patterns, or it serves as the means by which internal social norms of the criminal justice system prevent the implementation of formal changes in laws. The authors reject both of these hypotheses using data on the sentencing of California prisoners before and after the passage of Proposition 8. They find that an increase in the statutory sentence for a given crime can increase sentence length for those who are charged with the crime, and also for those who are charged with factually "similar" crimes. These spillovers are consistent with neither broad social norms nor internal social norms, so the authors conclude that discretion takes a less-well studied form, which the authors call

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"prosecutorial maximization.".

PD January 1998. **TI** The Effects of Malpractice Pressure and Liability Reforms on Physicians' Perceptions of Medical Care. **AU** Kessler, Daniel P.; McClellan, Mark C. **AA** Stanford University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6346; 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, K32. **KW** Malpractice. Health Care. Liability Law. Physicians.

AB Understanding how and why liability laws and liability reforms alter the medical treatment decision-making process is central to reforming the U.S. malpractice liability system. Based on analysis of the American Medical Association Socioeconomic Monitoring System survey, the authors present four findings. First, physicians from states enacting liability reforms that directly reduce malpractice pressure experience lower growth over time in malpractice claims rates and in real malpractice insurance premiums. Second, physicians from reforming states report significant relative declines in the perceived impact of malpractice pressure on practice patterns. Third, individual physicians' personal experiences with the malpractice system are a key determinant of the perceived importance of defensive medicine. Fourth, the impact of individual physicians' claims experience on perceptions is smaller in reforming than in nonreforming states. These results suggest that reforms affect physicians' attitudes by reducing the probability of a liability system encounter and by changing the experience of being sued.

Khan, Mohsin S.

TI Do IMF-Supported Programs Work? A Survey of the Cross-Country Empirical Evidence. **AU** Haque, Nadeem Ul.; Khan, Mohsin S.

Kim, Jungshik

TI The Big Players in the Foreign Exchange Market: Do They Trade on Information or Noise? **AU** Wei, Shang-Jin; Kim, Jungshik.

Kim, Minseong

TI Predation, Efficiency, and Inequality. **AU** Grossman, Herschel I.; Kim, Minseong.

TI Human Capital and Predation: A Positive Theory of Educational Policy. **AU** Grossman, Herschel I.; Kim, Minseong.

Kim, Se-Jik

PD March 1999. **TI** Growth Gains from Trade and Education. **AU** Kim, Se-Jik; Kim, Yong Jin. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/23; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** F13, I21, J24, O33, O41. **KW** General Education. Mobility. International Trade. Growth. Human Capital.

AB This paper presents a multisector growth model where education enhances general human capital, which is essential for increasing or maintaining the mobility of workers across industries. The paper shows that education, combined with international trade, can affect growth positively in the long run by raising workers' ability to adapt and move easily to industries with the greatest productivity in each period. Depending on the initial ratio of general-to-specific human capital stock, multiple equilibrium growth paths can exist, including a poverty trap. If the ratio is substantially low, trade liberalization can allow an economy in a poverty trap to transform into one with continuous education and higher output growth.

Kim, Sukkoo

PD December 1997. **TI** Regions, Resources, and Economic Geography: Sources of U.S. Regional Comparative Advantage, 1880-1987. **AA** Washington University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6322; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 38. **PR** $5.00. **JE** F10, L65, R12. **KW** Manufacturing. Economic Geography. Increasing Returns. Regional Economics.

AB This paper estimates the Rybczynski equation matrix for the twenty two-digit U.S. manufacturing industries for various years between 1880 and 1987. As predicted by the standard general equilibrium theory of interregional trade, the regression estimates show that a consistent set of factor endowments explains a significant amount of the geographic distribution of manufacturing activities over time. Although these results do not rule out the importance of increasing returns, they do suggest certain limits on how increasing returns affect U.S. economic geography.

PD December 1997. **TI** Economic Integration and Convergence: U.S. Regions, 1840-1987. **AA** Washington University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6335; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** F15, N31, N32, O40, R12. **KW** Interregional Trade. Regional Economics. Income Variation. Economic Geography.

AB Despite the recent inroads made by models of interregional trade based on external economies, the analysis of the long-run trends in U.S. regional specialization in agriculture, manufacturing, wholesale trade, retail trade, services, and all economic activities indicate that these trends are more consistent with explanations based on the neoclassical Heckscher-Ohlin model. Furthermore, while the long-run trends in U.S. regional industrial structures do not explain all the variations in regional income per capita, they played an important role in causing U.S. regional incomes to diverge and then converge between the nineteenth and the twentieth centuries.

PD February 1998. **TI** The Rise of Multiunit Firms in U.S. Manufacturing. **AA** Washington University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6425; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** L11, L23, M11, M30, N60. **KW** Manufacturing. Multiunit Firms. Organizational Form. Growth. Economic History.

AB The modern multiunit enterprise has been touted by historians and economic historians as a major and important

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phase of organizational change and a significant source of growth. However, no systematic record of the prevalence and patterns of multiunit activity has yet been established. This paper provides a systematic record of the rise and spread of the multiunit firm and examines the causes of its rise in U.S. manufacturing using data from the census bureau's enterprise statistics and other census sources.

Kim, Woojin

PD February 1998. **TI** The Impact of Mergers on U.S. Bank Performance. **AU** Kim, Woojin; White, Lawrence J. **AA** Kim: Korea Institute of Finance. White: New York University. **SR** New York University, Salomon Center Working Paper: S/98/09; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 24. **PR** $5.00 each; $100.00 yearly subscription. **JE** C51, G21, G34. **KW** Bank Mergers. Cost Efficiency. X-Inefficiency. Scale Efficiency.

AB This paper empirically examines performance changes resulting from bank mergers. The authors develop stochastic econometric cost frontier models, then construct various measures of efficiency (X-inefficiency, scale efficiency, and total efficiency) to test merger-related efficiency improvements. The sample of 3971 mergers produced a significant decrease in the average level of cost efficiency. During the late 1980's and early 1990's, U.S. bank mergers, on average, played no successful role in reducing X-inefficiencies. However, average scale efficiencies improved significantly. Overall, mergers in the sample produced significant total efficiency improvements. The authors also find significant cost efficiency improvements in megamergers, insignificant cost efficiency decreases in medium size mergers, and significant cost efficiency decreases in small bank mergers. This study differs from previous literature, firstly in that it is comprehensive, analyzing almost all commercial bank mergers that occurred between 1985 and 1991. Second, various measures of efficiency are constructed at the individual bank level and tested against several merger hypotheses. Third, this is the first paper that applies the stochastic econometric frontier model to bank merger studies. Finally, the paper employs financial performance measures to compare the results across different methodologies.

Kim, Yong Jin

TI Growth Gains from Trade and Education. **AU** Kim, Se-Jik; Kim, Yong Jin.

King, Stephen P.

TI On Relative Performance Contracts and Fund Manager's Incentives. **AU** Eichberger, Jurgen; Grant, Simon; King, Stephen P.

PD April 1998. **TI** Private or Public? A Taxonomy of Optimal Ownership & Management Regimes. **AU** King, Stephen P.; Pitchford, Rohan. **AA** King: University of Melbourne. Pitchford: Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 343; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 35. **PR** no charge. **JE** D62, H41, H42. **KW** Public Ownership. Spillovers. Value Diversion. Related Assets.

AB We develop a theory of public versus private ownership based on value diversion by managers. Government is assumed to face stronger institutional constraints than has been assumed in previous literature. The model which emerges from these assumptions is flexible and has wide application. We provide a mapping between the qualitative characteristics of the asset's main use -- including public goods characteristics, and spillovers to other assets' values -- and the optimal ownership and management regime. The model is applied to single and multiple related assets. We address questions such as; when is it optimal to have one of a pair of related assets public and the other private; when is joint management desirable; and when should a public asset be managed by the owner of a related private asset? We show that while private ownership can be judged optimal in some cases solely on the basis of qualitative information, the optimality of any other ownership and management regimes relies on quantitative analysis. Our results reveal the situations in which policy makers will have difficulty in determining the optimal regime.

Kirova, Milka S.

PD February 1998. **TI** Measuring Real Investment: Trends in the United States and International Comparisons. **AU** Kirova, Milka S.; Lipsey, Robert E. **AA** Kirova: Saint Louis University. Lipsey: National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6404; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C80, E21, E22. **KW** Capital Formation. Investment. Saving.

AB The standard measures of nominal capital formation show the United States investing a lower proportion of GDP than those of other developed countries throughout the last 25 years and falling further behind over time. In contrast, measures the authors have calculated in real terms across countries and over time indicate that U.S. investment ratios have been rising over time and have been approaching those of the other countries. A broader measure of capital formation more consonant with economic concepts shows the United States to have been close to the other countries since 1970 and to have been investing an above average share of total output in the most recent period 1990-1994. Real capital formation per capita and per worker has been consistently 15 to 25 percent higher than in the other countries and broadly defined real capital formation per capita and per worker has been 30 to 60 percent higher.

Klein, Michael W.

TI Foreign Direct Investment, Trade and Real Exchange Rate Linkages in Southeast Asia and Latin America. **AU** Goldberg, Linda S.; Klein, Michael W.

Klenow, Peter J.

TI Does Schooling Cause Growth or the Other Way Around? **AU** Bils, Mark; Klenow, Peter J.

Kogan, Leonid

TI Pricing and Hedging Derivative Securities in Incomplete Markets: An E-Arbitrage Approach. **AU** Bertsimas, Dimitris; Kogan, Leonid; Lo, Andrew W.

Kompas, Tom

TI Liberalisation, Incentives and Vietnamese Agricultural Growth. **AU** Che, Tuong Nhu; Kompas, Tom; Vousden, Neil.

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Konings, Jozef

PD July 1998. **TI** Disorganization in the Transition Process: Firm-Level Evidence from Ukraine. **AU** Konings, Jozef; Walsh, Patrick Paul. **AA** LICOS. **SR** Centre for Economic Policy Research Discussion Paper: 1928; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D24, L23, O11, P21, P50. **KW** Disorganization. Transition Process. De Novo Firms. Production. Supply.

AB Most post-communist economies are characterized by an initial collapse in aggregate output. Blanchard and Kremer (1997) and Roland and Verdier (1997) have recently modeled supply side distortions (disorganization in the links of production) that can lead to a short- term output contraction after market liberalization and a recovery thereafter. This paper is the first to illustrate and test the effects of disorganization in the transition process by using a unique data set of 300 Ukrainian firms. Our results show that, for firms that existed under central planning, disorganization constrains employment and productivity growth during the transition process to a market economy. In contrast, disorganization plays no role in the determination of employment and productivity growth in newly established private firms.

Kontolemis, Zenon

TI Inflation Targeting: What Can the ECB Learn from the Recent Experience of the Bank of England. **AU** Artis, Mike; Kontolemis, Zenon; Mizen, Paul.

Kopits, George

PD January 1999. **TI** Implications of EMU for Exchange Rate Policy in Central and Eastern Europe. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/09; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 38. **PR** not available. **JE** E42, F31, F33, P20. **KW** European Union. Transition Economies. Exchange Rates. International Finance.

AB In view of the requirements of Stage 2 of European Monetary Union (EMU) for accession to the European Union, this paper examines the desirability for, and the ability of, the lead candidates in Central and Eastern Europe to participate in the new exchange rate mechanism (ERM2) and eventually in EMU. For most of these countries the benefits are likely to outweigh the cost of participation. After successfully meeting the basic conditions (wage flexibility, prudent fiscal and monetary stance, financial system soundness) for ERM2, each candidate should be able to shadow the euro, with sufficient flexibility around the central rate, prior to formal participation. The paper concludes with a discussion of two policy dilemmas.

Kortum, Samuel

TI Technology and Bilateral Trade. **AU** Eaton, Jonathon; Kortum, Samuel.

Kotlikoff, Laurence J.

TI Simulating U.S. Tax Reform. **AU** Altig, David; Auerbach, Alan J.; Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

PD February 1998. **TI** Social Security: Privatization and Progressivity. **AU** Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan. **AA** Kotlikoff: Boston University and National Bureau of Economic Research. Smetters and Walliser: Congressional Budget Office. **SR** National Bureau of Economic Research Working Paper: 6428; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 10. **PR** $5.00. **JE** G23, H55, L33. **KW** Social Security. Public Pensions. Privatization.

AB This paper uses a large-scale overlapping generations model featuring intragenerational heterogeneity to show that privatizing the U.S. Social Security System could be done on a progressive basis. The authors start with a close replica of the current system; specifically, they include Social Security's progressive benefit schedule together with its exact age-specific marginal linkages between taxes paid and benefits received. The paper compares achieving progressivity as part of privatization reform by a) providing a pay-as-you-go-financed minimum benefit to all agents at retirement independent of their contributions and b) matching contributions to private retirement accounts on a progressive basis. Although a pay-as-you-go-financed minimum benefit can enhance progressivity, it comes at the cost of substantially smaller long-run macroeconomic and welfare gains. In contrast, matching worker's contributions on a progressive basis can achieve an equally progressive intragenerational distribution of welfare. But it affords much higher long-run levels of capital, labor supply, output and welfare.

PD February 1998. **TI** Opting Out of Social Security and Adverse Selection. **AU** Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan. **AA** Kotlikoff: Boston University and National Bureau of Economic Research. Smetters and Walliser: Congressional Budget Office. **SR** National Bureau of Economic Research Working Paper: 6430; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D91, G23, H55. **KW** Social Security. Public Pensions. Privatization. Overlapping Generations. Opting Out.

AB This paper compares two general methods of the privatization of social security: forced participation in the new privatized system versus allowing people to choose between the new system or remaining in social security. Simulations are performed using a large scale perfect- foresight OLG simulation model that incorporates both intra-generational and inter-generational heterogeneity. The decision of any agent to opt out is endogenous and, for example, depends on the opting out decisions of all other agents vis-a-vis factor prices. Various tax bases are considered in financing the transition path. The perceived tax-benefit linkage also receives special consideration due to informational problems. The authors consider two cases: full and no perception. Both methods of privatizing social security lead to large long-run gains for all lifetime income classes despite the intra-generational progressivity of social security. But they differ in their short run effects due to adverse selection associated with opting out.

PD March 1998. **TI** An International Comparison of Generational Accounts. **AU** Kotlikoff, Laurence J.; Leibfritz, Willi. **AA** Kotlikoff: Boston University and National Bureau of Economic Research. Leibfritz: IFO Institut fur Wirtschaftsforschung, Germany. **SR** National Bureau of Economic Research Working Paper: 6447; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 20. **PR** $5.00.

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JE E62, E66, H22, H23, H50. **KW** Generational Accounting. Government Expenditures. Taxation. Tax Incidence.

AB This paper summarizes findings reported in a forthcoming NBER volume entitled Generational Accounting Around the World. This volume includes generational accounting studies for 17 countries. The world's leading industrial powers all have severe imbalances in their generational policies. Unless currently living members of these countries pay more in net taxes or unless these countries dramatically cut their purchases of goods and services, future Americans, Japanese, and Germans will face dramatically higher rates of lifetime net taxation. Other countries are also running imbalanced policies. Of the seventeen countries examined here, five (Japan, Italy, Germany, The Netherlands, and Brazil) have extreme imbalances. Another five (the United States, Norway, Portugal, Argentina and Belgium) have severe imbalances. Three countries (Australia, Denmark, and France) have substantial imbalances. Canada appears to be essentially in generational balance. The remaining three countries (New Zealand, Thailand, and Sweden) have negative imbalances.

Kremer, Michael

PD December 1997. **TI** Patent Buy-Outs: A Mechanism for Encouraging Innovation. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6304; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D44, N40, O31, O34, O38. **KW** Patent Buyouts. Auctions. Innovation. Research and Development. Collusion.

AB In 1839, the French government purchased the patent on the Daguerreotype process and placed it in the public domain. This paper examines a mechanism under which governments would use an auction to estimate the private value of patents and then offer to buy out patents at this private value, times a fixed markup. The markup would correspond to the estimated typical ratio of the social and private values of inventions -- perhaps two. Most patents purchased would be placed in the public domain, but in order to induce bidders to reveal their valuations, a few patents would be sold to the highest bidder. Such patent buy-outs could eliminate monopoly price distortions and incentives for wasteful reverse engineering, while raising private incentives for original research closer to their social value. However, patent buyouts are potentially vulnerable to collusion. Patent buy-outs may be particularly appropriate for pharmaceuticals.

Krichene, Noureddine

PD October 1998. **TI** Purchasing Power Parities in Five East African Countries: Burundi, Kenya, Rwanda, Tanzania, and Uganda. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/148; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** F13, F15, F31. **KW** Purchasing Power Parity. Competitiveness. Cointegration Analysis.

AB In a case study of Burundi, Kenya, Rwanda, Tanzania, and Uganda, this paper finds that bilateral real exchange rates revert to a long-term equilibrium in line with purchasing power parities. It implies that these countries constitute an integrated trading zone, their markets are interdependent and arbitrage works efficiently, and intraregional competitiveness is preserved. These findings are partly explained by the flexibility of nominal exchange rates and prices and the absence of long-term productivity differences among these countries. To strengthen market integration, foster private sector development, and enhance growth prospects, the paper emphasizes the importance of increased trade, competitive labor markets, flexible exchange rates, and convergence of macroeconomic and structural policies.

Krishna, Kala

TI Welfare and Market Access Effects of Piecemeal Tariff Reform. **AU** Ju, Jiandong; Krishna, Kala.

Kristiansen, Eirik G.

TI Risk Taking in Selection Contests. **AU** Hvide, Hans Krogh; Kristiansen, Eirik G.

Krueger, Alan B.

TI A Reanalysis of the Effect of the New Jersey Minimum Wage Increase on the Fast-Food Industry with Representative Payroll Data. **AU** Card, David; Krueger, Alan B.

PD March 1998. **TI** Assessing Bias in the Consumer Price Index from Survey Data. **AU** Krueger, Alan B.; Siskind, Aaron. **AA** Krueger: Princeton University and National Bureau of Economic Research. Siskind: Princeton University. **SR** National Bureau of Economic Research Working Paper: 6450; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 12. **PR** $5.00. **JE** D31, E31. **KW** Consumer Price Index. Income Distribution. Real Income.

AB This paper compares self-reported changes in families' financial status to actual changes based on annual time-series data calculated from the PSID. The results indicate that the Consumer Price Index does a reasonably accurate job reconciling self-reported changes in financial status with measured changes in real income. Earlier work by Nordhaus (1998) reached a different conclusion because it did not account for changes in the shape of the income distribution.

Krueger, Anne O.

PD December 1997. **TI** Whither the World Bank and the IMF? **AA** Stanford University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6327; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 85. **PR** $5.00. **JE** F02, F33, F34. **KW** International Monetary Fund. World Bank. International Finance.

AB On their fiftieth anniversary, the International Monetary Fund and the World Bank were extensively reviewed, both to mark the occasion and to consider, often critically, their current roles and performance. This paper reviews the functions of the two institutions in light of their evolution over the past fifty years and of changes in the international economic system. It then evaluates and assesses some of the criticisms and proposals for reform of the two institutions.

Kuijs, Louis

PD November 1998. **TI** Determinants of Inflation, Exchange Rate, and Output in Nigeria. **AA** International

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Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/160; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** E31, E32, E51, F31, O55. **KW** Nigeria. Cointegration. Exchange Rates. Inflation. Output.

AB This paper presents a macroeconomic model of the Nigerian economy. The long-run relationships pertaining to the markets for money, foreign exchange, and (non-oil) output are estimated. Subsequently, dynamic equations are estimated for the price level, the real exchange rates, and output. The results are instrumental in explaining the dramatic developments on the foreign exchange market during 1983-86 and 1992-94, the secular depreciation of the real exchange rates since 1985, and the rise and fall of inflation during 1991-97. The methodology could usefully be applied to other economies whose exports are insensitive to exchange rate movements (e.g., other oil-based economies).

Kumar, Alok

TI The Dow Theory: William Peter Hamilton's Track Record Re-Considered. **AU** Brown, Stephen J.; Goetzmann, William N.; Kumar, Alok.

La Porta, Rafael

PD October 1997. **TI** The Benefits of Privatization: Evidence from Mexico. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio. **AA** La Porta: Harvard University. Lopez-de-Silanes: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6215; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G30, J41, L10, L33. **KW** Corporate Finance. Public Economics. Privatization. Market Power. Layoffs.

AB Criticisms of privatization have centered around the possibility that the observed higher profitability of privatized companies comes at the expense of the rest of society. In this paper the authors focus on two of the most likely channels for social losses: (1) increased prices as firms capitalize on their market power; and (2) layoffs and lower wages as firms seek to roll back generous labor contracts. The authors find that privatized firms quickly bridge the pre-privatization performance gap with industry-matched control groups. The authors roughly decompose those gains in profitability as follows: 10 percent of the increase is due to higher product prices; 33 percent of the increase represents a transfer from laid-off workers; and productivity gains account for the residual 57 percent. Transfers from society to the firm are partially offset by taxes which absorb slightly over half the gains in operating income.

TI A New Bankruptcy Procedure That Uses Multiple Auctions. **AU** Hart, Oliver; Lopez-de-Silanes, Florencio; La Porta, Rafael; Moore, John.

TI A New Bankruptcy Procedure That Uses Multiple Auctions. **AU** Hart, Oliver; Lopez-de-Silanes, Florencio; La Porta, Rafael; Moore, John.

Laffont, Jean-Jacques

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

Lakdawalla, Darius

PD January 1998. **TI** Nonprofit Production and Competition. **AU** Lakdawalla, Darius; Philipson, Tomas. **AA** Lakdawalla: University of Chicago. Philipson: University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6377; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** I18, I21, I28, L32, L33. **KW** Nonprofit Production. Health Care. Education. Regulation. Subsidies.

AB Industries in which private nonprofit production is present and significant, such as health care and education, account for more than one-fifth of U.S. economic activity. This paper argues that previous analysis of nonprofits has not separated profit-deviating preferences from the state-defined regulatory status of nonprofit production. The authors argue that this separation is crucial in providing predictions about the underlying forces which allow the coexistence of nonprofit and for-profit production in an industry. By separating choice of nonprofit status from profit-deviating preferences, the paper provides predictions about the forces which determine the share of nonprofit production in an industry. Among other things, the authors argue that this share falls with the share of the demand that is publicly subsidized, rises with the total number of firms in the industry, and rises with growth in the pace or extent of cost-reductions resulting from learning-by-doing.

Lal, Deepak

PD February 1998. **TI** The Communication Revolution, Transactions Costs, Culture and Economic Performance. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 781; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 33. **PR** $5.00. **JE** F02, L96, O33, Z10. **KW** Communication Revolution. Transaction Costs. Policing Costs. Culture.

AB In examining the effects of the communications revolution on economic performance, the paper makes a distinction between the exchange and policing aspects of transactions costs and shows how they can be mapped into what are distinguished as the material and cosmological beliefs of different cultures. It argues that whilst the transaction costs associated with "exchange" will decline (using evidence from 15 developing countries on the costs of doing business), the effects on the "policing" aspects of transactions costs are more ambiguous and likely to vary across cultures.

PD February 1998. **TI** Institutional Development and Economic Growth. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 782; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 51. **PR** $5.00. **JE** O15, O17, O40, Z10. **KW** Institutional Development. Economic Growth. Growth Theory. Income Distribution.

AB This paper surveys the role of institutions in promoting economic growth in cross-cultural and historical perspective. It examines inter alia, whether institutional development can be incorporated in formal growth theory, the influence of politics on economic growth and the relationship of institutional development and income distribution.

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PD April 1998. **TI** Culture, Democracy and Development. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 783; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 28. **PR** $5.00. **JE** A13, O10, O53, P16, Z10. **KW** Culture. India. Modernization. Westernization.

AB This paper critically examines the fears of India's culture nationalists that globalization will undermine ancient and cherished ways of life, by distinguishing between modernization and Westernization. It argues that accepting the material beliefs of the West, which is essential for modernization, does not necessitate acceptance of its cosmological beliefs entailing Westernization.

PD June 1998. **TI** The Political Economy of Reform in Latin America. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 784; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 52. **PR** $5.00. **JE** O13, O54, P16. **KW** Latin America. Political Economy. Natural Resources. Colonial Heritage.

AB This paper outlines the elements of the colonial heritage which led to divergences in both economics and politics between North and Latin America; the influence of natural resource abundance on the politics and economics of the region and the reasons for the continent wide reforms and the likelihood of their being sustained.

PD September 1998. **TI** Taxation and Regulation as Barriers to International Investment Flow. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 785; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 30. **PR** $5.00. **JE** F21, F23, F30, O16. **KW** Taxation. Capital Flows. Developing Countries. Asian Crisis.

AB The paper examines the shifts in attitudes to foreign investment; charts the dimensions and composition of capital flows to developing countries; outlines existing barriers and the effects of taxation on these flows, and critically examines the demand for their regulation in the light of the Asian crisis.

PD September 1998. **TI** The World Economy at the End of the Millennium. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 786; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 39. **PR** $5.00. **JE** A13, F02, N70, P16. **KW** Global Integration. Liberal International. Economic Order. History.

AB The paper examines the rise, fall and rise of the Liberal International Economic Order over the last 150 years, and critically examines the various hopes and fears in developed and developing countries that this most recent global integration is raising.

Lam, Pok-sang

TI Asset Pricing with Distorted Beliefs: Are Equity Returns Too Good to be True? **AU** Cecchetti, Stephen G.; Lam, Pok-sang; Mark, Nelson C.

Lambert, Peter

TI Horizontal Inequity Comparisons. **AU** Dardanoni, Valentino; Lambert, Peter.

Lamont, Owens

PD October 1997. **TI** Financial Constraints and Stock Returns. **AU** Lamont, Owens; Polk, Christopher; Saa-Requejo, Jesus. **AA** Lamont: University of Chicago and National Bureau of Economic Research. Polk and Saa-Requejo: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6210; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 47. **PR** $5.00. **JE** E44, G12, G32. **KW** Asset Pricing. Monetary Economics. Financial Constraints. Stock Returns. Firm Value.

AB We test whether the impact of financial constraints on firm value is observable in asset returns. We form portfolios of firms based on observable characteristics related to financial constraints, and test for common covariation in the stock returns of these firms. Using several different measures of financial constraints, we find that financially constrained firms' stock returns move together over time. This financial constraint factor in stock returns is related to, but not well explained by, other empirically identified factors in asset returns. Constrained firms have remarkably low returns in our sample period of 1968-1995, both unconditionally and in the context of empirical asset pricing models. Financial constraint returns help explain returns following initial public offerings and dividend omissions. We find only limited support for the hypothesis that the relative performance of financially constrained firms reflects monetary policy, credit conditions, and business cycles.

Lanjouw, Jean O.

PD December 1997. **TI** The Enforcement of Intellectual Property Rights: A Survey of the Empirical Literature. **AU** Lanjouw, Jean O.; Lerner, Josh. **AA** Lanjouw: Yale University and National Bureau of Economic Research. Lerner: Harvard Business School. **SR** National Bureau of Economic Research Working Paper: 6296; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D23, K41, O31, O32, O34. **KW** Property Rights. Patent Litigation. Innovation.

AB This paper examines several recent avenues of empirical research into the enforcement of intellectual property rights. To frame these issues, we start with a stylized model of the patent litigation process. The bulk of the paper is devoted to linking the empirical literature on patent litigation to the parameters of this model. The four major areas we consider are (i) how the propensity to litigate patents varies with the expected benefits of litigation, (ii) the ways in which the cost of litigation affects the willingness to enforce patents, (iii) how the cost of enforcing patents changes the private value of patent rights, and (iv) the impact of intellectual property litigation on the innovation process itself.

PD December 1997. **TI** Stylized Facts of Patent Litigation: Value, Scope and Ownership. **AU** Lanjouw, Jean O.; Schankerman, Mark. **AA** Lanjouw: Yale University and National Bureau of Economic Research. Schankerman: London School of Economics. **SR** National Bureau of Economic Research Working Paper: 6297; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge,

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MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** K41, O31, O32, O34. **KW** Patent Litigation. Law. Innovation. Research and Development.
AB This paper investigates the characteristics of litigated patents by combining for the first time information about patent case filings from the U.S. district courts and detailed data from the U.S. Patent and Trademark Office. The authors construct a series of indicators for the factors which the theoretical literature suggests contribute to litigation: the frequency of disputes, the size and asymmetry of stakes, the structure of information, and costs. Compared to a random sample of U.S. patents from the same cohorts and technology areas, the authors find that more valuable patents and those with domestic owners are considerably more likely to be involved in litigation. Patents owned by individuals are at least as likely to be the subject of a case as corporate patents and litigation is particularly frequent in new technology areas. The authors interpret the results with reference to theoretical models of litigation and settlement.

PD Janaury 1998. **TI** The Introduction of Pharmaceutical Product Patents in India: "Heartless Exploitation of the Poor and Suffering?" **AA** Yale University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6366; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F42, L43, L65, O34. **KW** Product Patents. Pharmaceuticals. International Investment. Innovation.
AB The decision to require that countries grant product patents for pharmaceutical innovations as a condition of membership in the World Trade Organization was very contentious. Almost fifty developing countries were not granting patent monopolies for drugs during the period the Uruguay round of GATT was being debated and these countries fiercely resisted the inclusion of this requirement. On the other side, business interests in the West urged them to consider the beneficial effects such protection might bring. This paper discusses the various theoretical implications for a developing country of introducing product patents for pharmaceuticals. Using India as an example, it then brings together information gathered from both published sources and personal interviews to examine the potential magnitude of these effects. While not arriving at a conclusive answer to the question posed in the title, there are some suggestions about the way events might unfold as the policy is implemented.

Laurens, Bernard

PD December 1998. **TI** Managing Capital Flows: Lessons from the Experience of Chile. **AU** Laurens, Bernard; Cardoso, Jaime. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/168; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 50. **PR** not available. **JE** F32, F36, G14, G15, G24. **KW** Capital Controls. Capital Inflows. Contagion. Chile.
AB As a result of the Asian crisis, methods of coping with volatile international capital markets have received considerable attention from observers and policymakers. It has been argued that the imposition by Chile of a nonremunerated reserve requirement on external borrowing played a useful role in the smooth liberalization of its capital account. It allowed Chile to deal effectively with short-term capital inflows, and thus to reduce its vulnerability to external shocks, and that such measures should be adopted by other countries. In light of this, this paper reviews Chile's experience in managing capital flows and draws lessons for policymakers.

Lazare, Michel

TI Exchange Rate Unification, the Equilibrium Real Exchange Rate, and Choice of Exchange Rate Regime: The Case of the Islamic Republic of Iran. **AU** Sundararajan, V.; Lazare, Michel; Williams, Sherwyn.

Leahy, Dermot

PD September 1998. **TI** Strategic Trade and Industrial Policy Towards Dynamic Oligopolies. **AU** Leahy, Dermot; Neary, J. Peter. **AA** University College Dublin. **SR** Centre for Economic Policy Research Discussion Paper: 1968; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 64. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F12, F13, L13, L52. **KW** Learning by Doing. Research and Development. Strategic Trade Policy. Export Subsidies. Commitment.
AB We characterize optimal trade and industrial policy in dynamic oligopolistic markets. If governments can commit to future policies, optimal first-period intervention should diverge from the profit- shifting benchmark to an extent which exactly offsets the strategic behavior implied by Fudenberg and Tirole's 'fat cats and top dogs' taxonomy of business strategies. Without government commitment, there is an additional basis for intervention, whose sign depends on the strategic substitutability between future policy and current actions. We consider a variety of applications (to R&D spillovers, consumer switching costs, etc.) and extensions to second-best, revenue-constrained and entry-promotion policies.

Lee, Jong-Wha

TI Credit Allocation and Financial Crisis in Korea. **AU** Borensztein, Eduardo; Lee, Jong-Wha.

Leibfritz, Willi

TI An International Comparison of Generational Accounts. **AU** Kotlikoff, Laurence J.; Leibfritz, Willi.

Lerner, Josh

TI The Enforcement of Intellectual Property Rights: A Survey of the Empirical Literature. **AU** Lanjouw, Jean O.; Lerner, Josh.

Lev, Baruch

TI Documented Disputes Involving Auditor Independence: A Preliminary Report. **AU** Brown, Paul R.; Calderon, Jeanne A.; Lev, Baruch.

Levine, David K.

TI Payoff Information and Self-Confirming Equilibrium. **AU** Dekel, Eddie; Fudenberg, Drew; Levine, David K.

Levinson, Arik

PD December 1997. **TI** NIMBY Taxes Matter: State Taxes and Interstate Hazardous Waste Shipments. **AA** University of Wisconsin and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6314; National Bureau of Economic

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Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H23, H73, Q20. **KW** Taxation. State Taxation. Hazardous Waste. Waste Disposal.

AB This paper examines the extent to which state taxes have inhibited interstate transport of hazardous waste for disposal in the United States. It uses panel data from the Toxics Release Inventory and the Resource Conservation and Recovery Act on interstate shipments of waste, and analyzes them in conjunction with a set of state characteristics. It employs four approaches to deal with the potential endogeneity of taxes and unobserved heterogeneity among states: a "natural experiment" based on the retaliatory nature of some state tax laws, a fixed-effects model, a two-stage least squares estimator, and a reinterpretation of the coefficient on the distance among states. The paper concludes that hazardous waste taxes are a statistically and economically significant deterrent to interstate waste transport, that taxes are being imposed by large-capacity and large-import states, and that these taxes have had a decentralizing effect on the national pattern of hazardous waste transport and disposal.

Lewis, Karen K.

PD January 1998. **TI** International Home Bias in International Finance. **AA** University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6351; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F32, F36, F40, G11, G15. **KW** Portfolio Choice. Home Bias. Consumption. Growth. Domestic Assets.

AB Domestic investors hold a substantially larger proportion of their wealth portfolios in domestic assets than standard portfolio theory would suggest. This phenomenon has been called "equity home bias." In the absence of this home bias, investors would optimally diversify away domestic output risk. Therefore, in a world without investor home bias, consumption growth rates would tend to comove across countries even when output growth rates do not. Empirically, however, consumption growth rates tend to have a lower correlation across countries than do output growth rates. Moreover, consumption growth in each country appears to be highly correlated with its own output growth relative to the world. This phenomenon may be called "consumption home bias." In this paper, I evaluate existing explanations for these two types of home bias.

Liang, Hong

PD October 1998. **TI** Real Exchange Rate Volatility: Does the Nominal Exchange Rate Regime Matter? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/147; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 34. **PR** not available. **JE** F31, F33, F41. **KW** Exchange Rate Regimes. Real Exchange Rates. Volatility. Foreign Exchange.

AB A recent study by Grilli and Kaminsky (1991) argues that real exchange rate (RER) behavior is likely to be dependent on the particular historical period rather than on the nominal exchange rate arrangement itself. This paper reexamines RER behavior using alternative data sets, as well as different econometric methods, over the period 1880-1997. It finds strong evidence supporting the nonneutrality hypothesis of nominal exchange regime on RER volatility. Also, regime shifts play an important role in determining the persistence of shocks to the RER.

PD November 1998. **TI** The Volatility of The Relative Price of Commodities in Terms of Manufacturers Across Exchange Regimes: A Theoretical Model. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/163; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 18. **PR** not available. **JE** E31, F33, F41, L16. **KW** Relative Commodity Prices. Exchange Rate Regimes. Foreign Exchange. Market Structure.

AB The paper investigates the relationship between the nominal exchange rate regime and the volatility of relative commodity prices. The analysis shows that the relationship depends upon both the market structure and the economic agent's perception about future exchange rate movements. When the markets for manufactured goods are less competitive than the markets for primary commodities, the volatility of relative commodity prices rises when exchange rate uncertainty increases. If demand for manufactured goods is intertemporally dependent, even a small increase in exchange rate uncertainty can result in potentially large costs in terms of increased relative commodity price instability.

Liebman, Jeffery B.

TI Are CEOs Really Paid Like Bureaucrats?. **AU** Hall, Brian J.; Liebman, Jeffery B.

Ligthart, Jenny E.

PD September 1998. **TI** Optimal Fiscal Policy and the Environment. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/146; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** D62, E62, H21, H41, Q28. **KW** Abatement. Fiscal Policy. Pollution Taxation. Public Goods. Samuelson Rule.

AB The paper studies the setting of optimal fiscal policy in a second- best world with environmental externalities. The optimal second-best pollution tax is shown to lie below the first-best Pigovian tax, particularly if substitution between labor and polluting intermediate inputs is easy, the labor supply curve is more elastic, and preexisting taxes are large. The optimal level of public abatement is derived from the modified Samuelson rule and is larger if society cares more for the environment, public funds are inexpensive, and public abatement is relatively productive. The analysis also shows that the Samuelson rule should be revised if allowance is made for nonseparabilities in preferences.

TI The Dynamic Macroeconomic Effects of Tax Policy in an Overlapping Generations Model. **AU** Heijdra, Ben J.; Ligthart, Jenny E.

Lin, Winston

TI Would Financial Incentives for Leaving Welfare Lead Some People to Stay on Welfare Longer? An Experimental Evaluation of 'Entry Effects' in the Self-Sufficiency Project. **AU** Card, David; Robins, Philip K.; Lin, Winston.

Linton, Oliver

PD December 1998. **TI** Estimating Yield Curves by Kernel Smoothing Methods. **AU** Linton, Oliver; Mammen, E.; Nielsen, J.; Tanggaard, C. **AA** Linton: Yale University.

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Mammen: Ruprecht-Karls-Universitat Heidelberg. Nielsen: PFA Pension. Tanggaard: Aarhus School of Business. **SR** Yale Cowles Foundation Discussion Paper: 1205; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 49. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C13, C14, G10. **KW** Coupon Bonds. Forward Curves. Hilbert Space. Nonparametric Regression. Yield Curves.

AB We introduce a new method for the estimation of discount functions, yield curves and forward curves for coupon bonds. Our approach is nonparametric and does not assume a particular functional form for the discount function although we do show how to impose various important restrictions in the estimation. Our method is based on kernel smoothing and is defined as the minimum of some localized population moment condition. The solution to the sample problem is not explicit and our estimation procedure is iterative, rather like the backfitting method of estimating additive nonparametric models. We establish the asymptotic normality of our methods using the asymptotic representation of our estimator as an infinite series with declining coefficients. The rate of convergence is standard for one-dimensional nonparametric regression.

Lipsey, Robert E.

TI Measuring Real Investment: Trends in the United States and International Comparisons. **AU** Kirova, Milka S.; Lipsey, Robert E.

PD February 1998. **TI** Internationalized Production in Developed and Developing Countries and in Industry Sectors. **AA** National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6405; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 19. **PR** $5.00. **JE** F15, F21, F23, O19. **KW** International Business. Multinational Firms. International Investment. Manufacturing.

AB Internationalized production, that is, production in a country controlled by firms based in another country, grew from about 4.5 percent of world output in 1970 to over 7 percent in 1995. The importance of internationalized output fell substantially in developing countries until around 1990 but has been increasing since then, especially in the "transition" countries, where it has grown from less than $100 million in 1977 to over $25 billion in 1994. The petroleum sector was the one with the highest share of internationalized production in the 1970's, but that share has declined sharply, especially in the developing countries, where important operations were nationalized. Manufacturing is now the sector in which internationalized production plays the largest role. Outside of petroleum and manufacturing, internationalized production was of little importance. However, if the trend in U.S.-owned production is an indication, the role of internationalized production in this sector may be changing.

Lo, Andrew W.

TI Pricing and Hedging Derivative Securities in Incomplete Markets: An E-Arbitrage Approach. **AU** Bertsimas, Dimitris; Kogan, Leonid; Lo, Andrew W.

PD November 1997. **TI** Econometric Models of Limit-Order Executions. **AU** Lo, Andrew W.; MacKinlay, A. Craig; Zhang, June. **AA** Lo: Massachusetts Institute of Technology and National Bureau of Economic Research. MacKinlay: University of Pennsylvania. Zhang: ITG, Inc. **SR** National Bureau of Economic Research Working Paper: 6257; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 35. **PR** $5.00. **JE** G12, G23. **KW** Asset Pricing. Limit Orders. Execution Times. Survival Analysis.

AB Limit orders incur no price impact, however, their execution time is uncertain. We develop several econometric models of limit-order execution times using survival analysis, and estimate them with actual limit-order data. We estimate models for time-to-first-fill and time-to- completion, and for limit-sells and limit-buys, and incorporate the effects of explanatory variables such as the limit price, the limit size, the bid/offer spread, and market volatility. We find that execution times are very sensitive to limit price and several other explanatory variables, but not sensitive to limit size. We also show that hypothetical limit-order executions, constructed either theoretically from first-passage times or empirically from transactions data, are very poor proxies for actual limit-order executions.

Loayza, Norman

PD January 1999. **TI** Sectorial Macroeconomic Interdependencies: Evidence for Latin America, East Asia and Europe. **AU** Loayza, Norman; Lopez, Humberto; Ubide, Angel. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/11; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 36. **PR** not available. **JE** E32, F15, O40. **KW** International Comovements. Currency Areas. Error Components Models. Growth.

AB This paper analyzes common economic patterns across countries and economic sectors in Latin America, East Asia and Europe for the period 1970-94 by means of an error-components model that decomposes real value added growth in each country into common international effects, sector- specific effects and country-specific effects. We find significant comovements in the European and East Asian samples. In the Latin American sample, however, we find country-specific components to be more important than common patterns. These results are robust to different sub-sample time spans and different sub-sample country groups.

Lochner, Lance

TI Explaining Rising Wage Inequality: Explorations with a Dynamic General Equilibrium Model of Labor Earnings with Heterogeneous Agents. **AU** Heckman, James J.; Lochner, Lance; Taber, Christopher.

TI General Equilibrium Treatment Effects: A Study of Tuition Policy. **AU** Heckman, James J.; Lochner, Lance; Taber, Christopher.

Lopez, Humberto

TI Sectorial Macroeconomic Interdependencies: Evidence for Latin America, East Asia and Europe. **AU** Loayza, Norman; Lopez, Humberto; Ubide, Angel.

Lopez-de-Silanes, Florencio

TI The Benefits of Privatization: Evidence from Mexico. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio.

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TI A New Bankruptcy Procedure That Uses Multiple Auctions. **AU** Hart, Oliver; Lopez-de-Silanes, Florencio; La Porta, Rafael; Moore, John.

Lopez-Mejia, Alejandro

PD December 1998. **TI** Private Savings in Columbia. **AU** Lopez-Mejia, Alejandro; Ortega, Juan Ricardo. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/171; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** E21, E62, H24, H30. **KW** Consumption. Savings. Corporate Veil. Ricardian Equivalence. Colombia.

AB This paper studies the main determinants of the sharp decline in Colombia's private saving rate which accompanied the steep deterioration of the country's external current account deficit in the 1990's. The paper rejects current arguments pointing to a consumption boom and corporate behavior as the main causes of decline. It concludes that: private consumption, explained mainly by permanent income, has only increased moderately in the 1990's; household behavior -- not corporate behavior -- determines private saving; and tax increases do not entirely explain the fall of private savings. Thus, increasing public savings could reduce reliance on external savings.

PD February 1999. **TI** Large Capital Flows: A Survey of the Causes, Consequences, and Policy Responses. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/17; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 49. **PR** not available. **JE** F13, F32, F41, G15, G24. **KW** Capital Flows. Crises. Policy Responses. Survey. Emerging Markets.

AB This paper reviews the causes, consequences, and policy responses to large capital flows in several emerging markets. It opens by studying recent patterns of capital flows, and then discusses the causes of capital flows. Emphasis is given to the reasons behind the capital inflow episode in the 1990's, the major reversals, and the volatility observed in these flows. The paper goes on to examine the consequences of capital inflows and the pros and cons of alternative policy responses. It concludes with policy lessons derived from country experiences.

Lumsdaine, Robin L.

TI Unit Roots, Postwar Slowdowns and Long-Run Growth: Evidence from Two Structural Breaks. **AU** Ben-David, Dan; Lumsdaine, Robin L.; Papell, David H.

Luttmer, Erzo F. P.

TI The Misallocation of Housing Under Rent Control. **AU** Glaeser, Edward L.; Luttmer, Erzo F. P.

Lybek, Tonny

PD January 1998. **TI** Central Bank Autonomy, and Inflation and Output Performance in the Baltic States, Russia, and Other Countries of the Former Soviet Union, 1995-97. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/04; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** E31, E58, O40, P21. **KW** Central Bank Independence. Transition Economies. Inflation. Growth.

AB A higher degree of de jure autonomy and accountability of the central banks of the Baltic states, Russia, and other countries of the former Soviet Union appears to be positively correlated with lower average inflation. There also seems to be some positive correlation between greater central bank autonomy and higher average real growth, after the initial period of reforms. Central banks with a higher degree of autonomy and accountability have apparently also reformed their operations more aggressively.

Ma, Henry

PD November 1998. **TI** Inflation, Uncertainty, and Growth in Colombia. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/161; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** E31, E52, O40, O54. **KW** Inflation. Inflation Uncertainty. Relative Price Dispersion. Vector Autoregression. Colombia.

AB It has been argued that higher levels of inflation lead to greater uncertainty about future inflation and to greater dispersion of relative prices. In either case, inflation could reduce the efficiency of market prices in coordinating economic activities. This paper shows that the rise of inflation in Colombia, from low levels in the 1950's to average rates of 18-22 percent since the 1970's, has been accompanied by increased uncertainty and relative price dispersion; and that inflation has had a negative and persistent effect on real GDP growth.

Ma, Jinpeng

PD October 1998. **TI** Job Matching and Coalition Formation with Utility or Disutility of Co-Workers. **AA** Rutgers University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1230; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 26. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C62, C78, D50, J41. **KW** Matching. Job Matching. Core Outcome. Co-Worker Utility.

AB This paper studies the job matching market in Kelso and Crawford (1982) with one exception that co-workers may generate utility or disutility in the workplace. We provide a simple idea to show how a great number of sufficient conditions for a nonempty core in the literature can be extended to this labor market. We also provide a deterministic and a stochastic recursive dynamic system each of which converges to an efficient core outcome as long as the core is nonempty.

PD November 1998. **TI** Stable Matchings and the Small Core in Nash Equilibrium in the College Admissions Problem. **AA** Northwestern University and Rutgers University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1247; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 21. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern

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University. **JE** C78, D71, I20. **KW** Rematching Proof. Strong Equilibrium. College Admissions. Stable Matchings.
AB Not all rematching proof and strong equilibrium outcomes are stable with respect to true preferences in the college admissions problem. However, rematching proof and strong equilibrium outcomes with truncations at the match point are all stable. Further, all true stable matchings can be achieved in both rematching proof and strong equilibrium with truncations at the match point. The paper shows that any Nash equilibrium in truncations admits one and only one matching, stable or not. Therefore, the core at a Nash equilibrium in truncations must be small. But examples exist such that the set of stable matchings with respect to a Nash equilibrium may contain more than one matching. Nevertheless, each Nash equilibrium can only admit at most one true stable matching. If there is a true stable matching at a Nash equilibrium, then the only possible equilibrium outcome will be the true stable matching. Thus, a necessary and sufficient condition for the stable matching rule to be implemented in a subset of Nash equilibria by a direct revelation game induced by a stable matching mechanism is that every Nash equilibrium profile in that subset admits one and only one true stable matching.

MacDonald, Ronald

TI Deviations of Exchange Rates from Purchasing Power Parity: A Story Featuring Two Monetary Unions. **AU** Bayoumi, Tamim; MacDonald, Ronald.

PD March 1999. **TI** The Long-Run Relationship Between Real Exchange Rates and Real Interest Rate Differentials: A Panel Study. **AU** MacDonald, Ronald; Nagayasu, Jun. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/37; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 9. **PR** not available. **JE** E43, F31. **KW** Real Exchange Rates. Real Interest Rates. Panel Cointegration.
AB This paper empirically examines the long-run relationship between real exchange rates and real interest rate differentials over the recent floating exchange rate period, using a panel cointegration method, with data for a set of industrialized countries. The paper finds evidence of statistically significant long-run relationships and plausible point estimates, which contrasts with much existing evidence. The failure of others to establish such relationships may reflect the estimation method they use rather than any inherent deficiency of the fundamentals-based models.

Machin, Stephen

PD October 1997. **TI** Technology and Changes in Skill Structure: Evidence from Seven OECD Countries. **AU** Machin, Stephen; Van Reenen, John. **AA** Machin: University College London and London School of Economics. Van Reenen: University College London and Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/04; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 24. **PR** 3 pounds. **JE** J31, J51, O33. **KW** Employment. Wages. Skills. Technology. Research and Development.
AB New technology is believed to be driving much of the recent dramatic change in skill and wage structure. This paper compares the changing skill structure of wage bills and employment in the United States with other advanced developed countries -- the United Kingdom (where wage and income inequality rose even faster in the 1980's than in the United States), France, Germany, Denmark, Sweden and Japan. The analysis is primarily based on identically specified panels of manufacturing and non-manufacturing industries. The paper finds that growth in the employment share of skilled workers has occurred in all countries. In every country studied, the bulk of this shift towards an increased usage of more skilled workers has occurred within industries. Furthermore, evidence of a significant complementarity of human capital with new technology is uncovered in all countries. Nevertheless, the results suggest that whilst technology is important, it is not the whole story. In the countries with the fastest increase in wage inequality (the United Kingdom and United States) the observed changes in skill structure are also linked to the structure of labor market institutions, such as the declining role of unions and collective bargaining.

TI The Changing Distribution of Male Wages in the UK. **AU** Gosling, Amanda; Machin, Stephen; Meghir, Costas.

MacKinlay, A. Craig

TI Econometric Models of Limit-Order Executions. **AU** Lo, Andrew W.; MacKinlay, A. Craig; Zhang, June.

MaCurdy, Thomas E.

TI Persistence of Medicare Expenditures Among Elderly Beneficiaries. **AU** Garber, Alan, M.; MaCurdy, Thomas E.; McClellan, Mark C.

TI Labor Supply: A Review of Alternative Approaches. **AU** Blundell, Richard; MaCurdy, Thomas E.

Madden, Gregory J.

TI The Behavioral Economics of Smoking. **AU** Bickel, Warren K.; Madden, Gregory J.

Magee, Christopher S.

TI Is Trade Policy for Sale? Congressional Voting on Recent Trade Bills. **AU** Baldwin, Robert E.; Magee, Christopher S.

Maggi, Giovanni

TI Free Trade vs. Strategic Trade: A Peek into Pandora's Box. **AU** Grossman, Gene M.; Maggi, Giovanni.

Magnac, Thierry

TI Collective Labor Supply: Heterogeneity and Nonparticipation. **AU** Blundell, Richard; Chiappori, Pierre-Andre; Magnac, Thierry; Meghir, Costas.

TI Collective Labor Supply: Heterogeneity and Nonparticipation. **AU** Blundell, Richard; Chiappori, Pierre-Andre; Magnac, Thierry; Meghir, Costas.

Mailath, George J.

PD July 1998. **TI** Repeated Games with Imperfect Private Monitoring: Notes on a Coordination Perspective. **AU** Mailath, George J.; Morris, Stephen. **AA** Mailath: University of Pennsylvania. Morris: Yale University. **SR** Australian National University Working Paper in Economics and Econometrics: 348; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 27. **PR** no charge. **JE** C72, C73. **KW** Repeated Games. Imperfect Monitoring. Coordination. Punishments.
AB In repeated games with imperfect public monitoring,

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players can use public signals to perfectly coordinate their behavior. Our study of repeated games with imperfect private monitoring focuses on the coordination problem that arises without public signals. We present three new observations. First, in a simple twice repeated game, we characterize the private signaling technologies that allow non-static Nash behavior in pure strategy equilibria. Our characterization uses the language of common p-belief due to Monderer and Samet (GEB, 1989). Second, we show that in the continuum action convention game of Shin and Williamson (GEB, 1996) for any full support private monitoring technology, equilibria of the finitely repeated convention game must involve only static Nash equilibria. By contrast, with sufficiently informative public monitoring, the multiplicity of Nash equilibria allows a finite folk theorem. Finally, for finite action games, we prove that there are full support private monitoring technologies for which a Nash reversion infinite horizon folk theorem holds.

Mairesse, Jacques

TI Firm-Level Investment in France and the United States: An Exploration of What We have Learned in Twenty Years. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Mulkay, Benoit.

TI Does Cash Flow Cause Investment and R&D: An Exploration Using Panel Data for French, Japanese, and United States Scientific Firms. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Branstetter, Lee; Crepon, Bruno.

Malmberg, Gunnar

TI Why do People Stay? The Insider Advantages Approach: Empirical Evidence from Swedish Labour Markets. **AU** Straubhaar, Thomas; Fischer, Peter A.; Holm, Einar; Malmberg, Gunnar.

Mammen, E.

TI Estimating Yield Curves by Kernel Smoothing Methods. **AU** Linton, Oliver; Mammen, E.; Nielsen, J.; Tanggaard, C.

Marcouiller, Douglas

TI Trade and Security, I: Anarchy. **AU** Anderson, James E.; Marcouiller, Douglas.

Marion, Nancy

TI Perspectives on the Recent Currency Crisis Literature. **AU** Flood, Robert P.; Marion, Nancy.

Mark, Nelson C.

TI Asset Pricing with Distorted Beliefs: Are Equity Returns Too Good to be True? **AU** Cecchetti, Stephen G.; Lam, Pok-sang; Mark, Nelson C.

Markowitz, Sara

PD January 1998. **TI** Alcohol Regulation and Violence Towards Children. **AU** Markowitz, Sara; Grossman, Michael. **AA** Markowitz: City University of New York Graduate School. Grossman: City University of New York Graduate School and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6359; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** D12, D62, I12, I18, J13. **KW** Alcohol. Externalities. Domestic Violence. Children. Health Production.

AB Largely ignored in the literature is the link between alcohol use and domestic violence. Given the established positive relationship between alcohol consumption and acts of violence, this paper examines the role changes in the determinants of the demand for alcohol may play in reducing the incidence of violence aimed at children. Data on violence come from the 1976 Physical Violence in American Families survey. The authors estimate a reduced form demand model in which violent outcomes are affected by the state excise tax rate on beer, illegal drug prices and other regulatory variables such as availability measures and laws restricting advertising of alcohol. Results show that increasing the tax on beer can be an effective policy tool in reducing violence. Laws designed to make obtaining beer more difficult may also be effective in reducing violence, while restrictions on advertising and increases in illegal drug prices have no effects.

Markusen, James R.

PD October 1997. **TI** Trade vs. Investment Liberalization. **AA** University of Colorado and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6231; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F12, F13, F21, F23, F43. **KW** International Trade. Investment. Liberalization. International Business.

AB Despite several theoretical contributions and considerable informal empirical evidence to the contrary, a notion that trade and investment are substitutes persists in trade policy analysis. This paper considers the liberalization of commodity trade versus liberalization allowing direct investment versus the two together. For a relatively-skilled, labor-scarce economy, the author shows that trade and investment liberalization are quite different, and that the two together are in a sense complements. The intuition may be that direct investment provides such a country with crucial inputs (knowledge-intensive producer services) without which the country cannot effectively exploit its abundant factors in certain industries.

PD October 1997. **TI** Liberalization and Incentives for Labor Migration: Theory with Application to NAFTA. **AU** Markusen, James R.; Zahniser, Stephen. **AA** Markusen: University of Colorado and National Bureau of Economic Research. Zahniser: University of Colorado. **SR** National Bureau of Economic Research Working Paper: 6232; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E24, F13, F15, F22. **KW** International Trade. Investment. NAFTA. Migration. Liberalization.

AB One of the motivations for NAFTA from the US point of view was to reduce the incentives for Mexican migration into the U.S. Unskilled rural males are a primary source of illegal immigration and also Mexico's relatively abundant factor. This group should therefore be made better off by trade and investment liberalization according to the traditional Heckscher-Ohlin model. Existing evidence, along with best guesses of many experts in the area, suggest that NAFTA is unlikely to have a significant positive impact on this group, at least not within the time frame of several decades. We draw on a number of recent theoretical contributions in order to offer reasons why NAFTA may not raise the wages of unskilled

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Mexican workers.

PD October 1997. **TI** Foreign Direct Investment as a Catalyst for Industrial Development. **AU** Markusen, James R.; Venables, Anthony J. **AA** Markusen: University of Colorado and National Bureau of Economic Research. Venables: London School of Economics. **SR** National Bureau of Economic Research Working Paper: 6241; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F21, F23, O14, O19. **KW** International Trade. Investment. Development. Multinational Firms.
AB How does an FDI project affect local firms in the same industry? Competition in the product and factor markets tends to reduce profits of local firms, but linkage effects to supplier industries may reduce input costs and raise profits. This paper develops an analytical framework to assess these effects. Circumstances in which FDI is complementary to local industry are established, and it is shown how FDI may lead to the establishment of local industrial sectors. These sectors may grow to the point where local production overtakes and forces out FDI plants. Our results are consistent with the experience of a number of industrial sectors in the NCI's.

PD March 1998. **TI** Contracts, Intellectual Property Rights, and Multinational Investment in Developing Countries. **AA** University of Colorado and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6448; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** F12, F21, F23, O31, O34. **KW** Property Rights. Contracting. Technology Transfer. Multinational Firms.
AB The institution and enforcement of property rights and contracts have been an important policy issue for the developing countries, the transition economies, and the developed countries in the 1990's. This has led to the development of a literature on technology transfer and how property rights might affect such transfers and host-country welfare. Much of this literature is non-strategic, with "northern" innovative firms and "southern" imitators, and focuses on endogenous R&D and imitation levels. This paper takes a different and complementary approach, developing a strategic model in which local managers learn the multinational's technology and can defect to start a rival firm. If contract enforcement leads the MNE to shift from exporting to producing inside the host country, both the host country and the MNE are better off. If the MNE had established a subsidiary prior to the establishment of enforcement, the host country is indifferent or worse off by enforcement.

Martimort, David

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

Mathieson, Donald J.

TI Capital Mobility and Exchange Market Intervention in Developing Countries. **AU** Dooley, Michael P.; Mathieson, Donald J.; Rojas-Suarez, Liliana.

Matsuyama, Kiminori

PD December 1998. **TI** Economic Development with Endogenous Retirement. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1237; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 22. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D91, J26, O11, O40. **KW** Labor Supply. Retirement. Saving. Magnification Effect.
AB This paper endogenizes the elderly's labor force participation in an overlapping generations economy under the assumption that retirement is a luxury. In a developed economy, the agents earn a high wage income when young and retire when old. This reduces the labor supply (through a low participation rate of the elderly), and stimulates capital accumulation (through saving for retirement). The resulting high capital-labor ratio leads to a higher wage income for the next generation. In a poor economy, the agents continue to work when old and save little, which implies a low capital-labor ratio and a low wage income for the next generation. Due to such a positive feedback mechanism, the endogeneity of retirement magnifies the persistence of growth dynamics, thereby slowing down a convergence to the steady state, and even generating multiple steady states for empirically plausible parameter values.

PD December 1998. **TI** Endogenous Inequality. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1238; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 30. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D31, O11, O15. **KW** Credit Markets. Distribution of Wealth. Endogenous Inequality. Trickle-Down. Kuznets Curve.
AB Does the market economy exacerbate inequality across households? In a capitalistic society, do the rich maintain a high level of wealth at the expense of the poor? Or would an accumulation of the wealth by the rich eventually trickle down to the poor and pull the latter out of poverty? This paper presents a theoretical framework, in which one can address these questions in a systematic way. The model focuses on the role of the credit market, which determines the joint evolution of the distribution of wealth and the interest rate. A complete characterization of the steady states is provided. Under some configurations of the parameter values, the model predicts an endogenous and permanent separation of the population into the rich and the poor, where the rich maintain a high level of wealth partially due to the presence of the poor. Under others, the model predicts the Kuznets curve (i.e., the wealth eventually trickles down from the rich to the poor, eliminating inequality in the long run).

PD January 1999. **TI** Geography of the World Economy. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1239; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website:

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www.kellogg.nwu.edu/research/math. **PG** 25. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** F12, F15, O11, R12. **KW** Trade Routes. Transport Costs. Economic Integration. Proximity Matrix.

AB This paper presents a theoretical framework to study the effects of geographical factors on the distribution of industries in the world economy, which consists of many regions. The geographical feature of each region is summarized by a proximity matrix, whose elements measure the closeness between every pair of regions, and depend on the parameters representing the transport and other costs of using a variety of trade routes. The main objective is to show how a change in these costs of trade affects the distribution of industries, by amplifying the geographical advantages and disadvantages held by different regions. The results are used not only to examine the effects of an improvement in transport infrastructure, but also to discuss some problems from economic history (mostly Japanese and European), regional economic integration, the north-south division, and others.

PD January 1999. **TI** Playing Multiple Complementarity Games Simultaneously. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1240; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 27. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C62, C72. **KW** Strategic Complimentarities. Bifurcation Analysis. Inequality of Nations. Business Cycles.

AB This paper analyzes the situation in which a continuum of identical players is engaged in more than one activity and each activity is characterized by a complementarity game. The player's intensity levels across different activities are linked in such a way that the marginal cost of increasing her intensity in one activity increases with her own intensity levels in other activities. Compared to the case where these games are played independently, a smaller degree of complementarity in each game is required to generate multiple stable Nash equilibria, which are all asymmetric in that the players operate at different levels in different activities. The implications of these and other results, which have a close connection with the Frobenius theory of positive matrices, are discussed in the context of two macroeconomic applications: endogenous inequality of nations and endogenous business cycles.

Matthias, Rudolph

TI How Intensive is Competition in the Emerging Markets? An Analysis of Corporate Rates of Return from Nine Emerging Markets. **AU** Glen, Jack; Singh, Ajit; Matthias, Rudolph.

McCallum, Bennett T.

PD November 1997. **TI** The Alleged Instability of Nominal Income Targeting. **AA** Carnegie Mellon University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6291; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 15. **PR** $5.00. **JE** E31, E32, E52. **KW** Monetary Policy. Phillips Curve. Inflation. Business Cycles. Income Targeting.

AB Recently it has been argued that a monetary policy of nominal income targeting would result in dynamically unstable processes for output and inflation. That result holds in a theoretical model that includes backward-looking IS and Phillips curve relations, but these are rather special and theoretically unattractive. The present paper demonstrates that replacement of the special Phillips curve with one of several more plausible specifications overturns the instability result, whether or not the IS equation is replaced with a forward-looking version. Thus the instability result is quite fragile and therefore provides almost no basis for a negative judgment regarding nominal income targeting.

PD March 1998. **TI** Indeterminacy, Bubbles, and the Fiscal Theory of Price Level Determination. **AA** Carnegie Mellon University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6456; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 14. **PR** $5.00. **JE** E31, E52, E62, E63. **KW** Fiscal Policy. Price Level. Rational Expectations. Monetary Policy. Bubbles.

AB The recently-developed fiscal theory of price level determination contends that there is an important class of policy rules in which there exists a unique rational expectations solution that shows the price level to be dependent upon fiscal policy and independent of monetary variables. The present paper argues, however, that there is an alternative solution to these models that has entirely traditional (or "monetarist") properties. This latter solution is perhaps the more plausible since it is the solution that is typically regarded as the bubble-free "fundamentals" solution. The argument involves a respecification of feasible instrument variables.

McClellan, Mark C.

TI Persistence of Medicare Expenditures Among Elderly Beneficiaries. **AU** Garber, Alan, M.; MaCurdy, Thomas E.; McClellan, Mark C.

TI The Effects of Malpractice Pressure and Liability Reforms on Physicians' Perceptions of Medical Care. **AU** Kessler, Daniel P.; McClellan, Mark C.

McDermott, C. John

TI International Capital Flows and National Creditworthiness: Do the Fundamental Things Apply as Time Goes By? **AU** Cashin, Paul; McDermott, C. John.

TI Terms of Trade Shocks and the Current Account. **AU** Cashin, Paul; McDermott, C. John.

TI Macroeconomic Fluctuations in Developing Countries: Some Stylized Facts. **AU** Agenor, Pierre-Richard; McDermott, C. John; Prasad, Eswar S.

McGarry, Kathleen

PD December 1997. **TI** Inter vivos Transfers and Intended Bequests. **AA** University of California, Los Angeles and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6345; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D64, D91, E21. **KW** Transfers. Altruism. Bequests. Permanent Income.

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AB Empirical work on intergenerational transfers has focused on distinguishing between altruistic and exchange motivated behavior. However, these two models are unable to explain the strong tendency for estates to be divided equally across children, while inter vivos transfers are made unequally. This paper presents a new framework for analyzing transfers from parents to children that is more consistent with observed behavior than are the altruistic and exchange models alone. In particular the model developed here allows for differing behavior with respect to inter vivos transfers and bequests due to uncertainty about the recipient's permanent income. The empirical work uses data from the Health and Retirement Survey and the Asset and Health Dynamics Survey. The patterns observed in these data are consistent with earlier findings that inter vivos transfers go disproportionately to less well-off children, while bequests are divided equally across children.

McGettigan, Donal

TI Privatization in Transition Countries: A Sampling of the Literature. **AU** Havrylyshyn, Oleh; McGettigan, Donal.

Meade, Jose

PD January 1998. **TI** Do Sentencing Guidelines Raise the Cost of Punishment? **AU** Meade, Jose; Waldfogel, Joel. **AA** Meade: Comision Nacional del Sistema de Ahorra para el Retiro (CONSAR). Waldfogel: University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6361; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 16. **PR** $5.00. **JE** K14, K40. **KW** Criminal Law. Sentencing Guidelines. Fines. Prison Terms.

AB When judges have discretion over fines and prison terms, sentencing exhibits a tendency toward efficiency: fines are larger, and prison terms shorter, for offenders with greater ability to pay. Sentencing guidelines place fairly rigid upper and lower limits on fines and prison terms and may inhibit the achievement of efficiency in sentencing. Preventing judges from substituting fines for prison terms may raise the cost of imposing punishment. The objective of this paper is to measure the efficiency cost of sentencing guidelines using data on federal offenders sentenced under the Federal Sentencing Guidelines. We find evidence that the guidelines raise the cost of punishment by nearly 5 percent of the total imprisonment cost of federal offenders. Not surprisingly, constraints on cost minimization raise costs.

Meghir, Costas

TI The Effect of School Quality on Educational Attainment and Wages. **AU** Dearden, Lorraine; Ferri, Javier; Meghir, Costas.

TI The Changing Distribution of Male Wages in the UK. **AU** Gosling, Amanda; Machin, Stephen; Meghir, Costas.

TI Wages, Experience and Seniority. **AU** Dustmann, Christian; Meghir, Costas.

Menezes, Flavio

PD July 1998. **TI** Discrete Public Goods with Incomplete Information. **AU** Menezes, Flavio; Monteiro, Paulo K.; Temimi, Akram. **AA** Menezes: Australian National University. Monteiro: IMPA and University of Copenhagen. Temimi: University of Alabama. **SR** Australian National University Working Paper in Economics and Econometrics: 348; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 16. **PR** no charge. **JE** C70, D79, D82, H41. **KW** Public Goods. Contribution Games. Subscription Games. Incomplete Information.

AB We investigate a simultaneous discrete public good provision game with incomplete information. To use the terminology of Admati and Perry (1991), we consider both contribution and subscription games. In the former, contributions are not refunded if the project is not completed, while in the latter they are. In the presence of complete information about individuals' valuations for the public good, the difference between the equilibrium outcomes of a subscription game and a contribution game is not significant. However, there is both casual evidence from the fund-raising literature and experimental evidence that subscription games are "superior," i.e. a refund increases the chance of providing the good given that it is efficient to do so. Our analysis shows that this is indeed the case in the presence of incomplete information.

Merco, Antonio

TI Government Turnover in Parliamentary Democracies. **AU** Diermeier, Daniel; Merco, Antonio.

Meredith, Guy

PD January 1999. **TI** REPMOD: A Smaller Sibling for MULTIMOD. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/08; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** E17, F47. **KW** Macroeconomic Models. Simulations. Liquidity Trap.

AB This paper describes a small macroeconomic model based on a representative industrial country block of MULTIMOD, the IMF's (International Monetary Fund) multi-country simulation model. REPMOD is designed to provide a more flexible and accessible tool for analysis by individual country desks than the full version of MULTIMOD. It also allows the construction of model-consistent baseline paths, in addition to conventional shock-minus-control experiments. After discussing the model's general structure and properties, some distinctive aspects are illustrated via simulations that explore the implications of Japan's liquidity trap.

Meyer, Bruce D.

TI Does Immigration Hurt African-American Self-Employment? **AU** Fairlie, Robert W.; Meyer, Bruce D.

Milbourn, Todd T.

TI Expansion of Banking Scale and Scope: Don't Banks Know the Value of Focus. **AU** Boot, Arnoud W. A.; Thakor, Anjan V.; Milbourn, Todd T.

Miles, David

PD August 1998. **TI** The Reform of Pension Systems: Winners and Losers Across Generations. **AU** Miles, David; Iben, Andreas. **AA** Imperial College. **SR** Centre for Economic Policy Research Discussion Paper: 1943; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars

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or 8 euros. **JE** D58, D91, E21, H55, J11. **KW** Demographics. Saving. Public Pensions. Overlapping Generations. Bequests.

AB The authors perform simulations with a stylized model of Germany and the United Kingdom to show which generations might be direct gainers, and which losers, from a transition to funded state pensions. The authors estimate what the structure of inter-generational bequests would need to be in a pre-reform equilibrium for different generations to be insulated from the effects of a transition to a fully funded pension system. The authors calibrate a simple overlapping generations model and estimate the money value of the losses or gains to each generation as the unfunded state system is wound down. If there is altruism toward future generations, bequests of wealth are likely to exist. If more than one generation are direct losers, then in order for those generations not to be net losers, the chain of bequests (in the initial equilibrium) needs to satisfy a simple condition.

Milesi-Ferretti, Gian Maria

PD December 1997. **TI** Sharp Reductions in Current Account Deficits: An Empirical Analysis. **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: 6310; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 16. **PR** $5.00. **JE** F32, F34, F41, O16, O19. **KW** Current Account. International Finance. Debt. Openness.

AB We study determinants and consequences of sharp reductions in current account imbalances (reversals) in low- and middle-income countries. We try to answer two questions: first, what triggers reversals? Second, what factors explain how costly reversals are? We find that both domestic variables, such as the current account balance, openness and the level of reserves, and external variables, such as terms of trade shocks, U.S. real interest rates and growth in industrial countries, seem to play an important role in explaining reversals in current account imbalances. We also find some evidence that countries with a less appreciated real exchange rate, higher investment and openness prior to the reversal tend to grow faster after a reversal occurs.

Miller, Marcus

TI No Credit for Transition: The Maastricht Treaty and German Unemployment. **AU** Driffill, John; Miller, Marcus.

Miller, Norman C.

PD March 1999. **TI** Explaining Foreign Exchange Market Puzzles. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/27; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 26. **PR** not available. **JE** F31, F32. **KW** Exchange Rates. Foreign Exchange Puzzles. Capital Flows. Forward Discount Bias. Volatility Clusters.

AB The paper develops a flow model of the exchange rate with speculative capital flows integrated in a rigorous manner. The model is consistent with five foreign exchange market puzzles: (1) occasional discontinuous jumps in the exchange rate; (2) periodic short-term regimes of persistent appreciation/depreciation that can develop into a long swing; (3) the forward discount bias; (4) volatility clusters in the foreign exchange market that create conditional heteroskedasticity; and (5) the dual profitability of betting in the short run against any official exchange intervention, and betting with the intervention in the long run.

Mishkin, Frederic S.

PD January 1998. **TI** International Capital Movements, Financial Volatility, and Financial Instability. **AA** Columbia University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6390; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** D82, E32, E44, F31, F32. **KW** Asymmetric Information. Capital Movements. Financial Volatility. Stabilization.

AB This lecture outlines an asymmetric information theory of financial instability which describes the fundamental forces which harm both the financial sector and economic activity. This asymmetric information framework is then used to demonstrate that although international capital movements and financial volatility can play a role in destabilizing the economy, their role is frequently overstated.

Missale, Alessandro

PD December 1997. **TI** Managing the Public Debt in Fiscal Stabilizations: The Evidence. **AU** Missale, Alessandro; Giavazzi, Francesco; Benigno, Pierpaolo. **AA** Missale: IGIER. Giavazzi: IGIER and National Bureau of Economic Research. Benigno: Princeton University. **SR** National Bureau of Economic Research Working Paper: 6311; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E41, E43, E63, G12, H63. **KW** Debt Management. Interest Rates. Stabilization. Credibility.

AB This paper provides evidence on the behavior of public debt managers during fiscal stabilization in OECD countries over the last two decades. We find that debt maturity tends to lengthen the more credible the program, the lower the long-term interest rate and the higher the volatility of short-term interest rates. We show that this debt issuing strategy is consistent with optimal debt management if information between the government and private investors is asymmetric, as is usually the case at the outset of a stabilization attempt when private investors may lack full confidence in the announced budget cuts.

Mitchell, Janet

PD September 1998. **TI** The Problem of Bad Debts: Cleaning Banks' Balance Sheets in Economies in Transition. **AA** ECARE. **SR** Centre for Economic Policy Research Discussion Paper: 1977; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** G21, G28, G38, P50. **KW** Banking Crises. Bad Debts. Transition Economies. Creditor Passivity. Regulation.

AB Many countries, including economies in transition, have suffered banking crises in recent years. This paper develops a general framework for analyzing trade-offs between policies for cleaning banks' balance sheets of bad debt. The framework -- a two-tier hierarchy consisting of regulators, banks, and firms -- is applied to analyze three types of policies that have been

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advocated or employed in the economies in transition. Hidden information and moral hazard are present at each tier of the hierarchy. The analysis identifies two types of effects of policy choice: a direct effect of the policy on bank behavior and an indirect effect on firm behavior as a reaction to the bank response. Both effects are important determinants of policy trade-offs. The analysis demonstrates that differing policies applied to financially distressed banks have differing real effects on firms' and banks' asset values, even when all firms and banks are state-owned.

Mitchell, Olivia S.

TI Projected Retirement Wealth and Savings Adequacy in the Health and Retirement Study. **AU** Moore, James F.; Mitchell, Olivia S.

PD December 1997. **TI** After Chile, What? Second-Round Pension Reforms in Latin America. **AU** Mitchell, Olivia S.; Barreto, Flavio Ataliba. **AA** Mitchell: Wharton School and National Bureau of Economic Research. Barreto: Fundacao Getulio Vargas. **SR** National Bureau of Economic Research Working Paper: 6316; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G23, H55, J14, J26. **KW** Public Pensions. Pension Reform. Retirement. Latin America. Chile.

AB The apparent success of Chile's pension reform catalyzed a number of subsequent reforms in sister Latin American nations, and the "Chilean model" has now captivated the attention of policymakers and researchers in the OECD as well. In this paper, we identify six critical elements of old-age pension reform, and examine how these six elements differ across the Chilean reform, and several other Latin nations that followed Chile's footsteps. We emphasize how these other Latin American nations adopted different mechanisms to restructure their old-pension systems, and we highlight available evidence on system performance in each case.

Mizen, Paul

TI Inflation Targeting: What Can the ECB Learn from the Recent Experience of the Bank of England. **AU** Artis, Mike; Kontolemis, Zenon; Mizen, Paul.

Moav, Omer

TI Ability Biased Technological Transition, Wage Inequality and Growth. **AU** Galor, Oded; Moav, Omer.

Mocan, H. Naci

PD December 1997. **TI** The Determinants of Child Care Workers' Wages and Compensation: Sectoral Difference, Human Capital, Race, Insiders and Outsiders. **AU** Mocan, H. Naci; Viola, Deborah. **AA** Mocan: University of Colorado and National Bureau of Economic Research. Viola: New York Medical College. **SR** National Bureau of Economic Research Working Paper: 6328; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 48. **PR** $5.00. **JE** J13, J24, J31, J44, J51. **KW** Child Care. Wages. Human Capital. Unions. Tenure.

AB This paper investigates the determinants of wages and compensation in child care centers for teachers and aides. Nonprofit status has no across-the-board impact on wages. The extent of the wage premium enjoyed by some nonprofit workers depends on the category of the nonprofit center, occupation of the workers, and their race. The rate of return to an additional year of tenure is 2 percent for both teachers and aides. The return to prior experience is one percent for teachers and zero for aides. An additional year of general education brings about a 5 percent increase in teacher wages, and 2.5 percent for aides. Specialized training influences teacher wages, but has less impact on aide wages. Unionization has a large impact on both wages and compensation of teachers and aides. The body of evidence indicates both teacher and aide remuneration have non-competitive flavors, where the case is more compelling for aides.

Mody, Ashoka

TI What Explains Changing Spreads on Emerging-Market Debt: Fundamentals or Market Sentiment? **AU** Eichengreen, Barry; Mody, Ashoka.

Moldovanu, Benny

TI Auctions with Downstream Interaction Among Buyers. **AU** Jehiel, Philippe; Moldovanu, Benny.

TI Efficient Design with Interdependent Valuations. **AU** Jehiel, Philippe; Moldovanu, Benny.

Monteiro, Paulo K.

TI Discrete Public Goods with Incomplete Information. **AU** Menezes, Flavio; Monteiro, Paulo K.; Temimi, Akram.

Montenegro, Claudio

TI *Time Series Analysis of Export Demand Equations*: A Cross-Country Analysis. **AU** Senhadji, Abdelhak; Montenegro, Claudio.

Moon, Hyungsik R.

TI Nonstationary Panel Data Analysis: An Overview of Some Recent Developments. **AU** Phillips, Peter C. B.; Moon, Hyungsik R.

TI Linear Regression Limit Theory for Nonstationary Panel Data. **AU** Phillips, Peter C. B.; Moon, Hyungsik R.

Moore, James F.

PD October 1997. **TI** Projected Retirement Wealth and Savings Adequacy in the Health and Retirement Study. **AU** Moore, James F.; Mitchell, Olivia S. **AA** Moore: The Wharton School. Mitchell: The Wharton School and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6240; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E21, G23, H55, J14, J26. **KW** Aging. Savings. Retirement. Consumption. Wealth.

AB Low saving rates raise questions about Americans' ability to maintain consumption levels in old age. Using the Health and Retirement Study, this paper explores asset holdings among a nationally representative sample of people on the verge of retirement. The authors assess how much more people would need to save in order to preserve consumption levels after retirement. They find that the median older household has current wealth of approximately $325,000 including pensions, social security, housing, and other financial wealth, an amount projected to grow to about $380,000 by retirement at age 62. Nevertheless, their model suggests that this median household

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will still need to save 16% of annual earnings to preserve pre-retirement consumption. For retirement at age 65, assets are expected to be $420,000 and required additional saving totals 7% of earnings per year. These summary statistics conceal extraordinary heterogeneity in both assets and saving needs in the older population.

Moore, John

TI Cooperatives vs. Outside Ownership. **AU** Hart, Oliver; Moore, John.

Morris, Stephen

TI Repeated Games with Imperfect Private Monitoring: Notes on a Coordination Perspective. **AU** Mailath, George J.; Morris, Stephen.

TI Cheap Talk and Co-ordination with Payoff Uncertainty. **AU** Baliga, Sandeep; Morris, Stephen.

PD November 1998. **TI** A Theory of the Onset of Currency Attacks. **AU** Morris, Stephen; Shin, Hyun Song. **AA** Morris: Yale University. Shin: Oxford University. **SR** Yale Cowles Foundation Discussion Paper: 1204; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 31. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D82, E44, F31. **KW** Currency Attacks. Exchange Rates. Common Knowledge. Financial Crises. Information.

AB The swiftness and devastating impact of recent financial crises have taken many market participants by surprise, and pose challenges for economists seeking a theory of the onset of a crisis. We propose such a theory based on two features. The actions of diverse economic actors which undermine the currency are mutually reinforcing, while the fragmented nature of the media create small disparities in their information. In such circumstances, the beliefs of market participants can be tracked in the same way as the economic fundamentals, and an attack is triggered when the economic fundamentals deteriorate sufficiently to fall below the minimum level of market confidence necessary to support the currency. We give a characterization of such a minimum level of confidence.

PD February 1999. **TI** Rationalizable Trade. **AU** Morris, Stephen; Skiadas, Costis. **AA** Morris: Yale University. Skiadas: Northwestern University. **SR** Yale Cowles Foundation Discussion Paper: 1211; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 14. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D82. **KW** No Trade. Rationalizability.

AB We formulate necessary and sufficient conditions for interim rationalizable trade between two players.

Moscarini, Giuseppe

PD October 1998. **TI** Price Competition for an Informed Buyer. **AU** Moscarini, Giuseppe; Ottaviani, Marco. **AA** Moscarini: Yale University. Ottaviani: University College London. **SR** Yale Cowles Foundation Discussion Paper: 1199; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 35. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D43, D44, D82, L13, L15. **KW** Oligopoly. Auctions. Asymmetric Information. Private Information. Product Quality.

AB This paper investigates the outcomes of simultaneous price competition in the presence of private information on the demand side. Each of two sellers offers a different variety of a good to a buyer endowed with a private binary signal on their relative quality. The authors analyze how the unique equilibrium of the game changes as a function of the (common) prior belief on the relative quality of the goods and the precision of the private information of the buyer. Competition is fierce, and the buyer enjoys high rents, when the prior belief is biased in favor of one good and private signals are not very informative. When instead the distribution of ex post valuations is highly spread, the sellers become local monopolists and extract high rents from the buyer. The authors provide a full characterization of the mixed-strategy equilibrium, which arises when the two goods are mildly differentiated ex post.

Mottu, Eric

TI Will Fiscal Policy Be Effective Under EMU? **AU** Cangiano, Marco; Mottu, Eric.

Mozumdar, Abon

TI Predictable Changes in Yields and Forward Rates. **AU** Backus, David; Foresi, Silverio; Mozumdar, Abon; Wu, Liuren.

Muellbauer, John

PD August 1998. **TI** The Housing Market and Regional Commuting and Migration Choices. **AU** Muellbauer, John; Cameron, Gavin. **AA** Nuffield College. **SR** Centre for Economic Policy Research Discussion Paper: 1945; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 56. **PR** 5 pounds or 8 dollars or 8 euros. **JE** J61, J68, R21, R23. **KW** Regional Migration. Regional Commuting. Housing Markets. Labor Markets. Mismatch.

AB Inter-regional migration is influenced by relative employment and earnings opportunities. But strongly offsetting forces operate from relative house prices. Commuting, at least to contiguous regions, is often an alternative to migration. Relative employment and earnings opportunities should influence commuting rates in the same direction as migration rates. Housing market forces should operate in the opposite direction. This paper presents evidence on inter-regional commuting and migration in Great Britain which is broadly in accord with these expectations. Data for the 1980's and 1990's on net commuting are derived from the ratios of numbers of employees resident in a region to the number employed in that region using Labor Force Survey and Census of Employment data. Information on migration comes from the National Health Service Central Register. This paper documents the important transmission effects via regional labor markets of the forces that drive house prices in Britain.

Mulkay, Benoit

TI Firm-Level Investment in France and the United States: An Exploration of What We have Learned in Twenty Years. **AU** Hall, Bronwyn H.; Mairesse, Jacques; Mulkay, Benoit.

Mulligan, Casey B.

PD December 1997. **TI** Pecuniary Incentives to Work in the U.S. during World War II. **AA** University of Chicago and National Bureau of Economic Research. **SR** National

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Bureau of Economic Research Working Paper: 6326; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** J22, J31, N32. **KW** Labor Supply. Wages. Work Incentives. Economic History. World War II.

AB It is argued that changes in workers' budget sets cannot explain the dramatic increases in civilian work in the U.S. during World War II. Although money wages grew during the period, wartime after-tax real wages were lower than either before or after the war. Evidence from the 1940's also appears to be inconsistent with other pecuniary explanations such as wealth effects of government policies, intertemporal substitution induced by asset prices, unfulfilled expectations, and changes in the nonmarket price of time. Although untested and relatively undeveloped, nonpecuniary models of behavior are tempting explanations for wartime work.

Mullin, Wallace P.

TI Gradual Incorporation of Information into Stock Prices: Empirical Strategies. **AU** Ellison, Sara Fisher; Mullin, Wallace P.

Murnane, Richard J.

TI Estimating the Impact of the GED on the Earnings of Young Dropouts Using a Series of Natural Experiments. **AU** Tyler, John H.; Murnane, Richard J.; Willett, John B.

Musalem, Alberto

TI Offshore Banking: An Analysis of Micro- and Macro-Prudential Issues. **AU** Errico, Luca; Musalem, Alberto.

Myers, David

TI Conditional Market Timing with Benchmark Investors. **AU** Becker, Connie; Ferson, Wayne; Myers, David; Schill, Michael.

Nagayasu, Jun

TI The Long-Run Relationship Between Real Exchange Rates and Real Interest Rate Differentials: A Panel Study. **AU** MacDonald, Ronald; Nagayasu, Jun.

Ncube, Mthuli

TI Heterogeneous Information Arrival and Option Pricing. **AU** Asea, Patrick K.; Ncube, Mthuli.

Neal, Derek

PD January 1998. **TI** Theories of the Distribution of Labor Earnings. **AU** Neal, Derek; Rosen, Sherwin. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6378; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D31, J24, J31, O15. **KW** Earnings Distribution. Wages. Income Distribution. Labor Economics.

AB Several empirical regularities motivate most theories of the distribution of labor earnings. Earnings distributions tend to be skewed to the right and display a long right tail. Further, they are leptokurtic (positive fourth cumulant) and have a fat tail. Mean earnings always exceed median earnings and the top percentiles of earners account for quite a disproportionate share of total earnings. Mean earnings also differ greatly across groups defined by occupation, education, experience, and other observed traits. With respect to the evolution of the distribution of earnings for a given cohort, initial earnings dispersion is smaller than the dispersion observed in prime working years. The authors explore several classes of models that address these stylized facts: stochastic theories, selection models, sorting models, human capital theory, agency models, tournament theory, and efficiency wage models.

Neary, J. Peter

TI Strategic Trade and Industrial Policy Towards Dynamic Oligopolies. **AU** Leahy, Dermot; Neary, J. Peter.

Neumann, Manfred J. M.

TI The Political Economy of Inflation, Labour Market Distortions and Central Bank Independence. **AU** Herrendorf, Berthold; Neumann, Manfred J. M.

Neumark, David

PD December 1997. **TI** The Effect of Means-Tested Income Support for the Elderly on Pre- Retirement Saving: Evidence from the SSI Program in the U.S. **AU** Neumark, David; Powers, Elizabeth. **AA** Neumark: Michigan State University and National Bureau of Economic Research. Powers: University of Illinois. **SR** National Bureau of Economic Research Working Paper: 6303; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 22. **PR** $5.00. **JE** E21, H55, I38, J14, J26. **KW** Savings. Elderly. Welfare Programs. Public Pensions. Retirement.

AB This paper attempts to draw inferences about potential behavioral responses to means-tested income support for the elderly by examining the effects on saving of the Supplemental Security Income (SSI) program for the aged in the U.S. Part of the SSI program provides payments to the poor elderly, thus operating as a means-tested public retirement program. The federal government sets eligibility criteria and benefit levels for the federal component of the program, but many states supplement federal SSI benefits substantially. The authors exploit the state-level variation in SSI benefits to estimate the effects of SSI on saving. They use data from selected waves of the 1984 Survey of Income Program Participation (SIPP). They find evidence that high SSI benefits reduce saving among households with heads who are approaching the SSI eligibility age and who are likely participants in the program.

TI Market Forces and Sex Discrimination. **AU** Hellerstein, Judith K.; Neumark, David; Troske, Kenneth R.

PD December 1997. **TI** Has Job Stability Declined Yet? New Evidence for the 1990's. **AU** Neumark, David; Polsky, Daniel; Hansen, Daniel. **AA** Neumark: Michigan State University and National Bureau of Economic Research. Polsky: University of Pennsylvania. Hansen: Laurits R. Christensen Associates. **SR** National Bureau of Economic Research Working Paper: 6330; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** $5.00. **JE** C80, J21, J63. **KW** Job Stability. Labor Markets. Turnover. Employment. Tenure.

AB In earlier work the authors examined the temporal evolution of job stability in U.S. labor markets through the

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1980's, using data assembled from a sequence of Current Population Survey tenure supplements. They found little or no change in aggregate job stability in the U.S. economy. In this paper, the authors update the evidence on changes in job stability through the mid-1990's, using recently released CPS data for 1995 that parallel the earlier job tenure supplements. In the aggregate, there is some evidence that job stability declined modestly in the first half of the 1990's. Moreover, the relatively small aggregate changes mask rather sharp declines in stability for workers with more than a few years of tenure. Nonetheless, the data available to this point do not support the conclusion that the downward shift in job stability for more-tenured workers, and the more modest decline in aggregate job stability, reflects long-term trends.

Nevo, Aviv

PD January 1998. **TI** Measuring Market Power in the Ready-to-Eat Cereal Industry. **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6387; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** L13, L15, L66. **KW** Market Power. Cereal Industry. Product Differentiation. Price Collusion. Advertising.

AB Previous researchers have concluded that the ready-to-eat cereal industry is a classic example of an industry with nearly collusive pricing behavior and intense non-price competitions. This paper empirically examines these conclusions. The author estimates price-cost margins and is able empirically to separate these margins into three parts: (1) that which is due to product differentiation; (2) that which is due to multi-product firm pricing; and (3) that due to potential price collusion. The results suggest that given the demand for different brands of cereal, the first two effects explain most of the observed price-cost markups. The author concludes that prices in the industry are consistent with non-collusive pricing behavior, despite the high cost- price margins. Leading firms are able to maintain a portfolio of differentiated products, and influence the perceived quality of these products, and it is these two factors that lead to high price-cost margins.

Newell, Richard G.

PD March 1998. **TI** The Induced Innovation Hypothesis and Energy-Saving Technological Change. **AU** Newell, Richard G.; Jaffe, Adam B.; Stavins, Robert N. **AA** Newell: Resources for the Future. Jaffe: Brandeis University and National Bureau of Economic Research. Stavins: Harvard University. **SR** National Bureau of Economic Research Working Paper: 6437; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 42. **PR** $5.00. **JE** L50, O31, O33, Q40. **KW** Innovation. Technological Change. Energy Prices. Efficiency Standards.

AB It follows from Hicks' induced innovation hypothesis that rising energy prices in the last two decades should have induced energy-saving innovation. The authors formulate the hypothesis concretely using a product-characteristics model of energy-using consumer durables, augmenting Hicks' hypothesis to allow for the possibility that government efficiency standards also induce innovation. Through estimation of characteristics transformation surfaces, the authors find that technological change reduced the total capital and operating costs of air conditioning by one-half and water heating by about one-fifth. Although the rate of overall innovation in these products appears to be independent of energy prices and regulations, the evidence suggests that the direction of innovation has been responsive to energy price changes. Energy price increases induced innovation in a direction that lowered the capital cost tradeoffs inherent in producing more energy-efficient products. Energy price changes induced changes in the subset of technically feasible models that were offered for sale.

Newlon, T. Scott

TI Has U.S. Investment Abroad Become More Sensitive to Tax Rates? **AU** Altshuler, Rosanne; Grubert, Harry; Newlon, T. Scott.

Nielsen, J.

TI Estimating Yield Curves by Kernel Smoothing Methods. **AU** Linton, Oliver; Mammen, E.; Nielsen, J.; Tanggaard, C.

Nielsen, Soren Bo

TI Is Coordination of Fiscal Deficits Necessary? **AU** Huizinga, Harry; Nielsen, Soren Bo.

Nordhaus, William D.

PD October 1998. **TI** The Health of Nations: Irving Fisher and The Contribution of Improved Longevity to Living Standards. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1200; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 19. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** E20, H40, I11, I12, N10. **KW** National Income. Health. Consumption. Growth.

AB Among Irving Fisher's many contributions to economics, one that is little noted and barely remembered is his emphasis on the economic importance of health. For the most part, his concern was in promoting healthy lifestyles. In addition, he made an early (perhaps the earliest) estimate of the impact of mortality and morbidity on national output.

PD October 1998. **TI** Requiem for Kyoto: An Economic Analysis of the Kyoto Protocol. **AU** Nordhaus, William D.; Boyer, Joseph G. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1201; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 50. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** D99, H43, H87, Q25, Q28. **KW** Environment. Climate Change. Kyoto Protocol. Emissions. Regulation.

AB This paper uses the newly developed RICE-98 model to analyze the economics of the Kyoto Protocol. It analyzes versions of the Kyoto Protocol that have different approaches to trading emissions rights and compares these with efficient approaches. The major conclusions are: (a) the global cost of the Kyoto Protocol is 716 billion dollars in present value, (b) the United States bears almost two-thirds of the global cost; and (c) the benefit-cost ratio of the Kyoto Protocol is one seventh. Additionally, the emissions strategy is highly cost-ineffective, with the global temperature reduction achieved at a cost almost 8 times the cost of a strategy which is cost-effective in terms of "where" and "when" efficiency.

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Notman, Elizabeth S.

TI Impact of Managed Behavioral Health Care Carved-Out: A Case Study of One HMO. **AU** Brisson, Anne E.; Frank, Richard G.; Notman, Elizabeth S.; Gazmararian, Julie A.

TI Impact of Managed Behavioral Health Care Carved-Out: A Case Study of One HMO. **AU** Brisson, Anne E.; Frank, Richard G.; Notman, Elizabeth S.; Gazmararian, Julie A.

O'Donoghue, Ted

TI Patents in a Model of Endogenous Growth. **AU** Zweimuller, Josef; O'Donoghue, Ted.

Obstfeld, Maurice

PD October 1997. **TI** A Strategy for Launching the Euro. **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6233; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E42, F31, F33. **KW** International Finance. Euro. European Union. Foreign Exchange. Maastricht Treaty.

AB This paper analyzes the constraints European Union law places on the 1 January 1999 choices of irrevocably fixed conversion rates between the Euro and the currencies of EMU member states. Current EU legislation requires that the bilateral currency conversion factors implied by the 1 January 1999 choices equal closing market exchange rates on 31 December 1998. Given that legal constraint, there still exist several strategies for choosing the relative prices of EMU member currencies against the Euro. Unfortunately, most of these have potentially damaging side effects. One approach, based on official Stage 2 offers of contingent Euro forward contracts with value dates at the start of Stage 3, allows a highly credible preannouncement of the bilateral currency conversion factors to be set at the start of EMU. That approach assumes, however, that no prospective EMU members can withdraw between their selection in May 1998 and the start of Stage 3.

PD December 1997. **TI** Open-Economy Macroeconomics: Developments in Theory and Policy. **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6319; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 31. **PR** $5.00. **JE** E44, F31, F33, F41. **KW** Open Economies. European Union. Monetary Union. Exchange Rates. Currency Crises.

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. This regularity can be explained by sticky-price theories or by models of asset-market liquidity effects. But plausible liquidity models have difficulty generating enough persistence to match the data. Thus the macroeconomic cost of giving up the exchange rate realignment option seems empirically relevant. The paper discusses other possible costs of currency unification, associated with a reduced number of asset markets. On the benefit side, theories of the efficiencies 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.

PD February 1998. **TI** Regional Nonadjustment and Fiscal Policy: Lessons for EMU. **AU** Obstfeld, Maurice; Peri, Giovanni. **AA** Obstfeld: University of California, Berkeley and National Bureau of Economic Research. Peri: University of California, Berkeley. **SR** National Bureau of Economic Research Working Paper: 6431; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 54. **PR** $5.00. **JE** E44, F33, F40, H77, J61. **KW** European Union. Business Cycles. Exchange Rates. Migration. Transfer Payments.

AB The ways in which European countries now react to internally asymmetric shocks provide a better forecast of response under EMU than do the regional response patterns of the United States. This paper compares the U.S. with Germany, Italy, the United Kingdom, and also with Canada. Europe's model of regional response differs from that of the U.S. Outside of the U.S., there is more reliance on interregional transfer payments, less on labor migration, and the pace of regional adjustment appears slower. The regional adjustment patterns currently prevailing within European currency unions seem likely to prevail at the national level under the single currency. If EMU aims to attain the economic and social cohesion of its constituent nations, it therefore may be hard to resist the eventual extension of existing EU mechanisms of income redistribution -- a transfer union. The authors propose an alternative strategy.

Ok, Efe A.

TI Social Mobility and the Demand for Redistribution: The POUM Hypothesis. **AU** Benabou, Roland; Ok, Efe A.

Opler, Tim

PD October 1997. **TI** The Determinants of Implications of Corporate Cash Holdings. **AU** Opler, Tim; Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan. **AA** Opler and Pinkowitz: Ohio State University. Stulz: Ohio State University and National Bureau of Economic Research. Williamson: Georgetown University. **SR** National Bureau of Economic Research Working Paper: 6234; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 51. **PR** $5.00. **JE** G31, G32. **KW** Corporate Finance. Cash Holdings. Investment. Risk Management.

AB The authors examine the determinants and implications of holdings of cash and marketable securities by publicly traded U.S. firms in the 1971-1994 period. Firms with strong growth opportunities and riskier cash flows hold relatively high ratios of cash to total assets. Firms that have the greatest access to the capital markets (e.g. large firms and those with credit ratings) tend to hold lower ratios. These results are consistent with the view that firms hold liquid assets to ensure that they will be able to keep investing when cash flow is too low relative to planned investment and when outside funds are expensive. The short run impact of excess cash on capital expenditures, acquisition spending and payouts to shareholders is small. The main reason that firms experience large changes in excess cash is the occurrence of operating losses. There is no evidence that risk management and cash holdings are substitutes.

Orszag, Mike

PD September 1998. **TI** Anatomy of Policy

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Complementarities. **AU** Orszag, Mike; Snower, Dennis J. **AA** Birkbeck College. **SR** Centre for Economic Policy Research Discussion Paper: 1963; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 68. **PR** 5 pounds or 8 dollars or 8 euros. **JE** E61, E62, H53, J64, J68. **KW** Unemployment. Complementarities. Political Economy. Employment Policy. Taxation.

AB The analysis provides a new explanation for two widespread problems concerning European unemployment policy: the disappointingly small effect of many past reform measures on unemployment; and the political difficulties in implementing more extensive reform programs. The authors argue that the heart of the difficulty may be the failure of many European governments to implement broad-based reform strategies. The authors' analysis suggests that major unemployment policies are characterized by economic complementarities (in the sense that the effectiveness of one policy depends on the implementation of other policies) and political complementarities (in that the ability to gain political consent for one policy depends on the acceptance of other policies). Under these circumstances, incremental, small-scale adjustments of existing policy packages are doomed to failure. The analysis suggests, instead, that the European unemployment problem should be tackled through 'broad' reforms that manage to exploit the salient economic and political complementarities among individual policy measures.

Ortega, Juan Ricardo

TI Private Savings in Columbia. **AU** Lopez-Mejia, Alejandro; Ortega, Juan Ricardo.

Ottaviani, Marco

TI Price Competition for an Informed Buyer. **AU** Moscarini, Giuseppe; Ottaviani, Marco.

Owen, Joel

TI The Impact of Voucher Privatization on Efficiency. **AU** Katz, Barbara G.; Owen, Joel.

Ozdenoren, Emre

TI Subjective Representation of Complexity. **AU** Al-Najjar, Nabil I.; Casadesus-Masanell, Ramon; Ozdenoren, Emre.

Pacula, Rosalie Liccardo

PD January 1998. **TI** Adolescent Alcohol and Marijuana Consumption: Is There Really a Gateway Effect? **AA** University of San Diego and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6348; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D12, I12, I18. **KW** Drug Use. Youth. Habit Formation. Alcohol. Gateway Hypothesis.

AB This research analyzes the contemporaneous and intertemporal relationship between the demands for alcohol and marijuana by youths and young adults. A general theory of multi-commodity habit formation is developed and tested using data from the 1983-1984 waves of the National Longitudinal Survey of Youth. An Adjusted Tobit specification is employed for estimating the empirical model. Habit persistence is distinguished from unobserved heterogeneity through a reduced form instrumental variable technique. The results show that higher beer prices significantly reduce the demand for both alcohol and marijuana, indicating a contemporaneous complementarity between these two substances even after controlling for commodity-specific habit formation. Further, prior use of alcohol and cigarettes significantly increases the likelihood of currently using marijuana, providing evidence in support of the gateway hypothesis.

TI Does Spending on Medical Services Change as HMOs Grow and Mature? **AU** Born, Patricia; Pacula, Rosalie Liccardo.

Pakes, Ariel

TI A Dynamic Oligopoly with Collusion and Price Wars. **AU** Fershtman, Chaim; Pakes, Ariel.

Pande, Rohini

TI Read My Lips: The Political Economy of Information Transmission. **AU** Besley, Timothy; Pande, Rohini.

Paolera, Gerardo della

PD October 1997. **TI** Finance and Development in an Emerging Market: Argentina in the Interwar Period. **AU** Paolera, Gerardo della; Taylor, Alan M. **AA** Paolera: Universidad of Torcuato Di Tella. Taylor: Northwestern University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6236; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 26. **PR** $5.00. **JE** N26, O16, O19. **KW** Public Economics. Financial Markets. Development. Argentina. Economic History.

AB The long-run economic performance of Argentina since World War One has been relatively disappointing until recently. Yet, in the interwar period, signs of future retardation and recurring crises were not so obvious. It is often claimed that an unmitigated success was the remarkably rapid growth of domestic financial markets. In conventional models, such "financial deepening" would help accelerate development, especially in an industrializing economy such as Argentina's. Yet the promise of this trend was unfulfilled: first the outbreak of World War One and then the Great Depression proved a setback for the fledgling financial system, and a long-run deterioration set in after 1940. In this paper we trace the course of financial development using historical and international comparisons and we analyze both macro- and microeconomic aspects of financial intermediation.

Papageorgiou, Yorgos

PD September 1998. **TI** Externalities, Nonconvexity, and Agglomeration. **AU** Papageorgiou, Yorgos; Pines, David. **AA** Papageorgiou: McMaster University. Pines: Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 22/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 28. **PR** no charge. **JE** D24, D62, H23, R12. **KW** Externalities. Nonconvexity. Agglomeration. Population.

AB This paper is concerned with the role of externalities and nonconvexities in agglomeration (concentration) of urban populations and production. The paper examines whether indeed, as often asserted, the external aspect of scale economies

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(diseconomies) deters (enhances) agglomeration. The discussion of the effect of externality in the literature is very confusing and different conclusions are reported. First, the term "externality" is still one of the most vaguely defined concepts in economic theory. Second, even when the parties agree on the definition of externality itself, they sometimes compare different magnitudes when evaluating the effect of externalities. Third, it is not clear how externalities within the city (e.g., the externality resulting from unpriced transportation congestion) generate external scale economies and diseconomies and, especially, how they vary with city size. Fourth, with nonconvexity, the effect of externalities, whether positive or negative and whether increasing or decreasing, can be marginal. Then, urban policy towards city-size distribution need not be an inferior substitute to corrective Pigovian taxation (like a congestion toll); rather, it may be a first-best policy required even under perfect internalization of the externalities by Pigovian taxes and subsidies.

Papell, David H.

TI Slowdowns and Meltdowns: Postwar Growth Evidence from 74 Countries. **AU** Ben-David, Dan; Papell, David H.

TI Unit Roots, Postwar Slowdowns and Long-Run Growth: Evidence from Two Structural Breaks. **AU** Ben-David, Dan; Lumsdaine, Robin L.; Papell, David H.

Park, James

TI Hedge Funds and the Asian Currency Crisis of 1997. **AU** Brown, Stephen J.; Goetzmann, William N.; Park, James.

Pattillo, Catherine

TI Are Currency Crises Predictable? A Test. **AU** Berg, Andrew; Pattillo, Catherine.

Pele, Louis-Paul

TI Social Security and Retirement in France. **AU** Blanchet, Didier; Pele, Louis-Paul.

Peng, Yusheng

TI Fundamentals or Population Dynamics and the Geographic Distribution of U.S. Biotechnology Enterprises, 1976-1989. **AU** Zucker, Lynne G.; Darby, Michael R.; Peng, Yusheng.

Penrod, John R.

TI The Tax Benefits of Not-For-Profit Hospitals. **AU** Gentry, William M.; Penrod, John R.

Peri, Giovanni

TI Regional Nonadjustment and Fiscal Policy: Lessons for EMU. **AU** Obstfeld, Maurice; Peri, Giovanni.

Peridy, Nicolas

TI Intra-Industry Trade and the Single Market: Quality Matters. **AU** Fontagne, Lionel; Freudenberg, Michael; Peridy, Nicolas.

Perotti, Enrico C.

PD October 1998. **TI** Dominant Investors and Stategic Transparency. **AU** Perotti, Enrico C.; von Thadden, Ernst-Ludwig. **AA** Perotti: Universiteit van Amsterdam. von Thadden: DEEP. **SR** Centre for Economic Policy Research Discussion Paper: 1948; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** D43, G21, G32, G34. **KW** Transparency. Bank Governance. Information Disclosure. Market Microstructure. Competition.

AB This paper studies product market competition under a strategic transparency decision. Dominant investors can influence information collection in the financial market, and thereby corporate transparency, by affecting market liquidity or the cost of information collection. More transparency on a firm's competitive position has both strategic advantages and disadvantages: in general, transparency results in higher variability of profits and output. Thus lenders prefer less information revelation through stock market trading, since this protects firms when in a weak competitive position, while equityholders prefer to make full use of the strategic advantage of a strong firm. We show that bank- controlled firms will tend to discourage trading to reduce price informativeness, while shareholder-run firms prefer more transparency. Our comparative statics show that bank control may fail to keep firms less transparent as global trading volumes rise.

Perroni, Carlo

TI Trade and Environment: Bargaining Outcomes from Linked Negotiations. **AU** Abrego, Lisandro; Perroni, Carlo; Whalley, John; Wigle, Randall M.

Persico, Nicola

PD January 1997. **TI** Information Acquisition in Auctions. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 762; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 36. **PR** $5.00. **JE** C72, D82. **KW** Auctions. Information Acquisition. Milgrom and Weber. Second-Price Auction.

AB This work shows that (i) different auction forms give different incentives for bidders to acquire information. In a first price auction it is valuable to bid close to the opponents, to minimize the sum paid when winning: in a second price this is immaterial, because the price paid does not depend on the winner's bid. Hence information that allows one to bid closer to the opponents' bid is more useful in a first price auction. (ii) the different incentives to acquire information may overturn the well-known Milgrom and Weber result stating that a second-price auction dominates a first-price in terms of revenue to the seller. A first price auction encourages acquisition of information correlated with the opponent's signal, resulting in a more highly correlated information structure in a first price auction. But, in a pure common value setting, bidders with very correlated information will compete away most of the surplus from each other, so the difference in the endogenous information structures can result in the first price auction revenue-dominating a second price. This paper also demonstrates that in a large class of mechanisms the higher the auctioneer's revenue, the lower the incentives for the bidders to acquire information.

Persson, Torsten

PD December 1997. **TI** Political Economics and Macroeconomic Policy. **AU** Persson, Torsten; Tabellini, Guido. **AA** Persson: Stockholm University and National

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Bureau of Economic Research. Tabellini: Bocconi University. **SR** National Bureau of Economic Research Working Paper: 6329; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E52, E58, E62, E63, H20. **KW** Macroeconomic Policy. Monetary Policy. Fiscal Policy. Growth. Incentive Constraints.

AB This paper surveys the recent literature on the theory of macroeconomic policy. We study the effect of various incentive constraints on the policy making process, such as lack of credibility, political opportunism, political ideology, and divided government. The survey is organized in three parts. Part I deals with monetary policy in a simple Phillips curve model: it covers credibility issues, political business cycles, and optimal design of monetary institutions. Part II deals with fiscal policy in a dynamic general equilibrium set up. The main topics here are credibility of tax policy, and political determinants of budget deficits. Part III studies economic growth in models with endogenous fiscal policy.

Pesenti, Paolo

TI Welfare and Macroeconomic Interdependence. **AU** Corsetti, Giancarlo; Pesenti, Paolo.

Peterson, Sandra

PD March 1998. **TI** An Arbitrage-Free Two-factor Model of the Term Structure of Interest Rates: A Multivariate Binomial Approach. **AU** Peterson, Sandra; Stapleton, Richard C.; Subrahmanyam, Marti G. **AA** Peterson: Lancaster University. Stapleton: Strathclyde University. Subrahmanyam: New York University. **SR** New York University, Salomon Center Working Paper: S/98/26; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 28. **PR** $5.00 each; $100.00 yearly subscription. **JE** E43, G12, G13. **KW** No-Arbitrage Model. Term Structure. Black-Karazinski. Interest Rates.

AB This no-arbitrage model of the term structure uses two stochastic factors on each date, the short-term interest rate and the premium of the forward rate over the short-term interest rate. The model is an extension of the Black-Karazinski lognormal interest rate model. It allows for mean reversion in the short rate and the forward premium. Interest rates are defined on a bankers' discount basis, as linear functions of zero-coupon bond prices, so that the no-arbitrage condition can be used to compute bond prices without resorting to iterative methods. The multivariate-binomial methodology of Ho-Stapleton-Subrahmanyam is extended so that a multiperiod tree of rates can be constructed using analytical methods. By using a recombining two-dimensional binomial lattice of interest rates, the number of states and term structures is minimized over time. Using a limited number of 'bucket rates' in each term structure scenario simplifies the problem of computing a large number of term structures. The model is consistent with the observed term structure of volatilities implied by the prices of interest rate caps and floors. The model's use is illustrated by pricing American-style and Bermudan-style options on interest rates. Option prices for realistic examples using forty time periods are computable in seconds.

Petroni, Kathy R.

PD January 1998. **TI** The Risks- and Value-Relevance of Revisions of Accrual Estimates: Evidence from Property-Casualty Insurers' Loss Reserve Development Disclosures. **AU** Petroni, Kathy R.; Ryan, Stephen G.; Wahlen, James M. **AA** Petroni: Michigan State University. Ryan: New York University. Wahlen: Indiana University. **SR** New York University, Salomon Center Working Paper: S/98/13; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 40. **PR** $5.00 each; $100.00 yearly subscription. **JE** D81, G22. **KW** Property-Casualty. Insurance. Loss Reserves. Accrual Estimates.

AB A critical determinant of the risk and value of a property-casualty insurer is its ability to estimate future claim payments accurately. This ability determines whether the insurer will be successful in identifying promising insurance risks to underwrite, in managing its portfolio of insurance risks, and in pricing its insurance products. In this vein, the October 1995 Prudential Securities Insurance Industry Update: Property-Casualty Profile Series (p. 21) states "the study of (claim loss) reserves can offer excellent insight into the quality of management. This is because accurate and consistent reserving suggests a high level of knowledge about a company's business." In this paper, we use property-casualty insurers' unique disclosures about estimation errors in their reported claim loss reserves to test hypotheses that insurers that record more accurate accruals for unpaid claims are less risky, experience greater future profitability, and have higher market-to-book value of common equity ratios.

Petry, Nancy M.

PD February 1998. **TI** A Behavioral Economic Analysis of Polydrug Abuse in Heroin Addicts. **AU** Petry, Nancy M.; Bickel, Warren K. **AA** University of Connecticut School of Medicine. **SR** National Bureau of Economic Research Working Paper: 6415; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 27. **PR** $5.00. **JE** C91, D11, D12, I10. **KW** Consumer Behavior. Addiction. Polydrug Use. Price Elasticity. Substitution.

AB Polydrug abuse is common among substance abusers, but few empirical or theoretical methods accurately characterize this phenomenon. This chapter describes a simulation paradigm that was developed to apply a behavioral economic analysis to understanding polydrug abuse. Heroin abusers "purchased" drugs as the price of drugs or income varied. In Experiment 1, heroin price rose while prices of other drugs and income remained constant. Heroin purchases significantly decreased as heroin prices increased. As price of heroin rose, valium and cocaine purchases increased, and cross-price elasticity coefficients indicated these drugs substituted for heroin. In Experiment 2, prices of both heroin and valium increased separately to determine symmetry of the substitution effect. While valium substituted for heroin, heroin purchases were independent of valium prices. In Experiment 3, income rose while prices remained constant. At some income changes, demand for heroin and cocaine was income elastic, with purchases rising in greater proportion than income.

Philipson, Tomas

PD October 1997. **TI** Consumption vs. Production of Insurance. **AU** Philipson, Tomas; Zanjani, George. **AA** Philipson: University of Chicago and National Bureau of

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Economic Research. Zanjani: University of Chicago. **SR** National Bureau of Economic Research Working Paper: 6225; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G22, I10. **KW** Health Care. Insurance. Self-Insurance. Risk Pooling.

AB Many forms of insurance are produced by groups themselves rather than purchased in the market. This paper generalizes the theory of insurance to analyze what factors determine whether groups produce insurance internally by self-insuring or consume it by purchasing coverage in the market. The theory makes cross-sectional predictions on which firms will choose to produce insurance and on how prices and loss experience will vary with the production decision. The theory also predicts which insurance lines are likely to be associated with internal production and those in which coverage will be provided by the market. Furthermore, the time-series properties of claims under various degrees of internal production are analyzed. These predictions are generated by a fundamental diseconomy of scale that offsets the standard scale economy associated with risk-pooling. The tradeoff facing a group in its make- or-buy decision is that self-insurance rewards self-protection but forgoes the pooling of risk with outsiders.

TI Nonprofit Production and Competition. **AU** Lakdawalla, Darius; Philipson, Tomas.

Phillips, Peter C. B.

TI Jeffreys Prior Analysis of the Simultaneous Equations Model in the Case with n+1 Endogenous Variables. **AU** Chao, John C.; Phillips, Peter C. B.

PD May 1999. **TI** Descriptive Econometrics for Nonstationary Time Series with Empirical Illustrations. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1219; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 26. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C22. **KW** Descriptive Statistics. Hazard Rates. Kernel Estimate. Spatial Density. Unit Roots.

AB Recent work by the author on methods of spatial density analysis for time series data with stochastic trends is reviewed and extended. The methods are illustrated in some empirical applications and simulations. The empirical applications include macroeconomic data on inflation, financial data on exchange rates and political opinion poll data. It is shown how the methods can be used to measure empirical hazard rates for inflation and deflation. Empirical estimates based on historical U.S. data over the last 60 years indicate that the predominant inflation risks are at low levels (2-6 percent) and low two-digit levels (10-12 percent), and that there is also a significant risk of deflation around the negative 1 level.

TI Empirical Limits for Time Series Econometric Models. **AU** Ploberger, Werner; Phillips, Peter C. B.

PD May 1999. **TI** Nonstationary Panel Data Analysis: An Overview of Some Recent Developments. **AU** Phillips, Peter C. B.; Moon, Hyungsik R. **AA** Phillips: Yale University. Moon: University of California, Santa Barbara. **SR** Yale Cowles Foundation Discussion Paper: 1221; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 24. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C22, C23. **KW** Panel Data. Nonstationarity. Time Series. Individual Effects. Dynamic Panels.

AB This paper overviews some recent developments in panel data asymptotics, concentrating on the nonstationary panel case, and gives a new result for models with individual effects. Underlying recent theory are asymptotics for multi-indexed processes in which both indexes may pass to infinity. The authors review some of the new limit theory that has been developed, show how it can be applied and give a new interpretation of individual effects in nonstationary panel data. Fundamental to the interpretation of much of the asymptotics is the concept of panel regression coefficient, which measures the long run average relation across a section of the panel. A variety of nonstationary panel data models are discussed and the paper reviews the asymptotic properties of estimators in these various models. Some recent developments in panel unit root tests and stationary dynamic panel regression models are also reviewed.

PD May 1999. **TI** Linear Regression Limit Theory for Nonstationary Panel Data. **AU** Phillips, Peter C. B.; Moon, Hyungsik R. **AA** Phillips: Yale University. Moon: University of California, Santa Barbara. **SR** Yale Cowles Foundation Discussion Paper: 1222; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 77. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C22, C23. **KW** Nonstationary Panels. Asymptotics. Cointegration. Panel Data. Limit Theory.

AB This paper develops a regression limit theory for nonstationary panel data with large numbers of cross section (n) and time series (T) observations. The limit theory allows for both sequential limits, wherein T goes to infinity followed by n goes to infinity, and joint limits, where T,n go to infinity simultaneously; and the relationship between these multidimensional limits is explored. The panel structures considered allow for no time series cointegration, heterogeneous cointegration, homogeneous cointegratoin and near-homogeneous cointegration. The paper explores the existence of long-run average relations between integrated panel vectors when there is no individual time series cointegration and when there is heterogeneous cointegration. These relations are parametrized in terms of the matrix regression coefficient of the long-run average covariance matrix. In the case of homogeneous and near homogeneous cointegrated panels, a panel fully modified regression estimator is developed and studied.

Piccione, Michele

TI Sequential Voting Procedures in Symmetric Binary Elections. **AU** Dekel, Eddie; Piccione, Michele.

Piehl, Anne Morrison

TI The Role of Discretion in the Criminal Justice System. **AU** Kessler, Daniel P.; Piehl, Anne Morrison.

Pierret, Charles R.

TI Employer Learning and Statistical Discrimination. **AU** Altonji, Joseph G.; Pierret, Charles R.

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Piggott, John

PD January 1998. **TI** VAT Base Broadening, Self Supply, and the Informal Sector. **AU** Piggott, John; Whalley, John. **AA** Piggott: University of South Wales. Whalley: University of Western Ontario and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6349; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 27. **PR** $5.00. **JE** D60, H22, H23, H25. **KW** Taxation. VAT. Base Broadening. Supply. Welfare.

AB The authors develop a general equilibrium tax model to evaluate the impacts of equal yield base broadening in indirect taxes from high rate narrow based (typically manufactures) taxes to broad based taxes (including services) such as a VAT. They capture differences in choice of mode of supply between market goods and self-suppliable services and informal sector supplied products. The authors are able to provide numerical examples of welfare worsening VAT base broadening. They show that the usual presumption that there are welfare benefits from equal yield VAT base broadening breaks down once tax induced increases in self supply of previously non taxed goods and services and in informal sector activity (in small scale construction and other areas) are taken into account. Moreover, since untaxed informal sector supply is typically from lower income to higher income households, they gain as comparable informal sector activity is taxed under the base broadening change.

Pindyck, Robert S.

TI Expandability, Reversibility, and Optimal Capacity Choice. **AU** Dixit, Avinash K.; Pindyck, Robert S.

Pines, David

TI Externalities, Nonconvexity, and Agglomeration. **AU** Papageorgiou, Yorgos; Pines, David.

Pinkowitz, Lee

TI The Determinants of Implications of Corporate Cash Holdings. **AU** Opler, Tim; Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan.

Pinon-Farah, Marco

PD November 1998. **TI** Demand for Money in Mozambique: Was There a Structural Break? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/157; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 20. **PR** not available. **JE** E41, O11. **KW** Money Demand. Cointegration. Error Correction. Structural Breaks. Mozambique.

AB The paper provides estimates for an error-correction model of the demand for narrow money (M1) and broad money (M2) in Mozambique. In addition, it assesses whether the rapid growth in money balances during 1996-97 represents a structural break or can be associated with the rapidly expanding economic activity and lower opportunity costs of holding money. In contrast with several studies of economies at a similar level of development as Mozambique, the paper obtains statistically significant coefficients for both financial and real explanatory variables. In this connection, it successfully includes the yield of foreign instruments (expressed in local currency) as one of the key explanatory variables.

Pischke, Jorn-Steffen

TI Unions and Managerial Pay. **AU** DiNardo, John; Hallock, Kevin; Pischke, Jorn-Steffen.

TI The Structure of Wages and Investment in General Training. **AU** Acemoglu, Daron; Pischke, Jorn-Steffen.

Pitchford, Rohan

PD December 1997. **TI** New Palgrave Dictionary of Law & Economics Entry: Judgement- Proofness. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 339; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 9. **PR** no charge. **JE** C78, D82, K10. **KW** Judgement-Proofness. Limited Liability. Moral Hazard. Principal Agent.

AB I examine the standard assumption in the moral hazard agency literature that the principal has all the bargaining power at the contract offer stage. When the agent has limited liability, as is often the case in practice, the contract changes according to the distribution of bargaining power, and consequently so does the agent's effort. Implications of this result are examined.

PD April 1998. **TI** A Simple Theory of Deregulation. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 342; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 22. **PR** no charge. **JE** D21, D82, K23. **KW** Regulation. Verifiability of Performance. Signals. Incomplete Contracts.

AB In traditional theories of regulation, any signal of a firm's activity that is informative will be used for an incentive scheme. This paper develops a simple theory of deregulation in which the manager of a firm is able to distort reports of firm activity, making the degree of verifiability of performance endogenous. Sufficient conditions are derived for deregulation to be optimal despite the existence of a signal that contains information about the firm's activity. Specifically, the conditions ensure that there is an adverse response by the firm whenever the regulator tries to use the signal for incentives, even though the signal contains information about performance. The approach is robust and avoids knife edge assumptions that would be required in the multitask analysis of Holmstrom and Milgrom (1991). The relation to literature on incomplete contracts is discussed.

TI Private or Public? A Taxonomy of Optimal Ownership & Management Regimes. **AU** King, Stephen P.; Pitchford, Rohan.

Ploberger, Werner

PD May 1999. **TI** Empirical Limits for Time Series Econometric Models. **AU** Ploberger, Werner; Phillips, Peter C. B. **AA** Ploberger: University of Rochester. Phillips: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1220; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 42. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C22. **KW** Proximity Bounds. Data Generating Process. Fisher Information. Information Loss. Lebesgue Measure.

AB This paper seeks to characterize empirically achievable limits for time series econometric modeling. The approach

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involves the concept of minimal information loss in time series regression and the paper shows how to derive bounds that delimit the proximity of empirical measures to the true probability measure. A theorem due to Rissanen is modified so that it applies directly to probabilities about the relative likelihood. A new way of proving results of the Rissanen type is demonstrated, and the Rissanen theory is extended to nonstationary time series with unit roots, near unit roots and cointegration of unknown order. The corresponding bound for the minimal information loss in empirical work is shown not to be a constant, in general, but to be proportional to the logarithm of the determinant of the Fisher-information matrix. The conclusion is that the "true" DGP is more elusive when there is nonstationarity in the data.

Pohlmeier, Winfried

TI Young and Out in Germany: On Youths' Chances of Labor Market Entrance in Germany. **AU** Franz, Wolfgang; Inkmann, Joachim; Pohlmeier, Winfried; Zimmermann, Volker.

TI Young and Out in Germany: On Youths' Chances of Labor Market Entrance in Germany. **AU** Franz, Wolfgang; Inkmann, Joachim; Pohlmeier, Winfried; Zimmermann, Volker.

Pointon, John

PD November 1997. **TI** The Impact of Obsolescence Risk on the After-Tax Value of a Project. **AU** Pointon, John; Hooper, Vince. **AA** Pointon: University of Plymouth. Hooper: Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 334; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 20. **PR** no charge. **JE** D81, G12, O22, O33. **KW** Obsolescence Risk. After-Tax Value. Poisson Jump. Brownian Motion.
AB The purpose of this paper is to consider the valuation of projects where there is risk of obsolescence. It is assumed that the project's pre-tax net operating cash flows follow a geometric Brownian motion with a declining trend parameter. Obsolescence risk is introduced by means of a Poisson jump. A linear second-order ordinary differential equation is established to value the pre-tax cash flows. The risk effects on the tax on flows and tax savings through capital allowances (tax depreciation) are calculated separately. Thus a model is derived of the after-tax cost to the company of the risk of a project's obsolescence.

Polachek, Solomon W.

TI The Effects of Price Changes on Alcohol Consumption in Alcohol- Experienced Rats. **AU** Sarbaum, Jeffrey K.; Polachek, Solomon W.; Spear, Norman E.

Polak, Ben

TI Temporal Resolution of Uncertainty and Recursive Non-Expected Utility Models. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Intrinsic Preference for Information. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Dynamic Consistency and Preference for Information. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Decomposable Choice under Uncertainty. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

TI Preference for Information and Dynamic Consistency. **AU** Grant, Simon; Kajii, Atsushi; Polak, Ben.

Polemarchakis, H. M.

TI Pareto Improving Price Regulation When the Asset Market is Incomplete. **AU** Herings, P. J. J.; Polemarchakis, H. M.

Polinsky, A. Mitchell

PD November 1997. **TI** On the Disutility and Discounting of Imprisonment and the Theory of Deterrence. **AU** Polinsky, A. Mitchell; Shavell, Steven. **AA** Polinsky: Stanford University and National Bureau of Economic Research. Shavell: Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6259; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 23. **PR** $5.00. **JE** D11, D81, K14. **KW** Law. Deterrence. Imprisonment. Disutility.
AB This article studies the implications for the theory of deterrence of (a) the manner in which individuals' disutility from imprisonment varies with the length of the imprisonment term; and (b) discounting of the future disutility and future public costs of imprisonment. Two questions are addressed: Is deterrence enhanced more by increasing the length of imprisonment terms or instead by raising the likelihood of imposing imprisonment? What is the optimal combination of the severity and probability of imprisonment sanctions?.

Polk, Christopher

TI Financial Constraints and Stock Returns. **AU** Lamont, Owens; Polk, Christopher; Saa-Requejo, Jesus.

Polsky, Daniel

TI Has Job Stability Declined Yet? New Evidence for the 1990's. **AU** Neumark, David; Polsky, Daniel; Hansen, Daniel.

Portes, Richard

PD February 1998. **TI** The Emergence of the Euro as an International Currency. **AU** Portes, Richard; Rey, Helene. **AA** Portes: London Business School and National Bureau of Economic Research. Rey: London School of Economics. **SR** National Bureau of Economic Research Working Paper: 6424; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 47. **PR** $5.00. **JE** F31, F33, F41, G12, G15. **KW** European Union. Financial Markets. Euro. Foreign Exchange.
AB The European Union will enter Stage Three of Economic and Monetary Union (EMU) in 1999. The development of euro financial markets and thickness externalities in the use of the euro as a means of payment will be the major factors determining the importance of the euro as an international currency. As euro securities markets become deeper and more liquid and transactions costs fall, euro assets will become more attractive, and the use of the euro as a vehicle currency will expand. The authors use a three-region world model as a framework for alternative steady-state scenarios. With forex and securities market data, they assess the plausibility of those scenarios and the implications for economic efficiency. They find that the euro may take on some of the current roles of the dollar. The welfare analysis reveals potential quantitatively

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significant benefits for the euro area, at the cost of the U.S.

Poterba, James M.

PD October 1997. **TI** State Fiscal Institutions and the U.S. Municipal Bond Market. **AU** Poterba, James M.; Rueben, Kim S. **AA** Poterba: Massachusetts Institute of Technology and National Bureau of Economic Research. Rueben: Public Policy Institute of California. **SR** National Bureau of Economic Research Working Paper: 6237; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H31, H61, H72, H74. **KW** Public Economics. Municipal Bonds. Fiscal Institutions. Budget. Fiscal Policy.

AB This paper presents new evidence on the effect of state fiscal institutions, particularly balanced-budget rules and restrictions on state debt issuance, on the yields on state general obligation bonds. The authors analyze information from the Chubb Relative Value Survey, which contains relative tax-exempt yields on the bonds issued by different states over the period 1973-1996. They find that states with tighter anti-deficit rules and more restrictive provisions on the authority of state legislatures to issue debt pay lower interest rates on their bonds. States with binding revenue limitation measures tend to face higher borrowing rates, while states with expenditure limits face lower borrowing costs. Thus fiscal restraints that control expenditures are viewed favorably by bond market participants, while those that restrict taxes result in higher borrowing costs. These results provide important evidence that bond market participants consider fiscal institutions in assessing the risk characteristics of tax-exempt bonds.

PD November 1997. **TI** The Rate of Return to Corporate Capital and Factor Shares: New Estimates Using Revised National Income Accounts and Capital Stock Data. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6263; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 45. **PR** $5.00. **JE** D24, D33, G31, H25. **KW** Capital. Corporate Finance. Business Taxes. Factor Income. Rate of Return.

AB This paper presents new evidence on the rate of return on tangible assets in the United States, incorporating the recently-revised national accounts and new estimates of the replacement cost of the reproducible physical capital stock. The pretax return on capital in the nonfinancial corporate sector has averaged 8.5 percent over the 1959-1996 period. The paper also presents new estimates of the total tax burden on nonfinancial corporate capital, which averages 54.1 percent over this time period. For the 1990's this tax rate, which includes corporate income taxes, corporate property taxes, and taxes on stock- and bondholders, averages 42.1 percent of pretax profits. The average pretax rate of return for 1990-1996 is 8.6 percent, and the average after-tax return is 5.0 percent. The substantial volatility in the return series makes it premature to conclude that the higher accounting return to corporate capital in the mid-1990's represents a departure from past experience.

PD November 1997. **TI** Implications of Rising Personal Retirement Saving. **AU** Poterba, James M.; Venti, Steven F.; Wise, David A. **AA** Poterba: Massachusetts Institute of Technology and National Bureau of Economic Research. Venti: Dartmouth College and National Bureau of Economic Research. Wise: National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6295; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E21, G23, J14, J26. **KW** Retirement. Savings. Social Security. Pensions.

AB Retirement saving accounts, particularly employer-provided 401(k) plans, have expanded rapidly in the last decade. More than forty percent of workers are currently eligible for these plans, and over seventy percent of eligible participate in these plans. The substantial and ongoing accumulation of assets in these plans has the potential to significantly alter the financial preparations for retirement by future retirees. This paper uses data on current age-specific patterns of 401(k) participation, in conjunction with Social Security earnings records that provide detailed information on age-earnings profiles over the lifetime, to project the 401(k) balances of future retirees. The results, which are illustrated by reference to individuals who were 27 and 37 in 1996, demonstrate the growing importance of 401(k) saving. These results support the growing importance of personal saving through retirement saving accounts in contributing to financial well-being in old age.

PD December 1997. **TI** The Estate Tax and After-Tax Investment Returns. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6337; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 43. **PR** $5.00. **JE** E21, H24, J14. **KW** Saving. Taxation. Estate Taxes. Capital Income. Mortality Risk.

AB This paper explores the effect of estate and gift taxes on the after- tax rate of return earned by savers. The estate tax can be viewed as a tax on capital income, with the effective rate depending on the statutory tax rate as well as the potential taxpayer's mortality risk. Because mortality rates rise with age, the effective estate tax burden is greater for older individuals. The paper also explores the fraction of the net worth held by households that are subject to the estate tax that could be transferred to the next generation using the 10,000 dollars per donor per donee exemption from gift tax. While roughly one quarter of potentially taxable assets could be transferred in this way, actual levels of inter vivos giving are much lower than the levels that one would expect if households were taking full advantage of this tax avoidance strategy.

Powell, Andrew

TI Volatility and Financial Intermediation. **AU** Aizenman, Joshua; Powell, Andrew.

Powers, Elizabeth

TI The Effect of Means-Tested Income Support for the Elderly on Pre- Retirement Saving: Evidence from the SSI Program in the U.S. **AU** Neumark, David; Powers, Elizabeth.

Prasad, Eswar S.

TI Consumption and Income Inequality in Poland During the Economic Transition. **AU** Keane, Michael; Prasad, Eswar S.

TI Macroeconomic Fluctuations in Developing Countries:

https://doi.org/10.1017/S095100790000485X Published online by Cambridge University Press

Some Stylized Facts. **AU** Agenor, Pierre-Richard; McDermott, C. John; Prasad, Eswar S.

Prati, Alessandro

TI Soft Exchange Rate Bands and Speculative Attacks: Theory, and Evidence from the ERM since August 1993. **AU** Bartolini, Leonardo; Prati, Alessandro.

Preston, Ian

TI Tax Price Effects on Attitudes to Hypothecated Tax Increases. **AU** Hall, John; Preston, Ian.

TI Attitudes to Ethnic Minorities, Ethnic Context and Location Decisions. **AU** Dustmann, Christian; Preston, Ian.

TI Public and Private Choice in UK Health Insurance. **AU** Hall, John; Preston, Ian.

Quah, Danny T.

TI The New Empirics of Economic Growth. **AU** Durlauf, Steven N.; Quah, Danny T.

Radner, Roy

TI Real-Time Decentralized Information Processing and Returns to Scale. **AU** Van Zandt, Timothy; Radner, Roy.

Rajan, Raghuram G.

PD November 1997. **TI** Power in a Theory of the Firm. **AU** Rajan, Raghuram G.; Zingales, Luigi. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6274; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G31, G32, J40, L14, L23. **KW** Ownership. Power. Transactions.
AB Transactions take place in the firm rather than in the market because the firm offers agents who make specific investments power. Past literature emphasizes the allocation of ownership as the primary mechanism by which the firm does this. Within the contractility assumptions of this literature, the authors identify a potentially superior mechanism, the regulation of access to critical resources. Access can be better than ownership because: I) the power agents get from access is more contingent on them making the right investment; ii) ownership has adverse effects on the incentive to specialize. The theory explains the importance of internal organization and third party ownership.

PD January 1998. **TI** The Cost of Diversity: The Diversification Discount and Inefficient Investment. **AU** Rajan, Raghuram G.; Servaes, Henri; Zingales, Luigi. **AA** Rajan and Zingales: University of Chicago and National Bureau of Economic Research. Servaes: University of North Carolina, Chapel Hill. **SR** National Bureau of Economic Research Working Paper: 6368; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D61, G31, L22. **KW** Capital Budgeting. Diversification. Investment.
AB In a simple model of capital budgeting in a diversified firm where headquarters has limited power, we show that funds are allocated towards the most inefficient divisions. The distortion is greater the more diverse are the investment opportunities of the firm's divisions. We test these implications on a panel of diversified firms in the U.S. during the period 1979-1993. We find that i) diversified firms misallocate investment funds; ii) the extent of misallocation is positively related to the diversity of the investment opportunities across divisions; iii) the discount at which these diversified firms trade is positively related to the extent of the investment misallocation and to the diversity of the investment opportunities across divisions.

Ramey, Garey

TI Job Destruction and Propagation of Shocks. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

TI Liquidity Flows and Fragility of Business Enterprises. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

TI Contract-Theoretic Approaches to Wages and Displacement. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

Ramey, Valerie A.

PD November 1997. **TI** Costly Capital Reallocation and the Effects of Government Spending. **AU** Ramey, Valerie A.; Shapiro, Matthew D. **AA** Ramey: University of California, San Diego and National Bureau of Economic Research. Shapiro: University of Michigan and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6283; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E13, E22, E62, H56. **KW** Capital Reallocation. Demand Shifts. Public Expenditures. Military Spending.
AB Changes in government spending often lead to significant shifts in demand across sectors. This paper analyzes the effects of sector- specific changes in government spending in a two-sector dynamic general equilibrium model in which the reallocation of capital across sectors is costly. The two-sector model leads to a richer array of possible responses of aggregate variables than the one-sector model. The empirical part of the paper estimates the effects of military buildups on a variety of macroeconomic variables using a new measure of military shocks. The behavior of macroeconomic aggregates is consistent with the predictions of a multi-sector neoclassical model. In particular, consumption, real product wages and manufacturing productivity fall in response to exogenous military buildups in the post-World War II United States.

PD December 1997. **TI** Inventories. **AU** Ramey, Valerie A.; West, Kenneth D. **AA** Ramey: University of California, San Diego and National Bureau of Economic Research. West: University of Wisconsin and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6315; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 64. **PR** $5.00. **JE** E22, E32. **KW** Inventories. Investment. Business Cycles.
AB The authors review and interpret recent work on inventories, emphasizing empirical and business cycle aspects. They begin by documenting two empirical regularities about inventories. The first is the well-known one that inventories move procyclically. The second is that inventory movements are quite persistent, even conditional on sales. To consider explanations for the two facts, the authors present a linear-quadratic model. The model can rationalize the two facts in a number of ways, but two stylized explanations have the virtue

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of relative simplicity and support from a number of papers. The first explanation assumes that there are highly persistent shocks to the cost of production. The second assumes that there are strong costs of adjusting production and a strong accelerator motive. Research to date, however, has not reached a consensus on whether one of these two, or some third, alternatives provides a satisfactory explanation of inventory behavior.

Rangel, Antonio

TI Adjusting to a New Technology: Experience and Training. **AU** Helpman, Elhanan; Rangel, Antonio.

Ranjan Das, Sanjiv

TI The Central Tendency: A Second Factor in Bond Yields. **AU** Balduzzi, Pierluigi; Ranjan Das, Sanjiv; Foresi, Silverio.

Rauch, James E.

PD April 1999. **TI** Starting Small in an Unfamiliar Environment. **AU** Rauch, James E.; Watson, Joel. **AA** Rauch: University of California, San Diego. Watson: University of California, San Diego and Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1218; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 33. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C70, D23, D83, F10, F23. **KW** Matching. Search. Contract Enforcement. Monitoring. Trading Relationships.

AB Motivated by a characteristic way in which firms in developed countries make their decisions regarding cooperation with potential partners from less developed countries, the authors 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. The authors derive results relating whether and how the parties start small to the characteristics of the large project and to the matching environment. They show how risk and search cost are associated with the propensity to start small, and they establish a connection between starting small and the expected longevity of successful partnerships. They also address methods of contract enforcement and demonstrate the relationship between starting small and monitoring.

Razin, Assaf

TI Sharp Reductions in Current Account Deficits: An Empirical Analysis. **AU** Milesi-Ferretti, Gian Maria; Razin, Assaf.

PD December 1997. **TI** Channeling Domestic Savings into Productive Investment under Asymmetric Information: The Essential Role of Foreign Direct Investment. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa. **AA** Razin: Tel Aviv University and National Bureau of Economic Research. Sadka: Tel Aviv University. Yuen: University of Hong Kong. **SR** National Bureau of Economic Research Working Paper: 6338; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D82, F21, F35, H25, H30. **KW** Foreign Direct Investment. Saving. Investment. Asymmetric Information. Taxation.

AB Foreign direct investment (FDI) is observed to be a predominant form of capital flows to low and middle income countries with insufficiently developed capital markets. This paper analyzes the problem of channeling domestic savings into productive investment in the presence of asymmetric information between the managing owners of firms and other portfolio stakeholders. We emphasize the crucial role played by FDI in sustaining equity-financed capital investment for economies plagued by such information problems. Similar problems also exist for foreign portfolio debt flows. The paper identifies how, in the presence of information asymmetry, different capital market structures may lead to foreign over- or under-investment and to domestic under- or over-saving, and thus to inefficient equilibria. We show how corrective tax-subsidy policies consisting of taxes on corporate income and on the capital incomes of both residents and nonresidents can restore efficiency.

PD December 1997. **TI** Quantitative Implications of the Home Bias: Foreign Underinvestment, Domestic Oversaving, and Corrective Taxation. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa. **AA** Razin: Tel Aviv University and National Bureau of Economic Research. Sadka: Tel Aviv University. Yuen: University of Hong Kong. **SR** National Bureau of Economic Research Working Paper: 6339; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 19. **PR** $5.00. **JE** D82, F21, F35, H25, H30. **KW** Foreign Direct Investment. Saving. Taxation. Investment. Asymmetric Information.

AB There is strong evidence about a home-court advantage in international portfolio investment. One explanation for the bias is an information asymmetry between domestic and foreign investors about the economic performance of domestic firms. This asymmetry causes two types of distortions: an aggregate production inefficiency and a production-consumption inefficiency, leading to foreign underinvestment and domestic oversaving respectively. Such market failures are found to be quite severe, slightly more so with equity flows than with debt flows. These inefficiencies can nonetheless be corrected by a mix of tax- subsidy instruments, consisting of taxes on corporate income and on the capital incomes of both residents and nonresidents. When only a partial set of instruments is available, however, the prescription for each tax instrument can change radically and may even be reversed although the welfare gains can be fairly substantial and sometimes close to the first best optimum.

PD August 1998. **TI** Tax Burden and Migration: A Political Economy Theory and Evidence. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip. **AA** Razin and Sadka: Tel-Aviv University. Swagel: International Monetary Fund. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 15/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 28. **PR** no charge. **JE** F02, F22, H23, H24, J61. **KW** Welfare State. Voting. Low-Skilled Migrants. Income Taxation.

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

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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 eleven 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 August 1998. **TI** Migration and Pension. **AU** Razin, Assaf; Sadka, Efraim. **AA** Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 16/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 22. **PR** no charge. **JE** F22, H53, H55, J61. **KW** Low-Skilled Migrants. Pensions. Pay-As-You-Go Pension. Heterogeneous Population. Overlapping Generations.
AB Being relatively low earners, migrants are net beneficiaries of the welfare state. Therefore, in a static set-up migration may be resisted by the entire native-born population. However, it is shown that in a dynamic set-up with a pension system which is an important pillar of any welfare state, migration could be beneficial to all income groups (high and low) and age groups (old and young).

PD August 1998. **TI** Do Debt Flows Crowd Out Equity Flows Or the Other Way Round? **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa. **AA** Razin and Sadka: Tel-Aviv University. Yuen: University of Hong Kong. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 17/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 18. **PR** no charge. **JE** F21, F35, G33, H25. **KW** Debt Flows. Equity Flows. Asymmetric Information. Market Failures. Corrective Taxation.
AB In the presence of asymmetric information, the stage at which investment-financing decisions are made is crucial for the composition of international capital flows as well as for the efficiency of channeling savings into investment. This paper compares the implications of two extreme assumptions regarding the information possessed by the firms at their financing stage for whether foreign debt inflows may crowd out foreign equity flows or the other way around. The scope for corrective tax policy is examined. A welfare comparison between the two mechanisms of capital flows is provided.

PD November 1998. **TI** Capital Flows with Debt- and Equity-Financed Investment: Equilibrium Structure and Efficiency Implications. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/159; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 20. **PR** not available. **JE** F21, F35, F41, H25, H32. **KW** Debt. Equity. Capital Flows. Asymmetric Information. Corrective Policy.
AB This paper distinguishes between debt and equity flows in the presence of information asymmetry between the firm's "insiders" and "outsiders" in a small open economy. It shows the inadequacy of capital investment because its scope is too narrow and the investment each firm makes is too little. An unconventional policy tool is proposed to correct the market failure: lump-sum subsidies to firms that choose to equity-finance their investments.

PD December 1998. **TI** An Information-Based Model of Foreign Direct Investment: The Gains from Trade Revisited. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa. **AA** Razin and Sadka: Tel-Aviv University. Yuen: University of Hong Kong. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 28/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 30. **PR** no charge. **JE** F21, F32, G14, G15. **KW** Asymmetric Information. Gains from Trade. Capital Flows. Over- Investment. Under-Saving.
AB Foreign direct investment (FDI) is a predominant form of capital flows to emerging economies, especially when they are liquidity- constrained during a global financial crisis. The authors analyze the problem of channeling domestic savings into productive investment in the presence of asymmetric information between the managing owners of firms and the other portfolio stakeholders. The paper explores the role played by FDI in reviving equity-financed capital investment for economies plagued by such information problems. In the presence of information asymmetry, the paper identifies how, however, FDI gives rise to foreign overinvestment as well as domestic undersaving. The paper re-examines the gains from trade argument (applied to intertemporal trade) in this case of FDI driven by information asymmetry. It is shown that the gains could be sizable when the domestic credit market is either underdeveloped or failing as a result of a financial crisis. But with a well-functioning domestic credit market, the gains turn into losses. Surprisingly, capital may flow into the country even though the autarkic marginal productivity of capital in the domestic economy falls short of the world rate of interest. In such a situation, capital should have efficiently flown out rather than in, and FDI is a loss-generating phenomenon.

PD December 1998. **TI** Migration and Pension. **AU** Razin, Assaf; Sadka, Efraim. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/165; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 13. **PR** not available. **JE** F22, H20, H55, J10, J61. **KW** International Migration. Immigrants Workers. Public Pensions. Heterogeneous Population. Overlapping Generations.
AB See abstract for Razin, Assaf and Sadka, Efraim. August 1998. "Migration and Pension", Tel Aviv Foerder Institute for Economic
Research and Sackler Institute for Economic Research Working
Papers: 16/98; The Eitan Berglas School of Economics, Tel Aviv University,
Tel Aviv 69978, Israel. Website: econ.tau.ac.il.

PD February 1999. **TI** Unskilled Migration: A Burden or a Boon for the Welfare State. **AU** Razin, Assaf; Sadka, Efraim. **AA** Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 08/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 23. **PR** no charge. **JE** F21, F22, H55, J61. **KW** Low-Skilled Migrants. Pay-As-You-Go Pension. Overlapping Generations. Migration Quotas.
AB Being relatively low earners, migrants are net

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beneficiaries of the welfare state. Therefore, in a static setup migration may be resisted by the entire native-born population. However, it is shown that in a dynamic setup with a pension system which is an important pillar of any welfare state, migration is beneficial to all income (high and low) and age (old and young) groups when the economy has a good access to international capital markets. The pro-migration feature of the dynamic model is weakened and possibly overturned when the economy does not have good access to the world capital markets. In this case, to the extent that factor prices are significantly affected by migration because of low substitution between labor and capital, low-skill native born and possibly also high-skill native born may lose.

Rees, Ray

TI On the Taxation of Trade Within and Between Households. **AU** Apps, Patricia F.; Rees, Ray.

Repkine, Alexander

PD October 1998. **TI** European Trade and Foreign Direct Investment U-Shaping Industrial Output in Central and Eastern Europe: Theory and Evidence. **AU** Repkine, Alexander; Walsh, Patrick Paul. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/150; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 32. **PR** not available. **JE** F21, F43, O33, P23. **KW** Foreign Direct Investment. Industrial Output Growth. Transition Economies. Branches of Industry.

AB We examine industrial output in Bulgaria, Hungary, Poland, and Romania during 1989-95 in terms of pretransitional product trade orientation. The growth of EU-oriented output within sectors of industry, ex-post trade, and market liberalization, is modeled as foreign direct investment induced Schumpeterian (vertical) waves of product innovation. The growth of non-EU-oriented output within sectors is modeled as unobservable deterministic heterogeneity. The results indicate that the gap observed in industrial output performance when comparing Eastern European to former Soviet countries is mainly explained by the inherited presence of EU-oriented production and its unconstrained growth over the transition period.

Rey, Helene

TI The Emergence of the Euro as an International Currency. **AU** Portes, Richard; Rey, Helene.

Rider, Mark

TI Entrepreneurs, Income Taxes, and Investment. **AU** Carroll, Robert; Holtz-Eakin, Douglas; Rider, Mark; Rosen, Harvey S.

Ridge, Michael

TI The Impact of Expenditure Limitations on Local Government Spending: Evidence from the UK. **AU** Emmerson, Carl; Hall, John; Ridge, Michael.

Roberts, Mark J.

TI Firm-Level Evidence on Productivity Differentials, Turnover, and Exports in Taiwanese Manufacturing. **AU** Aw, Bee Yan; Chen, Xiaomin; Roberts, Mark J.

Robins, Philip K.

TI Would Financial Incentives for Leaving Welfare Lead Some People to Stay on Welfare Longer? An Experimental Evaluation of 'Entry Effects' in the Self-Sufficiency Project. **AU** Card, David; Robins, Philip K.; Lin, Winston.

Robles, Elias

TI Employment as a Drug Abuse Treatment Intervention: A Behavioral Economic Analysis. **AU** Silverman, Kenneth; Robles, Elias.

Roccas, Sonia

TI Good Neighbors/Bad Citizens: Personal Value Priorities of Economists. **AU** Gandal, Neil; Roccas, Sonia.

Rodriguez, Hugo

TI Economic Determinants of Government Subsidies. **AU** Clements, Benedict; Rodriguez, Hugo; Schwartz, Gerd.

Rodrik, Dani

PD January 1998. **TI** Where Did All the Growth Go? External Shocks, Social Conflict, and Growth Collapses. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6350; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 27. **PR** $5.00. **JE** F43, O40. **KW** Growth. Social Conflicts. External Shocks. Conflict Management.

AB This paper argues that domestic social conflicts are a key to understanding why growth rates lack persistence and why so many countries have experienced a growth collapse after the mid-1970's. It emphasizes, in particular, the manner in which social conflicts interact with external shocks on the one hand, and the domestic institutions of conflict management on the other. Econometric evidence provides support for this hypothesis. Countries that experienced the sharpest drops in growth after 1975 were those with divided societies (as measured by indicators of inequality, ethnic fragmentation, and the like) and with weak institutions of conflict management (proxied by indicators of the quality of governmental institutions, rule of law, democratic rights, and social safety nets.).

PD January 1998. **TI** Democracies Pay Higher Wages. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6364; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 7. **PR** $5.00. **JE** H40, J31, O15. **KW** Wages. Democracy.

AB Controlling for labor productivity, income levels, and other possible determinants, there is a robust and statistically significant association between the extent of democratic rights and wages received by workers. The association exists both across countries and over time within countries. The coefficient estimates suggest that non-negligible wage improvements result from the enhancement of democratic institutions: average wages in a country like Mexico would be expected to increase by 10-30 percent were Mexico to attain a level of democracy comparable to that prevailing in the U.S.

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Rogers, Mark

PD November 1997. **TI** Convergence and Technology in the Solow-Swan Growth Model: An Empirical Analysis. **AU** Rogers, Mark; Dowrick, Steve. **AA** Australian National University. **SR** Australian National University Working Paper in Economics and Econometrics: 335; Faculty of Economics and Commerce and Research School of Social Sciences, Australian National University, Canberra ACT 0200, Australia. **PG** 34. **PR** no charge. **JE** O30, O47, O57. **KW** Solow-Swan Model. Technology Growth. Technological Catch-Up.

AB This paper reconsiders the empirical work on 'classical convergence.' Such work uses the Solow-Swan model to provide an empirical specification for cross-country growth regressions. A major assumption of these studies is that they assume that the growth of technology is equal in all countries. This assumption is in contrast to the empirical work that uses a technological catch-up model as the basis for empirical work. This paper uses the Solow-Swan model to provide an empirical specification that allows the assumption of common rates of technology growth to be tested. This is done by not following the normal methodology of log-linearizing the transitional dynamics of the Solow- Swan model, instead we use the actual nonlinear model. Using a panel data set of 57 countries for the 1965 to 1990 periods, we test for common rates of technology growth across countries and strongly reject this assumption. This is the case even when we augment the Solow-Swan model with human capital. The paper also uses a specification that incorporates both the Solow-Swan model and a technological catch-up model, finding that both models have explanatory power.

Rojas-Suarez, Liliana

TI Capital Mobility and Exchange Market Intervention in Developing Countries. **AU** Dooley, Michael P.; Mathieson, Donald J.; Rojas-Suarez, Liliana.

Ronald, Fagin

PD April 1999. **TI** The Hierarchical Approach to Modeling Knowledge and Common Knowledge. **AU** Ronald, Fagin; Geanakoplos, John; Halpern, Joseph Y.; Vardi, Moshe Y. **AA** Fagin: IBM Almaden Research Center. Geanakoplos: Yale University. Halpern: Cornell University. Vardi: Rice University. **SR** Yale Cowles Foundation Discussion Paper: 1213; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 31. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C72, D80. **KW** Knowledge. Beliefs. Hierarchy. Common Knowledge.

AB One approach to representing knowledge or belief of agents, used by economists and computer scientists, involves an infinite hierarchy of beliefs. (Economists have typically modeled belief in terms of a probability distribution on the uncertainty space. In contrast, computer scientists have modeled belief in terms of a set of worlds, intuitively, the ones the agent considers possible.) The authors consider the question of when a countable infinite hierarchy completely describes the uncertainty of the agents. They provide various necessary and sufficient conditions for this property. It turns out that the probability-based approach can be viewed as satisfying one of these conditions, which explains why a countable hierarchy suffices in this case. These conditions also show that whether a countable hierarchy suffices may depend on the "richness" of the states in the underlying state space. The authors also consider whether a countable hierarchy suffices for "interesting" sets of events.

Rose, Andrew K.

TI Staying Afloat When the Wind Shifts: External Factors and Emerging- Market Banking Crises. **AU** Eichengreen, Barry; Rose, Andrew K.

TI Understanding Exchange Rate Volatility Without the Contrivance of Macroeconomics. **AU** Flood, Robert P.; Rose, Andrew K.

PD August 1998. **TI** Contagion and Trade: Why are Currency Crises Regional. **AU** Rose, Andrew K.; Glick, Reuven. **AA** Rose: University of California, Berkeley. Glick: Federal Reserve Bank of San Francisco. **SR** Centre for Economic Policy Research Discussion Paper: 1947; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F31, F32, F34, F36. **KW** Speculative Attacks. Exchange Rates. Currency Crises. International Trade. Economic Integration.

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.

Rosen, Harvey S.

TI Entrepreneurs, Income Taxes, and Investment. **AU** Carroll, Robert; Holtz-Eakin, Douglas; Rider, Mark; Rosen, Harvey S.

Rosen, Sherwin

TI Theories of the Distribution of Labor Earnings. **AU** Neal, Derek; Rosen, Sherwin.

Rosenberg, Joshua V.

PD June 1997. **TI** Pricing Multivariate Contingent Claims using Estimated Risk-Neutral Density Functions. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/16; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 13. **PR** $5.00 each; $100.00 yearly subscription. **JE** F31, G12, G15. **KW** Asset Pricing. Contingent Claims. Flexible NLS.

AB Many asset price series exhibit time-varying volatility, jumps, and other features inconsistent with assumptions about the underlying price process made by standard multivariate contingent claims (MVCC) pricing models. This paper develops an interpolative technique for pricing MVCC's -- flexible NLS (non-linear least squares) pricing -- that involves

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the estimation of a flexible multivariate risk-neutral density function implied by existing asset prices. As an application, the flexible NLS pricing technique is used to value several bivariate contingent claims dependent on foreign exchange rates in 1993 and 1994. The bivariate flexible risk-neutral density function more accurately prices existing options than the bivariate lognormal density implied by a multivariate geometric brownian motion. In addition, the bivariate contingent claims analyzed have substantially different prices using the two density functions suggesting flexible NLS pricing may improve accuracy over standard methods.

PD October 1997. **TI** Option Hedging Using Empirical Pricing Kernels. **AU** Rosenberg, Joshua V.; Engle, Robert F. **AA** Rosenberg: New York University and National Bureau of Economic Research. Engle: University of California, San Diego and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6222; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** C22, C32, G12, G13. **KW** Asset Pricing. Pricing Kernels. Options. Hedging. Risk Aversion.

AB This paper develops a method for option hedging consistent with time- varying preferences and probabilities. The preferences are expressed in the form of an empirical pricing kernel (EPK), which measures the state price per unit probability, while probabilities are derived from an estimated stochastic volatility model of the form GARCH components with leverage. State prices are estimated using the flexible risk-neutral density method of Rosenberg (1995) and a daily cross-section of option premia. Time-varying preferences over states are linked to a dynamic model of underlying price to obtain a one-day ahead forecast of derivative price distributions and minimum variance hedge ratios. Empirical results suggest that risk aversion over S&P500 return states is substantially higher than risk aversion implied by Black-Scholes state prices and probabilities using long run estimates of S&P500 return moments. Hedging results reveal that typical hedging techniques for out- of-the-money S&P500 index options are inferior to the EPK hedging method.

TI Empirical Pricing Kernels. **AU** Engle, Robert F.; Rosenberg, Joshua V.

TI Testing the Volatility Term Structure Using Option Hedging Criteria. **AU** Engle, Robert F.; Rosenberg, Joshua V.

Rosenbloom, Joshua L.

PD November 1997. **TI** The Sources of Regional Variation in the Severity of the Great Depression: Evidence from U.S. Manufacturing, 1919-1937. **AU** Rosenbloom, Joshua L.; Sundstrom, William A. **AA** Rosenbloom: University of Kansas and National Bureau of Economic Research. Sundstrom: Santa Clara University. **SR** National Bureau of Economic Research Working Paper: 6288; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E32, N12, N62, R10. **KW** Great Depression. Business Cycles. Employment. Regional Variation. Economic History.

AB The severity of the Great Depression in the United States varied by region. Most notably, the South Atlantic states experienced a milder contraction, while the Mountain states suffered more severely. The impact of the contraction was more uniform across other regions of the country -- surprisingly so, considering the large regional differences in industrial structure. The authors employ data from the biennial Census of Manufactures on 20 individual manufacturing industries disaggregated by state to analyze the relative contributions of industry mix and location to regional variations in economic performance during the period 1919-1937. Industrial composition had a significant impact on regional employment growth, with regions that concentrated on the production of durable goods or inputs to the construction sector tending to fare worse than others. Long-run regional trends also played an important role in regional variation, and explain much of the South Atlantic region's more favorable performance over the cycle.

Ross, Stephen A.

TI High Water Marks. **AU** Goetzmann, William N.; Ingersoll, Jonathan, Jr..; Ross, Stephen A.

Rotemberg, Julio J.

PD March 1998. **TI** Cyclincal Movements in Wages and Consumption in a Bargaining Model of Unemployment. **AA** Harvard Business School and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6445; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** E21, E24, J23, J31, J64. **KW** Wage Bargaining. Unemployment. Demand Elasticity. Employment. Consumption.

AB This paper considers a model where individual workers bargain with firms over their wages and where their bargaining power is so strong that some workers are unemployed. The result is that an increase in the elasticity of demand facing individual firms raises employment but that wages rise only modestly. In fact, some job-specific wages actually fall. Nonetheless, average wages may rise either because wages of non- rationed workers rise or because there is cyclical upgrading of jobs. Assuming that workers are also rationed in financial markets, the increase in employment that accompanies the increase in the demand elasticity for individual products also increases consumption substantially. Thus, the model rationalizes the finding that real wages rise less in booms than does consumption. At the same time, the model is consistent with a lack of secular movements in hours and unemployment as well as a secular proportionality of consumption and real wages.

Rother, Philipp C.

PD March 1999. **TI** Explaining the Behavior of Financial Intermediation: Evidence from Transition Economies. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/36; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** E44, E51, G21, G28. **KW** Financial Intermediation. Transition Economies. Banking. Money Multiplier. Credit.

AB This paper investigates the effects of macroeconomic and structural variables on financial intermediation. To this end, it presents a theoretical foundation for two new measures of intermediation, the money multiplier and the ratio of private sector credit to monetary base. Results from panel estimations covering 19 transition economies indicate that policy makers

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need to address in particular the problems of bad loans on bank balance sheets and high market concentration while maintaining a stable macroeconomic environment. Further variables, such as minimum reserve requirements and the capital adequacy ratio, are found to possess less explanatory power.

Rousseau, Peter L.

PD March 1998. **TI** Equity Markets and Growth: Cross-Country Evidence on Timing and Outcomes, 1980-1995. **AU** Rousseau, Peter L.; Wachtel, Paul. **AA** Rousseau: Vanderbilt University. Wachtel: New York University. **SR** New York University, Salomon Center Working Paper: S/98/24; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 24. **PR** $5.00 each; $100.00 yearly subscription. **JE** F21, G12, G15, O16, O40. **KW** Equity Markets. Growth. Macroeconomics. Vector Autoregression.

AB The rapid expansion of organized equity exchanges in emerging and developed markets over the past decade has prompted policymakers to raise important questions about their macroeconomic impact, yet the need to focus on recent data poses implementation difficulties for econometric studies of dynamic interactions between stock markets and measures of economic performance in individual countries. This paper examines dynamic relationships, however, by applying recent developments in the analysis of panels with a small time dimension to estimate vector autoregressions for a set of forty-four countries over the 1980-1996 period. After describing the state of current theory on the role of stock markets in promoting growth and discussing the advantages and limitations of pure cross-country, cross-sectional empirical approaches, we present VAR evidence of a leading role for measures of stock market size and liquidity in both output and investment. In particular, we find the link strongest between stock markets and investment for the emerging markets, and between intermediaries and output for the developed markets. The findings underscore the potential gains associated with developing deep and liquid financial markets in an increasingly global economy.

Rubinstein, Ariel

TI On the Question "Who is a J?" A Social Approach. **AU** Kasher, Asa; Rubinstein, Ariel.

PD February 1999. **TI** Experience from a Course in Game Theory: Pre and Post-Class Problem Sets as a Didactic Device. **AA** Tel-Aviv University and Princeton University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 07/99; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 17. **PR** no charge. **JE** A22, C70, C91, C92. **KW** Game Theory. Teaching. Experiments.

AB The paper summarizes my experience in teaching an undergraduate course in game theory in 1998. Students were required to submit two types of problem sets: pre-class problem sets, which served as experiments, and post-class problem sets, which require the students to study and apply the solution concepts taught in the course. The sharp separation between the two types of problem sets emphasizes the limited relevance of game theory as a tool for making predictions and giving advice. The paper summarizes the results of 41 experiments which were conducted during the course. It is argued that the crude experimental methods produced results which are not substantially different from those obtained at much higher cost using stricter experimental methods.

Rubinstein, Yona

PD December 1998. **TI** Coping with Technological Progress: The Role of Ability in Making Inequality so Persistent. **AU** Rubinstein, Yona; Tsiddon, Daniel. **AA** Rubinstein: University of Chicago. Tsiddon: Tel-Aviv University, The Bank of Israel and Center for Economic Policy Research. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 27/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 54. **PR** no charge. **JE** D31, I21, J31, O40. **KW** Ability. Wage Inequality. Mobility. Technological Progress.

AB This study explains the recent evolution of wage inequality. A faster rate of technological progress weakens the link between schooling and work, and increases the need to cope with the unknown during one's working life. Coping with the unknown demands ability. By accentuating the role of ability, technological progress increases wage inequality within each group of education as well as between education groups. In as much as education is an irreversible investment, the rise in within group inequality boosts up the rise of between group inequality. Using parents' education to approximate child's ability, the authors analyze data from the Panel Study of Income Dynamics and find that: (a) Controlling for education of the child, parents' education contributed a lot more in the 1980's to wage growth than in the 1970's. (b) The correlation between the parents' and the child's education increases from the 1970's to the 1980's. (c) The uncertainty of post-college wage increases relative to the uncertainty of post-high school wages over the same period. (d) Parents' education explains over 30 percent of the rise in unexplained wage inequality; and (e) It is parents' education and not parents' income that explains the wage growth of their children.

Rueben, Kim S.

TI State Fiscal Institutions and the U.S. Municipal Bond Market. **AU** Poterba, James M.; Rueben, Kim S.

Ruhashyankiko, Jean-Francois

PD January 1999. **TI** The Euro and the Production Structure and Export Performance of Middle East and North African Countries. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/12; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** F02, F14, F15, F33, O53. **KW** Euro. Exchange Rates. Exports. Production Structure.

AB This paper explores the link between exchange rate volatility of European currencies and economic performance of several countries in the Middle East and North Africa (MENA). The elimination of intra euro-zone exchange rate volatility resulting from the introduction of the euro is estimated to affect the production structure of MENA economies and shift their exports from manufacturing to agriculture and services. At the country and industry levels, the impact of the euro is more striking in countries with higher shares of manufacturing and higher shares of exports to the euro zone.

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Ryan, Stephen G.

TI The Risks- and Value-Relevance of Revisions of Accrual Estimates: Evidence from Property-Casualty Insurers' Loss Reserve Development Disclosures. **AU** Petroni, Kathy R.; Ryan, Stephen G.; Wahlen, James M.

Saa-Requejo, Jesus

TI Financial Constraints and Stock Returns. **AU** Lamont, Owens; Polk, Christopher; Saa-Requejo, Jesus.

Sacerdoti, Emilio

PD November 1998. **TI** The Impact of Human Capital on Growth: Evidence from West Africa. **AU** Sacerdoti, Emilio; Brunschwig, Sonia; Tang, Jon. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/162; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 32. **PR** not available. **JE** F43, J24, O15, O47, O55. **KW** Human Capital. Growth. Africa.

AB This paper analyzes the impact of human capital on growth, on the basis of refined calculations of human capital, and with a focus on West Africa. Using a growth-accounting methodology, it distinguishes the sources of growth between the accumulation of factors of production and changes in production intensity or efficiency. Private capital is found to be particularly important to growth, but human capital appears not to be significant. The paper also identifies the terms of trade, trade openness, the government deficit, and the share of government investment in total investment as key policy variables affecting growth.

Sadka, Efraim

TI Channeling Domestic Savings into Productive Investment under Asymmetric Information: The Essential Role of Foreign Direct Investment. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI Quantitative Implications of the Home Bias: Foreign Underinvestment, Domestic Oversaving, and Corrective Taxation. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

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.

TI Do Debt Flows Crowd Out Equity Flows Or the Other Way Round? **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI Capital Flows with Debt- and Equity-Financed Investment: Equilibrium Structure and Efficiency Implications. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI An Information-Based Model of Foreign Direct Investment: The Gains from Trade Revisited. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI Migration and Pension. **AU** Razin, Assaf; Sadka, Efraim.

TI Unskilled Migration: A Burden or a Boon for the Welfare State. **AU** Razin, Assaf; Sadka, Efraim.

Saffer, Henry

PD February 1998. **TI** Demographic Differentials in the Demand for Alcohol and Illicit Drugs. **AU** Saffer, Henry; Chaloupka, Frank. **AA** Saffer: National Bureau of Economic Research. Chaloupka: University of Illinois, Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6432; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 17. **PR** $5.00. **JE** D12, I10, J10. **KW** Drug Use. Elasticity. Alcohol. Consumer Behavior. Demographics.

AB The purpose of this paper is to estimate demographic differentials in alcohol and illicit drug use, participation, own price effects and cross price effects. This paper uses a data set of over 49,000 individuals from the National Household Survey of Drug Abuse and links drug and alcohol prices and policies to the individual records. Public policies designed to reduce substance abuse have been oriented towards increasing the price of alcohol and illicit drugs. Little is known about the relative responsiveness of various demographic groups to these policies. The results show a consistent pattern of negative own price effects for alcohol and illicit drugs and complimentarity between alcohol and illicit drugs. The own price effects did not differ substantially between demographic groups suggesting that price policies have a similar effect on all demographic groups. The pattern of complimentarity between alcohol and illicit drugs suggests that alcohol taxes also reduce drug use.

Saint-Paul, Gilles

TI Explaining Movements in the Labour Share. **AU** Bentolila, Samuel; Saint-Paul, Gilles.

Sala-i-Martin, Xavier X.

PD November 1997. **TI** I Just Ran Four Million Regressions. **AA** Columbia University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6252; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 21. **PR** $5.00. **JE** O41, O47, O51, O52, O53. **KW** Economic Fluctuations. Growth. Extreme Bounds.

AB In this paper I try to move away from the Extreme Bounds method of identifying "robust" empirical relations in the economic growth literature. Instead of analyzing the extreme bounds of the estimates of the coefficient of a particular variable, I analyze the entire distribution. My claim in this paper is that, if we do this, the picture emerging from the empirical growth literature is not the pessimistic "Nothing is Robust" that we get with the extreme bound analysis. Instead, we find that a substantial number of variables can be found to be strongly related to growth.

Samwick, Andrew A.

PD October 1997. **TI** Discount Rate Heterogeneity and Social Security Reform. **AA** Dartmouth College and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6219; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 49. **PR** $5.00. **JE** D91, E21, E62, H55. **KW** Aging. Public Economics. Social Security. Consumption. Privatization.

AB As many countries consider the privatization of existing pay-as-you- go Social Security systems, the option to make

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participation in the new system voluntary may appeal to policy makers who need to obtain the political support of their workers. A critical issue in evaluating such a reform and its economic consequences is the unobserved heterogeneity in households' preferences for consumption. This paper estimates the distribution of rates of time preference. The estimated distribution is then applied to a variety of reform proposals that incorporate a voluntary choice of how much to contribute to a dedicated retirement account and a rebate of the existing payroll tax that increases with the magnitude of the contribution. The main finding is that an appropriate menu of reform plans can induce the voluntary buy out of 84 percent of existing payroll taxes at an immediate cost to national saving of less than 0.25 percentage point.

Santos Silva, Joao M. C.

PD January 1999. **TI** Two-Part Multiple Spell Models for Health Care Demand. **AU** Santos Silva, Joao M. C.; Windmeijer, Frank. **AA** Santos Silva: ISEG and Universidade Tecnica de Lisboa. Windmeijer: Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W99/02; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 17. **PR** 3 pounds. **JE** C12, C13, C25, I11. **KW** Health Care. Demand. Hurdle Model. Multiple Spell.

AB The demand for certain types of health care services depends on decisions of both the individual and the health care provider. This paper studies the conditions under which it is possible to separately identify the parameters driving the two decision processes using only data on the total demand. It is found that the frequently used hurdle models may not be adequate to describe this type of demand, especially when the assumption of a single illness spell per observation period is violated. A test for the single spell hypothesis is developed and alternative modeling strategies are suggested. The results of the paper are illustrated with an application.

Sarbaum, Jeffrey K.

PD March 1998. **TI** The Effects of Price Changes on Alcohol Consumption in Alcohol- Experienced Rats. **AU** Sarbaum, Jeffrey K.; Polachek, Solomon W.; Spear, Norman E. **AA** Sarbaum: Willamette University. Polachek and Spear: State University of New York. **SR** National Bureau of Economic Research Working Paper: 6443; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** $5.00. **JE** C91, D11, D12, I10. **KW** Addiction. Experiments. Alcoholism. Consumer Behavior. Habit Formation.

AB This paper reports results of two experiments designed to measure how addicted rats (i.e. laboratory rats with previous ethanol exposure) respond to changes in the price of ethanol. For both experiments, rats facing a budget constraint choose between two alternative non-ethanol commodities in a morning control session and between ethanol and a non- ethanol commodity in an afternoon session. The results from both experiments show that economic models of consumer choice are a useful tool to study ethanol and non-ethanol consumption in rats, and that a history of ethanol exposure did not interfere with rats' ability to behave according to economic theory. In the first experiment, rats responded only moderately to a 100% price increase, but more dramatically for a 400% ethanol price increase. However, going back to baseline prices after a prolonged duration of high ethanol prices yields some evidence that ethanol consumption declines below its original levels.

Schankerman, Mark

TI Stylized Facts of Patent Litigation: Value, Scope and Ownership. **AU** Lanjouw, Jean O.; Schankerman, Mark.

TI Patent Renewals and R&D Incentives. **AU** Cornelli, Francesca; Schankerman, Mark.

Scharfstein, David S.

PD January 1998. **TI** The Dark Side of Internal Capital Markets II: Evidence from Diversified Conglomerates. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6352; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G31, L22, L60. **KW** Capital Allocation. Manufacturing. Investment. Agency Problems.

AB This paper is an empirical examination of capital allocation in a sample of 165 diversified conglomerates in 1979. The author finds that divisions in high-Q manufacturing industries tend to invest less than their stand-alone industry peers, while divisions in low-Q manufacturing industries tend to invest more than their stand-alone industry peers. This sort of "socialism" in capital allocation in which investment tends to get equalized across divisions is particularly pronounced in a conglomerate's smaller divisions. It is also more pronounced in firms in which management has small equity stakes suggesting that agency problems between corporate headquarters and investors are at the root of the problem. By 1994, only 53 (32 percent) of these firms continue to be free-standing diversified conglomerates. Fifty-five (33 percent) choose to sell off unrelated divisions and focus on one core business. The remaining 57 (35 percent) firms were acquired or (in two cases) liquidated.

Schill, Michael

TI Conditional Market Timing with Benchmark Investors. **AU** Becker, Connie; Ferson, Wayne; Myers, David; Schill, Michael.

Schinasi, Garry J.

PD December 1998. **TI** Fixed-Income Markets in the United States, Europe, and Japan: Some Lessons for Emerging Markets. **AU** Schinasi, Garry J.; Smith, R. Todd. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/173; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 40. **PR** not available. **JE** E44, G18, G30, H63. **KW** Government Securities Market. Corporate Debt Markets. Financial Regulation. Debt.

AB This paper identifies factors that contributed to the development and effectiveness of debt securities markets in the major advanced economies. Government securities markets have benefited from their international orientation -- debt management is most effective when it is independent of monetary and exchange rate policies; and financial infrastructures should be patterned on the standards of liquidity, transparency, issuing and trading efficiency, and tax treatment. The same degree of consensus does not exist for corporate debt securities markets. The paper identifies six regulatory and

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market-created factors that help explain why the U.S. corporate debt market has flourished, while corporate debt securities markets elsewhere have only recently begun to develop.

Schmeits, Anjolein

TI Market Discipline and Incentive Problems in Conglomerate Banks. **AU** Boot, Arnoud W. A.; Schmeits, Anjolein.

Schummer, James

PD February 1999. **TI** Strategy-Proof Location on a Network. **AU** Schummer, James; Vohra, Rakesh V. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1253; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 20. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C72, D71, D78. **KW** Strategy-Proof Rules. Single-Peaked. Graph Cycles. Tree. Median Voter.

AB We consider rules that choose a location on a graph (e.g. a network of roads) based on the report of agents' symmetric, single-peaked preferences over points on that graph. We show that while a strategy- proof, onto rule is not necessarily dictatorial, the existence of a cycle on the graph grants one agent a certain amount of decisive power. This result surprisingly characterizes the class of strategy-proof, onto rules both in terms of a certain subclass of such rules for trees and in terms of a parameterized set of generalized median voter schemes.

Schwartz, Aba

PD October 1998. **TI** The Interrelation of Wage Series of Firms to Each Other and to the Series of their Employment Level. Facts from Microdata. **AA** Tel-Aviv University. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 23/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 28. **PR** no charge. **JE** J21, J23, J31. **KW** Wage Hierarchy. Wage Series. Employment. Firms.

AB The paper characterizes the following empirical relations between firms in an industry and between industries: a) How the wage hierarchy of industries and that of firms (within each of the different industries) changes over time. b) The relation of the average firm's wage to its size and the similar relation for different industries. c) The short-run relation between the firm's average wage and its employment level, and the way size affects it. d) The transfer mechanism of wage changes from firm to firm and from industry to industry.

Schwartz, Gerd

TI Economic Determinants of Government Subsidies. **AU** Clements, Benedict; Rodriguez, Hugo; Schwartz, Gerd.

Schwert, G. William

PD January 1998. **TI** Stock Market Volatility: Ten Years After the Crash. **AA** University of Rochester and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6381; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 18. **PR** $5.00. **JE** G12, G14, G15. **KW** Financial Markets. Stock Returns. Market Volatility.

AB Stock volatility has been unusually low since the 1987 stock market crash. The large increase in stock prices since 1987 means that many days during 1996 and 1997 experienced near record changes in the Dow Jones Industrial Average, even though the volatility of stock returns has not been high by historical standards. The author compares volatility of returns to U.S. stock indexes at monthly, daily, and intraday intervals, and he also shows the volatility of returns to stock indexes implied by traded options contracts. Finally, the author compares the volatility of U.S. stock market returns with the volatility of returns to stock markets in the United Kingdom, Germany, Japan, Australia, and Canada. All of the evidence leads to the conclusion that volatility has been very low in the decade since the 1987 crash. The mini-crash of October 27, 1997 reinforces the need to reevaluate the current system of circuit breakers.

Scotchmer, Suzanne

TI Clubs and the Market: Continuum Economics. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R.

TI Clubs and the Market: Large Finite Economies. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R.

TI On the Evolution of Attitudes Towards Risk in Winner-Take-All Games. **AU** Dekel, Eddie; Scotchmer, Suzanne.

Senhadji, Abdelhak

PD October 1998. **TI** Time Series Analysis of Export Demand Equations: A Cross-Country Analysis. **AU** Senhadji, Abdelhak; Montenegro, Claudio. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/149; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** C22, E21, F14, F41. **KW** Export Demand. Income Elasticity. Price Elasticity. Cointegration. Time Series.

AB This paper estimates export demand elasticities for a large number of developing and developed countries, using time-series techniques that account for the nonstationarity in the data. The average long-run price and income elasticities are found to be approximately negative 1 and 1.5, respectively. Thus, exports do react to both the trade partners' income and to relative prices. Africa faces the lowest income elasticities for its exports, while Asia has both the highest income and price elasticities. The price and income elasticity estimates have good statistical properties.

Servaes, Henri

TI The Cost of Diversity: The Diversification Discount and Inefficient Investment. **AU** Rajan, Raghuram G.; Servaes, Henri; Zingales, Luigi.

Shapiro, Matthew D.

TI Costly Capital Reallocation and the Effects of Government Spending. **AU** Ramey, Valerie A.; Shapiro, Matthew D.

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Shaply, Lloyd S.

TI Multiperson Utility. **AU** Baucells, Manel; Shaply, Lloyd S.

Shavell, Steven

TI On the Superiority of Corrective Taxes to Quantity Regulation. **AU** Kaplow, Louis; Shavell, Steven.

TI On the Disutility and Discounting of Imprisonment and the Theory of Deterrence. **AU** Polinsky, A. Mitchell; Shavell, Steven.

Shiller, Robert J.

PD January 1998. **TI** Indexed Units of Accounts: Theory and Assessment of Historical Experience. **AA** Yale University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6356; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E42. **KW** Monetary Theory. Units of Account. Money Analogues. Chile.

AB An indexed unit of account is a money analogue used to express prices; the unit's purchasing power is defined by an index. Indexed units of account are not true money in that they are not used as a medium of exchange. The first successful indexed unit of account, the Unidad de Fomento has been used in Chile since 1967, and has been copied in Colombia, Ecuador, Mexico, and Uruguay. The reasons for creating such units are discussed from the standpoint of monetary theory. The experience with such units in Chile is discussed. It is argued that important practical problems in implementing indexation were solved by creating such indexed units of account. The existing indexed units of account may not be ideal for all purposes, however, and alternative definitions of the units, relating the units to measures of income, may be advantageous. The indexed units of account might someday be "monetized".

PD January 1998. **TI** Human Behavior and the Efficiency of the Financial System. **AA** Yale University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6375; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G11, G12, G13. **KW** Financial Markets. Empirical Finance. Human Behavior. Psychology. Sociology.

AB Recent literature in empirical finance is surveyed in its relation to underlying behavioral principles, principles which come primarily from psychology, sociology and anthropology. The behavioral principles discussed are: prospect theory, regret and cognitive dissonance, anchoring, mental compartments, overconfidence, over- and underreaction, representativeness heuristic, the disjunction effect, gambling behavior and speculation, perceived irrelevance of history, magical thinking, quasi-magical thinking, attention anomalies, the availability heuristic, culture and social contagion, and global culture.

PD March 1999. **TI** Measuring Bubble Expectations and Investor Confidence. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1212; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 25. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** G12. **KW** Stock Markets. Institutional Investors. Expectations. Market Sentiment. Asset Pricing.

AB This paper presents evidence on attitude changes among investors in the U.S. stock market. Two basic attitudes are explored: bubble expectations and investor confidence. Semiannual time-series indicators of these attitudes are presented for U.S. stock market institutional investors based on questionnaire survey results 1989-1998. Five different time-series indicators of whether there is among investors an expectation of a speculative bubble are produced. Four different time- series indicators of whether there is an expectation of a negative speculative bubble are presented. Four different time-series indicators of investor confidence are produced. Time-series variation for these indicators is significant, and cross correlations are generally positive. A bubble expectations index, a negative-bubble expectations index, and an investor confidence index are derived from these indicators. Behavior of the indicators and indexes through time is examined, and the indexes are compared with other economic variables. A notable finding is a degree of high-frequency fluctuation in the indexes.

Shin, Hyun Song

TI A Theory of the Onset of Currency Attacks. **AU** Morris, Stephen; Shin, Hyun Song.

Shome, Parthasarathi

PD February 1999. **TI** Taxation in Latin America: Structural Trends and Impact of Administration. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/19; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** E62, H24, H25, H29, H87. **KW** Latin America. Taxation Trends. Tax Policy. Tax Administration.

AB From the mid-1980's to early 1990's, Latin American tax policy provided rich lessons for other reforming countries. Meaningful innovations led also to perceptible revenue gains. Later in the 1990's, tax policies began to drift. Shining examples of fundamental reform seemed to lose their luster. Revenue in terms of GDP also stagnated, partly reflecting over-reliance on consumption taxes and neglect of taxable capacity on incomes. The stagnation has been exacerbated by excessively simplified administrative practices. Based on these developments and on the limited taxability of internationally mobile capital, the paper anticipates a likely tax structure for the new century.

Shubik, Martin

PD October 1998. **TI** Fiat Money and the Efficient Financing of the Float, Production and Consumption Part I: The Float. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1202; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 14. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C72, E31, E41, G21. **KW** Fiat Money. Float. Strategic Market Games. Price Level.

AB The basic distinction in the optimization conditions between the general equilibrium model of a T period exchange economy and a strategic market game process model is between a set of equations homogenous of order zero and a set of non-homogenous equations. The latter have an amount M of outside or fiat money added to the system. If there is an outside bank willing to lend or accept deposits at an interest rate of $p > 0$ at the end of time T the initial amount of money M will have been

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consumed in interest payments to the outside bank. The price level is fully determined and in an economy where all assets are traded, the float is financed efficiently, otherwise there is a price wedged between buying and selling prices.

Shull, Bernard

PD August 1997. **TI** Of Firewalls and Subsidiaries: The Right Stuff for Expanded Bank Activities. **AU** Shull, Bernard; White, Lawrence J. **AA** Shull: City University of New York. White: New York University. **SR** New York University, Salomon Center Working Paper: S/98/10; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 44. **PR** $5.00 each; $100.00 yearly subscription. **JE** G21, G23, G28, N20. **KW** Non-Traditional Banking. Op-Sub Approach. Universal Bank. Bank Subsidiaries.

AB The extent and structure of non-banking activities for commercial banks has been a long-standing policy concern for the United States. Recently, three alternative models for the undertaking of non- traditional activities -- the universal bank, the separate subsidiary of the holding company, and the operating subsidiary of the bank -- have come the fore. After reviewing the history of activity restrictions on banks and providing an analytical framework for considering the appropriate structure, we conclude that the "op-sub" approach has modest advantages, but that even it carries substantial risks and requires vigorous monitoring and enforcement.

Sibert, Anne C.

TI Transition Issues for the European Monetary Union. **AU** Buiter, Willem H.; Sibert, Anne C.

Siegel, Jonathan M.

TI Capital Gains Taxation and Tax Avoidance: New Evidence from Panel Data. **AU** Auerbach, Alan J.; Burman, Leonard E.; Siegel, Jonathan M.

Silverman, Kenneth

PD February 1998. **TI** Employment as a Drug Abuse Treatment Intervention: A Behavioral Economic Analysis. **AU** Silverman, Kenneth; Robles, Elias. **AA** Johns Hopkins University. **SR** National Bureau of Economic Research Working Paper: 6402; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D10, I12, J22, J23, J64. **KW** Drug Abuse. Employment. Methadone. Opportunity Costs. Behavioral Income.

AB The fields of operant conditioning and behavioral economics suggest that employment may be useful in the treatment of drug abuse. The conditions under which employment should decrease drug use depend on a range of environmental contextual factors, some of which have been classified or suggested by adapting the economic concepts of income, substitutability and complementarity, and opportunity cost to the analysis of behavior. A job can occupy a substantial portion of a person's day, thereby reducing the amount of time available for drug consumption. Because money buys drugs, monetary pay for work may increase or sustain drug use, suggesting a potential undesirable by- product of employment. Finally, employment may decrease drug use to the extent that drug use results in loss of wages or job termination. This paper reviews research in these three areas with the goal of identifying an effective employment-based treatment intervention for chronically unemployed methadone patients.

Simpson, Cathy A.

TI Delayed Reward Discounting in Alcohol Abuse. **AU** Vuchinich, Rudy E.; Simpson, Cathy A.

Singh, Ajit

TI How Intensive is Competition in the Emerging Markets? An Analysis of Corporate Rates of Return from Nine Emerging Markets. **AU** Glen, Jack; Singh, Ajit; Matthias, Rudolph.

Sinn, Hans-Werner

PD October 1997. **TI** The Value of Children and Immigrants in a Pay-As-You-Go Pension System: A Proposal for a Partial Transition to a Funded System. **AA** University of Munich and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6229; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** H55, J10, J61. **KW** Public Economics. Pay As You Go. Social Security. Fiscal Externality. Immigration.

AB It is shown that the net fiscal externality created by an additional member of a pay-as-you-go pension system that is endowed with individual accounts equals the gross contributions of this member. In Germany, this is an amount of about DM 175,000. The paper uses this information to design a hybrid funded system that avoids this externality and improves the public pension system under equity and efficiency considerations.

Siskind, Aaron

TI Assessing Bias in the Consumer Price Index from Survey Data. **AU** Krueger, Alan B.; Siskind, Aaron.

Skiadas, Costis

TI Rationalizable Trade. **AU** Morris, Stephen; Skiadas, Costis.

Skinner, Jonathon

TI What Accounts for the Variation in Retirement Wealth Among U.S. Households? **AU** Bernheim, B. Douglas; Skinner, Jonathon; Weinberg, Steven.

Slaughter, Matthew J.

PD November 1997. **TI** International Trade and Labor-Demand Elasticities. **AA** Dartmouth College and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6262; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 37. **PR** $5.00. **JE** F10, F41, J23, J31, L60. **KW** International Trade. Investment. Labor Demand. Manufacturing. Price Elasticity.

AB This paper tries to determine whether international trade has been increasing the own-price elasticity of demand for U.S. labor in recent decades. The empirical work yields three main results. First, from 1960 through 1990 demand for U.S. production labor became more elastic in manufacturing overall and in five of eight industries within manufacturing. Second, during this time U.S. nonproduction-labor demand did not become more elastic in manufacturing overall or in any of the

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eight industries within manufacturing. If anything, demand seems to be growing less elastic over time. Third, the hypothesis that trade contributed to increased elasticities has mixed support, at best. For production labor many trade variables have the predicted effect for specifications with only industry controls, but these predicted effects disappear when time controls are included as well. For nonproduction labor things are somewhat better, but time continues to be a very strong predictor of elasticity patterns.

TI Does the Sector Bias of Skill-Biased Technical Change Explain Changing Wage Inequality? **AU** Haskel, Jonathan E.; Slaughter, Matthew J.

Smetters, Kent A.

TI Simulating U.S. Tax Reform. **AU** Altig, David; Auerbach, Alan J.; Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

TI Simulating U.S. Tax Reform. **AU** Altig, David; Auerbach, Alan J.; Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

TI Social Security: Privatization and Progressivity. **AU** Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

TI Opting Out of Social Security and Adverse Selection. **AU** Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

Smith, R. Todd

TI Fixed-Income Markets in the United States, Europe, and Japan: Some Lessons for Emerging Markets. **AU** Schinasi, Garry J.; Smith, R. Todd.

Smith, Vernon L.

TI Do the Rich Get Richer and the Poor Poorer? Experimental Tests of a Model of Power. **AU** Durham, Yvonne; Hirshleifer, Jack; Smith, Vernon L.

Smorodinsky, Rann

TI Bayesian Representation of Stochastic Processes under Learning: de Finetti Revisited. **AU** Jackson, Matthew O.; Kalai, Ehud; Smorodinsky, Rann.

TI Large Non-Anonymous Repeated Games. **AU** Al-Najjar, Nabil I.; Smorodinsky, Rann.

Snower, Dennis J.

TI Anatomy of Policy Complementarities. **AU** Orszag, Mike; Snower, Dennis J.

Solan, Eilon

PD September 1998. **TI** Quitting Games. **AU** Solan, Eilon; Vieille, Nicolas. **AA** Solan: Northern University. Vieille: Universite Paris. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1227; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 29. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C62, C72, C73. **KW** Quitting Game. Equilibrium Payoff. Dynkin. Stopping Games.

AB Quitting games are sequential games in which, at any stage, each player has the choice between continuing and quitting. The game ends as soon as at least one player chooses to quit; player i then receives a payoff, which depends on the set S of players that did choose to quit. If the game never ends, the payoff to each player is zero. The authors prove the existence of a cyclic epsilon-equilibrium under some assumptions on the payoff function. The authors prove on an example that their result is essentially optimal. They also discuss the relation to Dynkin's stopping games, and provide a generalization of their result to these games.

Somers, Harold M.

PD April 1998. **TI** Tax Policy Issues. Junk Bonds -- Capital Gains -- Multinationals. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 776; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 22. **PR** $5.00. **JE** F23, H24, H25. **KW** Tax. Junk Bonds. Capital Gains. Multinationals.
AB Junk bond yields are still high compared with Treasury bonds, but are much subdued compared with their height before the 1989-90 debacle. Risk is also high but some risk-reducing factors are now at work. A tax policy challenge is to reduce the strong incentive to use leverage rather than equity to finance capital projects. Capital gains have again become subject to tax tinkering. The complexity of the applicable provisions approaches infinity. A few consolations exist: complexity will decrease after the transitional 1997 tax year; a 20 percent maximum rate has become a realistic prospect; the lower rate did not cause a stock market crash; and most homeowners have received a bonanza. Open policy issues are: indexing for inflation; reversion to the old 12-month rule instead of 18 months; and, with the Internal Revenue Code as a whole, a reduction of complexity. Multinational companies remain the subject of attention. Transfer pricing practices require constant surveillance in view of temptations caused by disparate taxing provisions around the world. Official bribery in some jurisdictions presents special problems in enforcing United States laws. Tax credits, multinational agreements and specific tax treaties must be relied on to ensure equitable treatment between companies.

Sorensen, Bent E.

TI Consumption Smoothing through Fiscal Policy in OECD and EU Countries. **AU** Arreaza, Adriana; Sorensen, Bent E.; Yosha, Oved.

Spear, Norman E.

TI The Effects of Price Changes on Alcohol Consumption in Alcohol- Experienced Rats. **AU** Sarbaum, Jeffrey K.; Polachek, Solomon W.; Spear, Norman E.

Spiegel, Yossi

TI When Do Representative and Direct Democracies Lead to Similar Policy Choices. **AU** Cukierman, Alex; Spiegel, Yossi.

TI Public Disclosure of Patent Applications, R&D, and Welfare. **AU** Aoki, Reiko; Spiegel, Yossi.

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Sproul, Michael F.

PD January 1998. **TI** Backed Money, Fiat Money, and the Real Bills Doctrine. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 774; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 27. **PR** $5.00. **JE** E50. **KW** Real Bills. Quantity Theory. Banking. Backing Theory. Fiat Money.

AB In this paper I argue that the real bills doctrine has been wrongly discredited, and that it ought to displace the quantity theory as the dominant theory of money. The discussion begins with the observation that the issue of backed money will not be inflationary as long as central banks follow the real-bills rule of only issuing money to those customers who offer good security in exchange. I then contend that modern paper currencies, which we normally think of as unbacked fiat money, may in fact be (and probably are) backed. If correct, this would imply that the real bills doctrine, and not the quantity theory, is a correct model of the value of modern money. The paper concludes by discussing a few controversies in the history of the real bills doctrine, and shows that the major arguments responsible for the defeat of the real bills doctrine contain obvious and serious errors.

PD January 1998. **TI** The Quantity Theory Versus the Real Bills Doctrine in Colonial America. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 775; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 19. **PR** $5.00. **JE** E50. **KW** Colonial America. Quantity Theory. Real Bills Doctrine. Fiat Money. Backed Money.

AB Colonial American currency has been cited as an example of the failure of the quantity theory. A case has been made in favor of the "backing theory", which holds that money's value is determined by its backing, rather than its quantity. This paper explains that Colonial currencies were both backed and convertible, so that the quantity theory could not have been relevant to their value. The finding that currency values were best explained by their backing merely confirms the obvious proposition that backed money is worth its backing, but it neither refutes nor supports the quantity theory.

Stabile, Mark

TI Graduation to Health Insurance Coverage 1981-1996. **AU** Glied, Sherry; Stabile, Mark.

TI Avoiding Health Insurance Crowd-Out: Evidence From the Medicare as Secondary Payer Legislation. **AU** Glied, Sherry; Stabile, Mark.

Stapleton, Richard C.

PD December 1997. **TI** Arbitrage Restrictions and Multi-Factor Models of the Term Structure of Interest Rates. **AU** Stapleton, Richard C.; Subrahmanyam, Marti G. **AA** Stapleton: Lancaster University. Subrahmanyam: New York University. **SR** New York University, Salomon Center Working Paper: S/98/25; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 27. **PR** $5.00 each; $100.00 yearly subscription. **JE** E43, G12, G13. **KW** Term Structure. Interest Rates. No-Arbitrage Model. Correlation.

AB In this paper we investigate models of the term structure where the factors are interest rates. As an example, we derive a no-arbitrage model of the term structure in which any two futures (as opposed to forward) rates act as factors. The term structure shifts and tilts as the factor rates vary. The cross-sectional properties of the model derive from the solution of a two-dimensional autoregressive process for the short rate, which exhibits mean reversion and a lagged memory parameter. We show that the correlation of the factor rates is restricted by the no-arbitrage conditions of the model. Hence in a multiple-factor model it is not valid to independently choose both the mean reversion, volatility and correlation parameters, contrary to the approach of some models in the literature. The term-structure model, derived here, can be used to value options on bonds and swaps or to generate term structure scenarios for the risk management of portfolios of interest-rate derivatives.

TI An Arbitrage-Free Two-factor Model of the Term Structure of Interest Rates: A Multivariate Binomial Approach. **AU** Peterson, Sandra; Stapleton, Richard C.; Subrahmanyam, Marti G.

Stavins, Robert N.

TI The Induced Innovation Hypothesis and Energy-Saving Technological Change. **AU** Newell, Richard G.; Jaffe, Adam B.; Stavins, Robert N.

Steigerwald, Douglas

TI Consumption Adjustment Under Changing Income Uncertainty. **AU** Hahm, Joon-Ho; Steigerwald, Douglas.

Stein, Ernesto

PD January 1998. **TI** Institutional Arrangements and Fiscal Performance: The Latin American Experience. **AU** Stein, Ernesto; Talvi, Ernesto; Grisanti, Alejandro. **AA** Stein and Grisanti: Inter-American Development Bank. Talvi: CERES. **SR** National Bureau of Economic Research Working Paper: 6358; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 32. **PR** $5.00. **JE** D72, E62, H61, H62, H63. **KW** Fiscal Policy. Debt. Deficit. Electoral Systems. Budget.

AB This paper explores the links between institutional arrangements and fiscal performance in Latin America. We consider four measures of fiscal performance, namely, the level of government expenditures, the size of fiscal deficits and debt, and the response of fiscal policy to business fluctuations; and two institutional dimensions, namely, electoral systems and budgetary processes. We find evidence that electoral systems characterized by a large degree of proportionality, i.e., a large district magnitude, tend to have larger governments, larger deficits and a more procyclical response to the business cycle. We also find that more transparent and hierarchical budgetary procedures lead to lower deficits and debt. Contrary to the findings of Hallerberg and von Hagen for European countries, we find no evidence that centralized budgetary arrangements neutralize the potentially adverse impact on fiscal deficits of a large degree of proportionality of the electoral system.

Stein, Jeremy, C.

TI A Unified Theory of Underreaction, Momentum Trading

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and Overreaction in Asset Markets. **AU** Hong, Harrison; Stein, Jeremy, C.

Steinmeier, Thomas L.

TI Trends in Male Labor Force Participation and Retirement: Some Evidence on the Role of Pensions and Social Security in the 1970's and 1980's. **AU** Anderson, Patricia M.; Gustman, Alan L.; Steinmeier, Thomas L.

Stephens, Malcolm

PD December 1998. **TI** Export Credit Agencies, Trade Finance, and South East Asia. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/175; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 52. **PR** not available. **JE** F19, F32, F36, F43, G15. **KW** Export Credit Agencies. Trade Finance. South East Asia. Debt Relief. International Finance.

AB This paper looks at the causes of the reduction in trade finance in South East Asian countries post-1997, with a particular focus on the role of export credit agencies. It concludes that while such agencies did not cause or prolong the problem, they did not contribute significantly to a solution. The paper also suggests some implications from events in South East Asia for both traditional debt-relief mechanisms and for the architecture of the international financial system.

Stern, Scott

PD November 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, CIAR and National Bureau of Economic Research. **SR** Tel Aviv Foerder Institute for Economic Research and Sackler Institute for Economic Research Working Paper: 24/98; The Eitan Berglas School of Economics, Tel Aviv University, Tel Aviv 69978, Israel. Website: econ.tau.ac.il. **PG** 44. **PR** no charge. **JE** C78, I10, L65. **KW** Pharmaceuticals. Physician Authority. Concentration Measures. Prescriptions.

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. There is substantial variation in the degree to which physician prescribing is concentrated (i.e., some physicians prescribe a more diverse portfolio of drugs than others). This concentration is correlated with observable drug characteristics. In particular, concentrated prescribers tend to prescribe drugs with high levels of advertising, low prices, and high (lagged) market shares. Our 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 less sensitive to information sources which promote the use of drugs for the "average" patient.

Stoft, Steven

TI The Competitive Effects of Transmission Capacity in a Deregulated Electricity Industry. **AU** Borenstein, Severin; Bushnell, James; Stoft, Steven.

Straubhaar, Thomas

PD August 1998. **TI** Why do People Stay? The Insider Advantages Approach: Empirical Evidence from Swedish Labour Markets. **AU** Straubhaar, Thomas; Fischer, Peter A.; Holm, Einar; Malmberg, Gunnar. **AA** Straubhaar and Fischer: Universitat der Bundeswehr. Holm and Malmberg: Uniersity of Umea. **SR** Centre for Economic Policy Research Discussion Paper: 1952; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 64. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F22, J61, R23. **KW** Immobility. Insider Advantages. Migration. Sweden. Labor Markets.

AB Migration research has been quite successful in explaining changes in migration flows. Less satisfactory are its answers as to why people remain immobile, despite persistent regional wealth differences and economic integration proceeding. The authors suggest complementing traditional theories with an insider advantages approach towards immobility. Most people do not move because by staying immobile they have accumulated work- and leisure-oriented insider advantages that are location-specific and would be lost in case of emigration. Using a new micro dataset covering all people resident in Sweden in 1994 and their mobility experience since 1985, the authors find a strong positive duration dependence of the probability to stay even after controlling for a large set of alternative factors. Traditional microeconomic characteristics prove helpful in explaining immobility, while regional macroeconomic differences have very little impact on individual mobility decisions. A large number of moves between Swedish labor markets seem related to specific life-course events.

Strawczynski, Michel

TI Cyclical Bias in Government Spending: Evidence from the OECD. **AU** Hercowitz, Zvi; Strawczynski, Michel.

Strutt, Anna

TI Will Trade Liberalization Harm the Environment? The Case of Indonesia 2020. **AU** Anderson, Kym; Strutt, Anna.

Stulz, Rene M.

TI The Determinants of Implications of Corporate Cash Holdings. **AU** Opler, Tim; Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan.

TI Is Bank-Centered Corporate Governance Worth It? A Cross-Sectional Analysis of the Performance of Japanese Firms During the Asset Price Deflation. **AU** Kang, Jun-Koo; Stulz, Rene M.

TI International Competition and Exchange Rate Shocks: A Cross-Country Industry Analysis of Stock Returns. **AU** Griffin, John M.; Stulz, Rene M.

Subrahmanyam, Marti G.

TI Arbitrage Restrictions and Multi-Factor Models of the Term Structure of Interest Rates. **AU** Stapleton, Richard C.; Subrahmanyam, Marti G.

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TI An Arbitrage-Free Two-factor Model of the Term Structure of Interest Rates: A Multivariate Binomial Approach. **AU** Peterson, Sandra; Stapleton, Richard C.; Subrahmanyam, Marti G.

TI An Empirical Examination of the Convexity Bias in the Pricing of Interest Rate Swaps. **AU** Gupta, Anurag; Subrahmanyam, Marti G.

Sullivan, Ryan

TI Data-Snooping, Technical Trading Rule Performance and the Bootstrap. **AU** Timmermann, Allan; Sullivan, Ryan; White, Halbert.

Sundaram, Rangarajan K.

TI Optimal Retention in Agency Problems. **AU** Banks, Jeffrey S.; Sundaram, Rangarajan K.

TI Of Smiles and Smirks: A Term-Structure Perspective. **AU** Das, Sanjiv Ranjan; Sundaram, Rangarajan K.

TI The Regulation of Fee Structures in Mutual Funds: A Theoretical Analysis. **AU** Das, Sanjiv Ranjan; Sundaram, Rangarajan K.

TI Altering the Terms of Executive Stock Options. **AU** Brenner, Menachem; Sundaram, Rangarajan K.; Yermack, David.

Sundararajan, V.

PD January 1999. **TI** Exchange Rate Unification, the Equilibrium Real Exchange Rate, and Choice of Exchange Rate Regime: The Case of the Islamic Republic of Iran. **AU** Sundararajan, V.; Lazare, Michel; Williams, Sherwyn. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/15; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 39. **PR** not available. **JE** E63, E65, F31, F32. **KW** Exchange Rate Unification. Exchange Rates. Exchange Rate Regime. Iran.

AB This paper reviews recent developments in the exchange system in the Islamic Republic of Iran and in the real effective exchange rate (REER). It also considers the determinants of the REER in connection with the choice of exchange regime after unification. The study illustrates how economic policy variables and exogenous shocks affect the real exchange rate primarily through the fiscal balance, and consequently, the savings-investment gap. It further illustrates that the appropriate level of REER and its medium-term path depend upon the mix of monetary, fiscal, and structural policies that underpin the evolution of inflation, balance of payments, and productivity growth.

Sundstrom, William A.

TI The Sources of Regional Variation in the Severity of the Great Depression: Evidence from U.S. Manufacturing, 1919-1937. **AU** Rosenbloom, Joshua L.; Sundstrom, William A.

Suwa-Eisenmann, Akiko

PD July 1998. **TI** Trade Integration with Europe, Export Diversification and Economic Growth in Egypt. **AU** Suwa-Eisenmann, Akiko; Dessus, Sebastien. **AA** Suwa-Eisenmann: Inra. Dessus: OECD. **SR** Centre for Economic Policy Research Discussion Paper: 1938; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7DB, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 40. **PR** 5 pounds or 8 dollars or 8 euros. **JE** C68, F11, F15, F41, O19. **KW** Egypt. Export Diversification. Trade Integration. General Equilibrium. Egypt.

AB Egypt needs to diversify exports further in order to emerge from its isolation and to draw the maximum advantage from the growth potential offered by trade globalization. To what extent does the bilateral free trade agreement with the European Union encourage the transition from a rentier economy to one of export-led growth? This paper uses a dynamic, calculable, general equilibrium model to assess different scenarios for the Egyptian economy to the year 2010. The authors reach the conclusion that the preferential trade agreement with Europe should facilitate the transition if the increase in trade results in higher Egyptian productivity through technology transfer and pressure from competition. Under these conditions, the agreement would seem to have a similar impact to that which could be expected from unilateral Egyptian trade liberalization, affecting all the country's trading partners.

Svensson, Lars E. O.

TI Transparency and Credibility: Monetary Policy with Unobservable Goals. **AU** Faust, Jon; Svensson, Lars E. O.

Swagel, Phillip

TI Tax Burden and Migration: A Political Economy Theory and Evidence. **AU** Razin, Assaf; Sadka, Efraim; Swagel, Phillip.

Tabellini, Guido

TI Political Economics and Macroeconomic Policy. **AU** Persson, Torsten; Tabellini, Guido.

Taber, Christopher

TI Explaining Rising Wage Inequality: Explorations with a Dynamic General Equilibrium Model of Labor Earnings with Heterogeneous Agents. **AU** Heckman, James J.; Lochner, Lance; Taber, Christopher.

TI General Equilibrium Treatment Effects: A Study of Tuition Policy. **AU** Heckman, James J.; Lochner, Lance; Taber, Christopher.

Takagi, Shinji

PD March 1999. **TI** Exchange Rate Movements and Tradable Goods Prices in East Asia: An Analysis Based on Japanese Customs Data, 1988-98. **AU** Takagi, Shinji; Yoshida, Yushi. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/31; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 16. **PR** not available. **JE** F14, F31, F41. **KW** Exchange Rates. Tradable Goods. Pass-Through. Price Level. International Trade.

AB The paper uses a dynamic panel data model to estimate the pass- through coefficients of 20 nine-digit industrial commodities that are traded between Japan and its East Asian trading partners to investigate the response of tradable goods prices to exchange rate movements. By using the monthly series of unit export and import values obtained from the Japanese customs data for the period 1988-98, it shows that price pass-through is much larger for exports from Japan than for imports to Japan.

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Talvi, Ernesto

TI Institutional Arrangements and Fiscal Performance: The Latin American Experience. **AU** Stein, Ernesto; Talvi, Ernesto; Grisanti, Alejandro.

Tamirisa, Natalia T.

TI Why Do Countries Use Capital Controls? **AU** Johnston, R. Barry; Tamirisa, Natalia T.

Tang, Charles

TI Both Sides of Corporate Diversification: The Value of Impacts of Geographic and Industrial Diversification. **AU** Bodnar, Gordon M.; Tang, Charles; Weintrop, Joseph.

Tang, Jon

TI The Impact of Human Capital on Growth: Evidence from West Africa. **AU** Sacerdoti, Emilio; Brunschwig, Sonia; Tang, Jon.

Tanggaard, C.

TI Estimating Yield Curves by Kernel Smoothing Methods. **AU** Linton, Oliver; Mammen, E.; Nielsen, J.; Tanggaard, C.

Tanner, Sarah

TI Asset Holding and Consumption Volatility. **AU** Attanasio, Orazio; Banks, James; Tanner, Sarah.

Tanzi, Vito

PD December 1998. **TI** Fundamental Determinants of Inequality and the Role of Government. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/178; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** D31, D63, E62, H50, O15. **KW** Inequality. Social Norms. Role of Governments. Positional Rents. Social Capital.

AB This paper discusses the fundamental determinants of inequality. These are identified as world or market forces, social norms, ownership of real and human capital, and the role of government. The change in the relative role of these factors in determining inequality during economic development is analyzed.

Tauras, John A.

TI The Demand for Cocaine and Marijuana by Youth. **AU** Chaloupka, Frank; Grossman, Michael; Tauras, John A.

Tay, Anthony S.

TI Evaluating Density Forecasts of Inflation: The Survey of Professional Forecasters. **AU** Diebold, Francis X.; Tay, Anthony S.; Wallis, Kenneth F.

Taylor, Alan M.

TI Finance and Development in an Emerging Market: Argentina in the Interwar Period. **AU** Paolera, Gerardo della; Taylor, Alan M.

PD December 1997. **TI** Argentina and the World Capital Market: Saving, Investment, and International Capital Mobility in the Twentieth Century. **AA** Northwestern University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6302; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 39. **PR** $5.00. **JE** F15, F43, N16, O11, O54. **KW** Capital. Economic Integration. Growth. Development. Economic History.

AB This paper is concerned with integration in the world capital market between the economies of the core and periphery in the twentieth century. It proceeds with some general observations and with a special focus on the case of Argentina. I will argue that understanding the changing relations in international capital markets offers important insights into the growth and development process, especially for the countries of the periphery. Moreover, study of the extent of market integration in history informs current conditions in the relationship between capital-scarce economies, like Argentina, and the global capital market as a whole. Looking to the future, the repercussions of economic reform and demographic change suggest likely implications for future saving, investment, and international capital flows.

Temimi, Akram

TI Discrete Public Goods with Incomplete Information. **AU** Menezes, Flavio; Monteiro, Paulo K.; Temimi, Akram.

Thakor, Anjan V.

TI Expansion of Banking Scale and Scope: Don't Banks Know the Value of Focus. **AU** Boot, Arnoud W. A.; Thakor, Anjan V.; Milbourn, Todd T.

Thomas, Alun

PD October 1998. **TI** The Effects of Tax Wedges on Hours Worked and Unemployment in Sweden. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/152; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** H24, J22, J23, J31, J32. **KW** Payroll Taxes. Total Labor Taxes. Labor Cost. Employment. Unemployment.

AB The paper investigates the relationship between labor taxation and unemployment in Sweden by estimating a labor market model that includes a wage-setting locus and labor demand and supply relationships. The study simulates the effect of a 1-percentage point increase in the payroll tax and in total tax rates. The increase in the payroll tax pushes up labor costs by about a half percent over a 5-10 year time horizon. Hours worked fall by 0.5 percent and the unemployment rate rises by 0.3 percentage point. The increase in total tax rates generates a similar result. Therefore, it appears that increases in taxes have adversely affected employment and unemployment in Sweden.

PD December 1998. **TI** The Wage Bargaining Structure in Norway and Sweden and its Influence on Real Wage Developments. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/98/174; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 24. **PR** not available. **JE** E24, J23, J31, J40. **KW** Wage Bargaining. Decentralized. Real Wage. Tradables. Services.

AB The paper investigates the determinants of wages in the tradables and service sectors in Norway and Sweden. Tradables wages are determined by their own productivity growth whereas service sector wages are influenced by wage growth in the tradables sector. The traditional strong sensitivity of the real wage to changes in the unemployment rate has been virtually eliminated since the recessionary period in the early 1990's in

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Sweden, and real wages have become more sensitive to cyclical conditions in Norway and have grown less rapidly then macroeconomic factors indicate. These changes in the wage process have hindered the development of private sector employment in Sweden, but have stimulated private sector employment in Norway.

Thomas, Duncan

TI School Quality and the Longer-Term Effects of Head Start. **AU** Currie, Janet; Thomas, Duncan.

Timmermann, Allan

PD September 1998. **TI** Data-Snooping, Technical Trading Rule Performance and the Bootstrap. **AU** Timmermann, Allan; Sullivan, Ryan; White, Halbert. **AA** University of California, San Diego. **SR** Centre for Economic Policy Research Discussion Paper: 1976; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 72. **PR** 5 pounds or 8 dollars or 8 euros. **JE** G12. **KW** Technical Trading Rules. Bootstrap Methods. Financial Performance. Data-Snooping.

AB In this paper we utilize White's Reality Check bootstrap methodology (White (1997)) to evaluate simple technical trading rules while quantifying the data-snooping bias and fully adjusting for its effect in the context of the full universe from which the trading rules were drawn. Hence, for the first time, the paper presents a comprehensive test of performance across all technical trading rules examined. We consider the study of Brock, Lakonishok and LeBaron (1992), expand their universe of 26 trading rules, apply the rules to 100 years of daily data on the Dow Jones Industrial Average and detesmine the effects of data- snooping.

Tiongson, Erwin

TI Does Higher Government Spending Buy Better Results in Education and Health Care? **AU** Gupta, Sanjeev; Verhoeven, Marijn; Tiongson, Erwin.

Todd, Petra E.

TI Social Action, Private Choice, and Philanthropy: Understanding the Sources of Improvements in Black Schooling in Georgia, 1911-1960. **AU** Donohue, John, III..; Heckman, James J.; Todd, Petra E.

Trajtenberg, Manuel

TI Empirical Implications of Physician Authority in Pharmaceutical Decisionmaking. **AU** Stern, Scott; Trajtenberg, Manuel.

Trefler, Daniel

PD October 1997. **TI** Immigrants and Natives in General Equilibrium Trade Models. **AA** University of Toronto and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6209; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 35. **PR** $5.00. **JE** F10, F22, J31, J61, O15. **KW** International Trade. Investment. Labor Studies. Immigration. Wages.

AB This paper makes three observations about international trade and immigration. (i) Borjas has argued that immigration may yield a net social benefit even though it hurts those less-skilled workers who directly compete with immigrants. The author shows that this closed- economy argument unravels when imbedded in the Ricardian or Heckscher- Ohlin models of international trade. (ii) Following Wood and Feenstra- Hanson, the author argues that within an industry those goods produced abroad use more unskilled labor than those goods produced in the United States. How much more depends on whether the good is produced in a developed or developing country. After transparently incorporating this into a new factor content study the author finds that changes in U.S. trade patterns almost certainly battered wages of those at the very bottom of the skill ladder. (iii) The author finds little evidence of earnings convergence for a sample of 75 countries over the 1963-92 period.

Troske, Kenneth R.

TI Market Forces and Sex Discrimination. **AU** Hellerstein, Judith K.; Neumark, David; Troske, Kenneth R.

Tsiddon, Daniel

TI Coping with Technological Progress: The Role of Ability in Making Inequality so Persistent. **AU** Rubinstein, Yona; Tsiddon, Daniel.

Turner, Bengt

TI Another Look at the Capitalization of Interest Subsidies: Evidence from Sweden. **AU** Berger, Tommy; Englund, Peter; Hendershott, Patric H.; Turner, Bengt.

Turnovsky, Stephen J.

TI Capital Income Taxation and Risk -- Taking in a Small Open Economy. **AU** Asea, Patrick K.; Turnovsky, Stephen J.

Tyler, John H.

PD February 1998. **TI** Estimating the Impact of the GED on the Earnings of Young Dropouts Using a Series of Natural Experiments. **AU** Tyler, John H.; Murnane, Richard J.; Willett, John B. **AA** Tyler and Willett: Harvard Graduate School of Education. Murnane: Harvard Graduate School of Education and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6391; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 36. **PR** $5.00. **JE** I21, I28, J10, J24, J31. **KW** Education. Wages. School Dropouts. GED. Natural Experiments.

AB The General Educational Development (GED) credential bestows high school certification on U.S. school dropouts. However, bias due to self- selection has limited knowledge about the credential's effects on dropouts' labor market outcomes. This paper uses a series of natural experiments created by interstate variation in GED passing standards to reduce self-selection bias. The authors use a unique merged data set containing the GED test scores and Social Security earnings of a sample of 16-21 year-old dropouts who attempted the GED in 1990. The authors' results primarily measure the labor market signaling value of the GED. For dropouts who have indicated a desire to acquire the credential and whose skills place them on the margin of passing the GED exams, the authors find that acquisition of a GED increases the 1995 earnings of young white dropouts, but they find no evidence that the GED increases earnings of young nonwhite dropouts.

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Ubide, Angel

TI Sectorial Macroeconomic Interdependencies: Evidence for Latin America, East Asia and Europe. **AU** Loayza, Norman; Lopez, Humberto; Ubide, Angel.

TI The Korean Financial Crisis of 1997 -- A Survey of Financial Sector Reform. **AU** Balino, Tomas J. T.; Ubide, Angel.

Valila, Timo T.

PD January 1999. **TI** Credibility of Central Bank Independence Revisited. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/02; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 16. **PR** not available. **JE** E52, E58, E61. **KW** Central Bank Independence. Credibility. Policy Coordination. Monetary Policy.

AB The specific role of central bank independence in determining the overall credibility of monetary policy is addressed in this paper. It is argued that the credibility of delegating monetary policy to an independent central bank is endogenous to the credibility of the inflation target because a "conservative" inflation target may not be compatible with the fiscal policy stance. Also, lack of transparency in designing the institutional set-up is shown to be welfare reducing.

Valimaki, Juuso

TI Dynamic Common Agency. **AU** Bergemann, Dirk; Valimaki, Juuso.

TI Experimentation in Markets. **AU** Bergemann, Dirk; Valimaki, Juuso.

Van Reenen, John

TI Technology and Changes in Skill Structure: Evidence from Seven OECD Countries. **AU** Machin, Stephen; Van Reenen, John.

TI Investment, R&D and Financial Constraints in Britain and Germany. **AU** Bond, Stephen; Harhoff, Dietmar; Van Reenen, John.

van Wincoop, Eric

TI Does Exchange Rate Stability Increase Trade and Capital Flows? **AU** Bacchetta, Philippe; van Wincoop, Eric.

Van Zandt, Timothy

PD October 1998. **TI** Real-Time Hierarchical Resource Allocation. **AA** Northwestern University and INSEAD. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1231; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 28. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D23, D83, M11. **KW** Decentralization. Hierarchies. Bounded Rationality. Real-Time Control.

AB This paper presents a model that distinguishes between decentralized information processing and decentralized decision making in organizations; it shows that decentralized decision making can be advantageous due to computational delay, even in the absence of communication costs. The key feature of the model, which makes this result possible, is that decisions in a stochastic control problem are calculated in real time by boundedly rational members of an administration staff. The decision problem is to allocate resources in a changing environment. We consider a class of hierarchical procedures in which information about cost functions flows up and is aggregated by the hierarchy, while allocations flow down ands are disaggregated by the hierarchy. Nodes of the hierarchy correspond not to a single person but to decision-making units within which there may be decentralized information processing. The lower tiers of multitier hierarchies can allocate resources quickly within small groups, while higher tiers are still able to exploit gains from trade between the groups (although on the basis of older information).

PD November 1998. **TI** Real-Time Decentralized Information Processing and Returns to Scale. **AU** Van Zandt, Timothy; Radner, Roy. **AA** Van Zandt: Northwestern University and INSEAD. Radner: New York University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1233; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 24. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D23, D83. **KW** Returns to Scale. Real-Time Computation. Decentralized Information. Bounded Rationality.

AB We use a model of real-time decentralized information processing to understand how constraints on human information processing affect the returns to scale of organizations. We identify three informational (dis)economies of scale: diversification of heterogeneous risks (positive), sharing of information and of costs (positive), and crowding out of recent information due to information processing delay (negative). Because decision rules are endogenous, delay does not inexorably lead to decreasing returns to scale. However, returns are more likely to be decreasing when computation constraints, rather than sampling costs, limit the information upon which decisions are conditioned. The results illustrate how information processing constraints together with the requirement of informational integration cause a breakdown of the replication arguments that have been used to establish non-decreasing technological returns to scale.

Vardi, Moshe Y.

TI The Hierarchical Approach to Modeling Knowledge and Common Knowledge. **AU** Ronald, Fagin; Geanakoplos, John; Halpern, Joseph Y.; Vardi, Moshe Y.

Velasco, Andres

PD November 1997. **TI** Debts and Deficits with Fragmented Fiscal Policymaking. **AA** New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6286; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E62, H30, H62, H63. **KW** Fiscal Policy. Debt. Transfers. Deficits.

AB This paper develops a political-economic model of fiscal policy -- one in which government resources are a "common property" out of which interest groups can finance expenditures

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on their preferred items. This setup has striking macroeconomic implications. Transfers are higher than a benevolent planner would choose; fiscal deficits emerge even when there are no reasons for intertemporal smoothing, and in the long run government debt tends to be excessively high; peculiar time profiles for transfers can emerge, with high positive net transfers early on giving way to high taxes later on; and multiple dynamic equilibrium paths can occur starting at the same initial level of government debt.

PD December 1997. **TI** A Model of Endogenous Fiscal Deficits and Delayed Fiscal Reforms. **AA** New York University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6336; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E62, H30, H40, H62, H63. **KW** Fiscal Policy. Political Economy. Policy Reform. Debt. Deficit.
AB This paper develops a political-economic model of fiscal policy -- one in which government resources are a "common property" out of which interest groups can finance expenditures on their preferred items. This setup has striking macroeconomic implications. First, fiscal deficits and debt accumulation occur even when there are no reasons for intertemporal smoothing. Second, those deficits can be eliminated through a fiscal reform, but such a reform may only take place after a delay during which government debt is built up.

Venables, Anthony J.

TI Foreign Direct Investment as a Catalyst for Industrial Development. **AU** Markusen, James R.; Venables, Anthony J.

PD August 1998. **TI** The International Division of Industries: Clustering and Comparative Advantage in a Multi-Industry Model. **AA** London School of Economics. **SR** Centre for Economic Policy Research Discussion Paper: 1961; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 36. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F12, F15, F23, R12, R38. **KW** Industrial Clustering. Agglomeration. Comparative Advantage. Firm Location. Economic Geography.
AB We consider a model with a continuum of industries in which agglomeration forces cause each industry to concentrate in a single country. We study the division of industries between countries and show that this division is not unique, so that even with identical countries and symmetric industries the number of industries in each country need not be equal. Unequal divisions are sustainable as equilibria, even though they imply different wages in the two countries, and we find the bounds on the set of equilibrium divisions. With Ricardian differences in technology, there are equilibria in which industries operate in the country in which they have a comparative disadvantage. In both cases, a country may gain by using policy to grab a higher proportion of world industry.

Venti, Steven F.

TI Implications of Rising Personal Retirement Saving. **AU** Poterba, James M.; Venti, Steven F.; Wise, David A.

Verhoeven, Marijn

TI Does Higher Government Spending Buy Better Results in Education and Health Care? **AU** Gupta, Sanjeev; Verhoeven, Marijn; Tiongson, Erwin.

Veronesi, Pietro

TI On the Possibility of Stock Market Crashes in the Absence of Portfolio Insurance. **AU** Barlevy, Gadi; Veronesi, Pietro.

Vieille, Nicolas

TI Quitting Games. **AU** Solan, Eilon; Vieille, Nicolas.

Viola, Deborah

TI The Determinants of Child Care Workers' Wages and Compensation: Sectoral Difference, Human Capital, Race, Insiders and Outsiders. **AU** Mocan, H. Naci; Viola, Deborah.

Vohra, Rakesh V.

TI Strategy-Proof Location on a Network. **AU** Schummer, James; Vohra, Rakesh V.

von Hagen, Jurgen

TI Electoral Institutions, Cabinet Negotiations, and Budget Deficits in the European Union. **AU** Hallerberg, Mark; von Hagen, Jurgen.

von Thadden, Ernst-Ludwig

TI Dominant Investors and Stategic Transparency. **AU** Perotti, Enrico C.; von Thadden, Ernst-Ludwig.

Vousden, Neil

TI Liberalisation, Incentives and Vietnamese Agricultural Growth. **AU** Che, Tuong Nhu; Kompas, Tom; Vousden, Neil.

Vuchinich, Rudy E.

PD February 1998. **TI** Delayed Reward Discounting in Alcohol Abuse. **AU** Vuchinich, Rudy E.; Simpson, Cathy A. **AA** Auburn University. **SR** National Bureau of Economic Research Working Paper: 6410; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D11, D12, D91, I10. **KW** Alcoholism. Addiction. Temporal Discounting. Intertemporal Choice. Consumer Behavior.
AB This paper summarizes studies that investigated the relation between temporal discounting and alcohol consumption. The first study compared heavy and light social drinkers, and the second study compared problem and light drinkers, on the degree to which they discounted the value of (hypothetical) amounts of money available after a series of delays. Heavy social drinkers and problem drinkers both showed higher rates of temporal discounting than light drinkers, and this difference was stronger in the second study. A third study evaluated predictors of relapse and continued resolution in problem drinkers who attempted to quit problem drinking without treatment. The outcome groups were distinguished by the preresolution proportions of discretionary expenditures they allocated to alcohol and savings. The data from these studies are consistent with extending behavioral theories of intertemporal choice to characterizing the determinants of alcohol consumption; they also are consistent with more general behavioral economic theories of addiction.

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Vytlacil, Edward

TI Cognitive Ability and the Rising Return to Education. **AU** Cawley, John; Heckman, James J.; Vytlacil, Edward.

TI Meritocracy in America: Wages Within and Across Occupations. **AU** Cawley, John; Heckman, James J.; Vytlacil, Edward.

Wachtel, Paul

TI Equity Markets and Growth: Cross-Country Evidence on Timing and Outcomes, 1980-1995. **AU** Rousseau, Peter L.; Wachtel, Paul.

Wahlen, James M.

TI The Risks- and Value-Relevance of Revisions of Accrual Estimates: Evidence from Property-Casualty Insurers' Loss Reserve Development Disclosures. **AU** Petroni, Kathy R.; Ryan, Stephen G.; Wahlen, James M.

Waldfogel, Joel

TI Do Sentencing Guidelines Raise the Cost of Punishment? **AU** Meade, Jose; Waldfogel, Joel.

PD February 1998. **TI** Reconciling Asymmetric Information and Divergent Expectations Theories of Litigation. **AA** University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6409; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** D82, D84, K41. **KW** Litigation. Asymmetric Information. Divergent Expectations. Adjudication.
AB Both asymmetric information (AI) and divergent expectations (DE) theories offer possible explanations of the litigation puzzle. Under DE, cases proceed to trial when, by chance, the plaintiff is more optimistic than the defendant. As the fraction of cases tried (T) declines, this leads to a tendency toward 50 percent plaintiff win rates at trial (P), regardless of the fraction of plaintiff winners in the filed population. Under AI, by contrast, informed parties proceed to trial only when they expect to win. Hence, as the fraction of cases tried declines, plaintiff win rates at trial tend toward either 0 or 1. The author presents evidence that the relationship between T and P generated by the litigation process is consistent with DE and not AI. He also offers evidence of the presence of AI early in litigation in the form of one- sided plaintiff win rates in cases adjudicated prior to trial.

Waldman, Michael

TI A Theory of Wage and Promotion Dynamics in Internal Labor Markets. **AU** Gibbons, Robert; Waldman, Michael.

Wallis, Kenneth F.

TI Evaluating Density Forecasts of Inflation: The Survey of Professional Forecasters. **AU** Diebold, Francis X.; Tay, Anthony S.; Wallis, Kenneth F.

Walliser, Jan

TI Social Security: Privatization and Progressivity. **AU** Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

TI Opting Out of Social Security and Adverse Selection. **AU** Kotlikoff, Laurence J.; Smetters, Kent A.; Walliser, Jan.

Walsh, Patrick Paul

TI Disorganization in the Transition Process: Firm-Level Evidence from Ukraine. **AU** Konings, Jozef; Walsh, Patrick Paul.

TI European Trade and Foreign Direct Investment U-Shaping Industrial Output in Central and Eastern Europe: Theory and Evidence. **AU** Repkine, Alexander; Walsh, Patrick Paul.

Walter, Ingo

PD March 1998. **TI** Globalization of Markets and Financial-Center Competition. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/23; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 35. **PR** $5.00 each; $100.00 yearly subscription. **JE** F02, G15. **KW** Globalization in Finance. Financial Centers. Financial Services. Value Added. Value Chain.
AB This paper begins by defining what is meant by "globalization" in finance, and by identifying the sources of value-added in the internationally-competitive financial services sector -- origination, trading and distribution of debt and equity capital market instruments and their derivatives, foreign exchange trading and securities brokerage, management of market risk and credit risk, loan syndication and structured bank financings, corporate finance and advisory services, and asset management. These activities are considered in terms of a "value-chain" one that ultimately gives rise to real economic gains attributable to financial-center operations. We present available evidence as to where the relevant value-added activities actually take place. We then examine the "centrifugal" and "centripetal" forces that determine the concentration or dispersal of value-added activity in financial intermediation, both interregionally and internationally. Next, we assess the factors which appear to underlie the locational pattern of international financial centers that has evolved. The paper concludes with the outlook for the future pattern of financial centers in the global competitive environment.

PD March 1998. **TI** Globalization of Markets and Financial-Center Competition. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/31; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 35. **PR** $5.00 each; $100.00 yearly subscription. **JE** F02, G15. **KW** Globalization in Finance. Financial Centers. Financial Services. Value Added. Value Chain.
AB See abstract for Ingo Walter, March 1998. "Globalization of Markets and Financial-Center Competition". New York University, Salomon Center, Working Paper: S/98/23; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon.

Wang, Ping

TI Are Alcoholics in Bad Jobs? **AU** Kenkel, Don; Wang, Ping.

Watson, Joel

TI Job Destruction and Propagation of Shocks. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

https://doi.org/10.1017/S095100790000485X Published online by Cambridge University Press

TI Liquidity Flows and Fragility of Business Enterprises. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

TI Contract-Theoretic Approaches to Wages and Displacement. **AU** den Haan, Wouter J.; Ramey, Garey; Watson, Joel.

PD April 1999. **TI** Starting Small and Commitment. **AA** University of California, San Diego. **SR** Yale Cowles Foundation Discussion Paper: 1217; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520. Website: www.econ.yale.edu/cowles. **PG** 23. **PR** no charge up to 3 papers; $3.00 U.S.; 4.00 International. **JE** C72, C73, D74, L14. **KW** Partnerships. Incomplete Information. Gradualism. Productive Relationships. Contracting.
AB I study a model of a long-term relationship 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 (11)).

TI Starting Small in an Unfamiliar Environment. **AU** Rauch, James E.; Watson, Joel.

Wei, Shang-Jin

PD November 1997. **TI** Why is Corruption So Much More Taxing Than Tax? Arbitrariness Kills. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6255; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 17. **PR** $5.00. **JE** F21, F23, H32, O19, O30. **KW** International Trade. Investment. Corruption. Multinational Firms. Uncertainty.
AB This paper examines the effect of corruption-induced uncertainty on foreign direct investment. The measure of uncertainty is constructed based on unpublished individual survey responses on levels of corruption in host countries. The result is striking. The effect is negative, statistically significant and quantitatively large. An increase in the uncertainty level from that of Singapore to that of Mexico, at the average level of corruption in the sample, is equivalent to raising the tax rate on multinational firms by 32 percentage points. Hence, the second-moment (uncertainty) effect can and does have first-order importance.

PD November 1997. **TI** The Big Players in the Foreign Exchange Market: Do They Trade on Information or Noise? **AU** Wei, Shang-Jin; Kim, Jungshik. **AA** Wei: Harvard University and National Bureau of Economic Research. Kim: Harvard University. **SR** National Bureau of Economic Research Working Paper: 6256; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** $5.00. **JE** D82, F31. **KW** International Finance. Foreign Exchange. Private Information. Currency Speculation.
AB This paper studies whether there exists private information in the foreign exchange market, and whether speculation reduces or exacerbates volatility. It makes use of a recent data set on foreign currency positions by large market participants that include positions on options and other derivatives. This is the first data set that describes comprehensive currency positions of market participants. There are two main findings. First, not only the absolute value of the options position but also that of spot, forward and futures positions by large participants Granger-causes exchange rate volatility. This suggests that the large participants' currency speculation does not stabilize exchange rate volatility. Second, regression analyses do not find any positive association between large participants' position in a foreign currency with its subsequent appreciation. This casts into doubt the view that large participants have better information about the future movement of exchange rates.

Weinberg, Steven

TI What Accounts for the Variation in Retirement Wealth Among U.S. Households? **AU** Bernheim, B. Douglas; Skinner, Jonathon; Weinberg, Steven.

Weintrop, Joseph

TI Both Sides of Corporate Diversification: The Value of Impacts of Geographic and Industrial Diversification. **AU** Bodnar, Gordon M.; Tang, Charles; Weintrop, Joseph.

Wells, Graeme

TI Growth in a Small Open Economy. **AU** Benge, Matt; Wells, Graeme.

Werner, Alejandro M.

TI Financial Liberalization, Credit Constraints, and Collateral: Investment in the Mexican Manufacturing Sector. **AU** Gelos, Gaston; Werner, Alejandro M.

West, Kenneth D.

TI Inventories. **AU** Ramey, Valerie A.; West, Kenneth D.

Whalley, John

TI Trade and Environment: Bargaining Outcomes from Linked Negotiations. **AU** Abrego, Lisandro; Perroni, Carlo; Whalley, John; Wigle, Randall M.

TI Discreteness and the Welfare Cost of Labor Supply Tax Distortions. **AU** Bhattarai, Keshab; Whalley, John.

TI The Redistributive Effects of Transfers. **AU** Bhattarai, Keshab; Whalley, John.

TI VAT Base Broadening, Self Supply, and the Informal Sector. **AU** Piggott, John; Whalley, John.

Wheatley Price, Stephen

TI Migration, Migrants and Policy in the United Kingdom. **AU** Hatton, Timothy J.; Wheatley Price, Stephen.

White, Halbert

TI Data-Snooping, Technical Trading Rule Performance and the Bootstrap. **AU** Timmermann, Allan; Sullivan, Ryan; White, Halbert.

White, Lawrence J.

TI Of Firewalls and Subsidiaries: The Right Stuff for

https://doi.org/10.1017/S095100790000485X Published online by Cambridge University Press

Expanded Bank Activities. **AU** Shull, Bernard; White, Lawrence J.

PD October 1997. **TI** Unilateral International Openness: The Experience of the U.S. Financial Services Sector. **AA** New York University. **SR** New York University, Salomon Center Working Paper: S/98/28; Salomon Center, Stern School of Business, New York University, 44 West 4th Street, Suite 9-160, New York, NY 10012-1126. Website: www.stern.nyu.edu/salomon. **PG** 39. **PR** $5.00 each; $100.00 yearly subscription. **JE** F14, F36, G20. **KW** Financial Services. Asymmetric Information. Openness. Foreign Involvement.
AB This essay investigates why the openness of the U.S. financial services sector has arisen, and whether this openness has served the U.S. well. Asymmetric information, endemic to finance, has been an important influence on the types and levels of foreign involvement in the U.S. financial services sector. Although differing levels of foreign involvement in the various parts of the financial services landscape can be observed, this pattern is not an indication of U.S. discrimination or differential treatment but instead is largely consistent with openness and the asymmetric information phenomena. The paper discusses the general nature of financial services and why they are special, and outlines the regulatory regimes that apply to financial services in the U.S. The paper then addresses the application of the asymmetric information paradigm to the pattern of foreign involvement in the U.S. financial services sector.

TI The Impact of Mergers on U.S. Bank Performance. **AU** Kim, Woojin; White, Lawrence J.

Wigle, Randall M.

TI Trade and Environment: Bargaining Outcomes from Linked Negotiations. **AU** Abrego, Lisandro; Perroni, Carlo; Whalley, John; Wigle, Randall M.

Willett, John B.

TI Estimating the Impact of the GED on the Earnings of Young Dropouts Using a Series of Natural Experiments. **AU** Tyler, John H.; Murnane, Richard J.; Willett, John B.

Williams, Sherwyn

TI Exchange Rate Unification, the Equilibrium Real Exchange Rate, and Choice of Exchange Rate Regime: The Case of the Islamic Republic of Iran. **AU** Sundararajan, V.; Lazare, Michel; Williams, Sherwyn.

Williamson, Jeffrey G.

PD October 1997. **TI** Growth, Distribution, and Demography: Some Lessons from History. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6244; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 16. **PR** $5.00. **JE** F15, J10, N30, O15, O40. **KW** Development. American Economy. Growth. Kuznets Curve. Demography.
AB If we have learned anything from the recent outpouring of empirical growth equations, it is that life is far too complex to expect "unconditional" convergence among all countries and at all times. This fact motivates two questions. First, why has it taken economists so long to learn the same lesson from the Kuznets Curve debate? No economist should expect an "unconditional" Kuznets Curve to emerge from the growth experience of all countries and at all times. The industrial revolutionary forces thought to have an impact on inequality can be offset or reinforced by demography, skill supply and globalization. This paper assesses the role of globalization and demography via mass migrations. Second, why has it taken economists so long to learn that demography influences growth? When treated properly, demography can be shown to have a significant impact on GDP per capita growth.

TI Demographic Transitions and Economic Miracles in Emerging Asia. **AU** Bloom, David E.; Williamson, Jeffrey G.

Williamson, Rohan

TI The Determinants of Implications of Corporate Cash Holdings. **AU** Opler, Tim; Pinkowitz, Lee; Stulz, Rene M.; Williamson, Rohan.

Willis, Mike

TI The Introduction of Crack Cocaine and the Rise in Urban Crime Rates. **AU** Grogger, Jeff; Willis, Mike.

Wilson, Berry K.

TI A Contracting-Theory Interpretation of the Origins of Federal Deposit Insurance. **AU** Kane, Edward J.; Wilson, Berry K.

Windmeijer, Frank

PD 1998. **TI** Efficiency Comparisons for a System GMM Estimator in Dynamic Panel Data Models. **AA** Institute for Fiscal Studies. **SR** Institute for Fiscal Studies Working Paper: W98/01; Institute for Fiscal Studies, 7 Ridgmount Street, London WC1E 7AE, England. **PG** 9. **PR** 3 pounds. **JE** C23. **KW** System GMM. GMM Estimator. Dynamic Panel. Weight Matrix.
AB The system GMM estimator in dynamic panel data models combines moment conditions for the differenced equation with moment conditions for the model in levels. An initial optimal weight matrix under homoscedasticity and non-serial correlation is not known for this estimation procedure. It is common practice to use the inverse of the moment matrix of the instruments as the initial weight matrix. This paper assesses the potential efficiency loss from the use of this weight matrix using the efficiency bounds as derived by Liu and Neudecker (1997).

TI Two-Part Multiple Spell Models for Health Care Demand. **AU** Santos Silva, Joao M. C.; Windmeijer, Frank.

TI Individual Effects and Dynamics in Count Data Models. **AU** Blundell, Richard; Griffith, Rachel; Windmeijer, Frank.

Wise, David A.

TI Implications of Rising Personal Retirement Saving: **AU** Poterba, James M.; Venti, Steven F.; Wise, David A.

Wiseman, Thomas

PD January 1999. **TI** Cooperation, Secret Handshakes, and Imitation in the Prisoners' Dilemma. **AA** Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1248; Center for Mathematical Studies in Economics and Management Science, Northwestern University,

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2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 22. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** C70, C72, D60. **KW** Costly Signals. Cooperation. Secret Handshakes. Prisoners' Dilemma.

AB In the prisoners' dilemma game, the only evolutionary stable strategy is defection. Building on Robson (1990), this paper introduces mutants with the ability to send a (costly) signal (i.e., give the "secret handshake," before each round and condition their actions on their opponent's signal). A population playing the strategy "always defect" is vulnerable to secret handshake mutants who cooperate among themselves but defect against other opponents. These secret handshakers are in turn vulnerable to another round of mutants who imitate the secret handshake and then defect against all opponents. But, a new secret handshake can then arise. Thus, play can cycle between cooperation and defection. In the limit, as the probability of mutation goes to zero, cooperation occurs on average half the time. Using simulations to study the implications of the model when the mutation probability is larger than zero, the authors find that cooperation can be sustained for long periods. In general, cooperation is favored when mutual cooperation has a large payoff advantage over mutual defection, and when the payoff advantage of unilateral defection is small. Surprisingly, however, there are cases where an increased payoff to unilateral defection actually raises the level of cooperation.

Wolf, Holger C.

TI Household Savings in Transition Economies. **AU** Denizer, Cevdet; Wolf, Holger C.

Wolfgang, Pesendorfer

PD May 1998. **TI** Second Opinions and Price Competition: Inefficiency in the Market for Expert Advice. **AU** Wolfgang, Pesendorfer; Asher, Wolinsky. **AA** Pesendorfer: Princeton University. Wolinsky: Northwestern University. **SR** Northwestern University Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1229; Center for Mathematical Studies in Economics and Management Science, Northwestern University, 2001 Sheridan Road, Leverone Hall, Room 371, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math. **PG** 41. **PR** $3.00 domestic; $5.00 airmail; $2.00 Northwestern faculty/students; make check out to Northwestern University. **JE** D40, D82, L86. **KW** Expert Advice. Asymmetric Information. Price Competition. Second Best.

AB This paper analyzes a market where the consumer must rely on experts to identify the correct type of service. Medical services, repair services and various types of consulting and advisory services belong to this broad category. This paper focuses on situations where the diagnosis of the consumer's needs is costly and the expert's effort is unobservable. The authors develop a model where experts offer competing contracts and consumers may gather multiple opinions. In various contractual settings, the authors explore the incentives that a competitive sampling of prices and opinions provides for experts to exert effort. They find that there is a tension between price competition and the quality of the advice provided in equilibrium. Under all the contracting scenarios considered, the equilibrium fails to realize the second best welfare optimum. In some of the cases, no gains from trade are realized. On the other hand, limiting price competition via price control increases total welfare.

Wolfram, Catherine D.

PD November 1997. **TI** Strategic Bidding in a Multi-Unit Auction: An Empirical Analysis of Bids to Supply Electricity in England and Wales. **AA** Harvard University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6269; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 40. **PR** $5.00. **JE** D44, L94. **KW** Auctions. Electricity. Strategic Bidding. Supply.

AB This paper considers the bidding behavior of participants in the daily auction to supply electricity in England and Wales. Every day, owners of generating capacity submit bids reflecting a price for power from their plants. The price bid by the last plant used to meet electricity needs in a given time period is the price paid for capacity from all plants. Theoretical work on uniform-price multi-unit auctions suggests that bidders selling more than one unit of a good have an incentive to increase the prices they bid at high quantities. If a bid sets the equilibrium price, the bidder receives a higher price for that unit as well as for all inframarginal units. The author finds evidence of strategic bid increases. First, plants that are likely to be used after a number of other plants are already operating bid more. Second, the larger supplier submits higher bids, all else equal.

Woo, David

PD January 1999. **TI** In Search of "Capital Crunch": Supply Factors Behind the Credit Slowdown in Japan. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/99/03; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 26. **PR** not available. **JE** C33, E51, E65, G21. **KW** Japan. Banking. Credit Crunch. Bank Capitalization. Monetary Policy.

AB The seeming failure of loose monetary policy to reactivate Japan's economy has led some observers to suggest that the usual credit channels through which monetary policy affects the real economy are blocked, and this because of a pervasive shortage of bank capital that has induced a leftward shift in the supply of bank credit: the so-called credit crunch hypothesis. This paper finds support for the hypothesis in the 1997 bank data -- a year during which the landscape of the Japanese financial system was changed fundamentally -- but finds no, or even contrary, evidence for most of the 1990's.

Wooton, Ian

TI International Competition for Multinational Investment. **AU** Haaland, Jan I.; Wooton, Ian.

Wright, Mark L. J.

TI William T. Thornton on the Economics of Trade Unions: An Early Contribution to Efficient Bargaining Theory. **AU** Donoghue, Mark; Wright, Mark L. J.

Wu, Changqi

PD December 1997. **TI** Hong Kong's Business Regulation in Transition. **AU** Wu, Changqi; Cheng, Leonard K. **AA** Hong Kong University of Science and Technology. **SR** National Bureau of Economic Research Working Paper:

https://doi.org/10.1017/S095100790000485X Published online by Cambridge University Press

6332; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** L43, L51, L94, L96. **KW** Regulation. Monopoly. Control Schemes. Telecommunications. Hong Kong.

AB The transition of Hong Kong's main economic activities from manufacturing to services is accompanied by gradual changes in the regulatory regimes for monopolies. The local telecommunication services industry has been liberalized, deregulation of public transport is taking shape, and the schemes of control for electricity suppliers are candidates for reform. In this paper, we review the evolution of business regulation in Hong Kong, analyze the salient figures of its scheme of control regulation and evaluate the impact of transition from regulation to competition. To provide a sharp contrast between the difficulties of the traditional approach to regulation and the benefits of introducing competition, we focus on the cases of electricity and telecommunications. The direction for future changes is also discussed.

Wu, Liuren

TI Predictable Changes in Yields and Forward Rates. **AU** Backus, David; Foresi, Silverio; Mozumdar, Abon; Wu, Liuren.

Xu, Chenggang

TI Institutions, Innovations, and Growth. **AU** Huang, Haizhou; Xu, Chenggang.

Yamashita, Takashi

TI Owner-Occupied Housing and the Composition of the Household Portfolio Over the Life Cycle. **AU** Flavin, Marjorie; Yamashita, Takashi.

Yelowitz, Aaron S.

TI Public Health Insurance and Private Savings. **AU** Gruber, Jonathan; Yelowitz, Aaron S.

PD September 1997. **TI** Public Policy and Health Care Choices of the Elderly: Evidence from the Medicare Buy-In Program. **AA** University of California, Los Angeles. **SR** University of California, Los Angeles, Department of Economics Working Paper: 773; Department of Economics, University of California, Los Angeles, Box 951477, Los Angeles, CA 90095. Website: www.econ.ucla.edu. **PG** 49. **PR** $5.00. **JE** H51, I18, J14. **KW** Medicare. Medicaid. Health Insurance.

AB Virtually all senior citizens have health insurance coverage through Medicare, but poor seniors may also be eligible for Medicaid, the largest means-tested program in the United States, which fills in many of the gaps in Medicare coverage. Since 1987, the Medicaid program has undergone a series of changes relating to eligibility. In particular, two new categories of elderly Medicaid recipients, known as Qualified Medicare Beneficiaries (QMB's) and Specified Low-Income Medicare Beneficiaries (SLMB's), were created. This study uses the Survey of Income and Program Participation to explore several issues relating to the QMB expansions. There are five principle findings. First, actual Medicaid eligibility increased dramatically, from 8 percent in 1987 to 12.5 percent in 1995. Second, the expansions for the elderly resulted in dramatically higher Medicaid take-up rates than similar expansions for children. For every 100 elderly who became eligible, 49 took it up. Third, crowd out was concentrated among the youngest of senior citizens. Fourth, crowd out came from individuals dropping privately purchased health insurance rather than dropping employer-provided retiree health insurance. Finally, Medicaid coverage increased the number of hospitalizations, though the findings on health care utilization are generally inconclusive.

TI Are Public Housing Projects Good for Kids? **AU** Currie, Janet; Yelowitz, Aaron S.

Yermack, David

TI Altering the Terms of Executive Stock Options. **AU** Brenner, Menachem; Sundaram, Rangarajan K.; Yermack, David.

Yeyati, Eduardo Levy

TI Financial Opening, Deposit Insurance and Risk in a Model of Banking Competition. **AU** Cordella, Tito; Yeyati, Eduardo Levy.

Yosha, Oved

TI Consumption Smoothing through Fiscal Policy in OECD and EU Countries. **AU** Arreaza, Adriana; Sorensen, Bent E.; Yosha, Oved.

Yoshida, Yushi

TI Exchange Rate Movements and Tradable Goods Prices in East Asia: An Analysis Based on Japanese Customs Data, 1988-98. **AU** Takagi, Shinji; Yoshida, Yushi.

Yuen, Chi-Wa

TI Channeling Domestic Savings into Productive Investment under Asymmetric Information: The Essential Role of Foreign Direct Investment. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI Quantitative Implications of the Home Bias: Foreign Underinvestment, Domestic Oversaving, and Corrective Taxation. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI Do Debt Flows Crowd Out Equity Flows Or the Other Way Round? **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI Capital Flows with Debt- and Equity-Financed Investment: Equilibrium Structure and Efficiency Implications. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

TI An Information-Based Model of Foreign Direct Investment: The Gains from Trade Revisited. **AU** Razin, Assaf; Sadka, Efraim; Yuen, Chi-Wa.

Zahniser, Stephen

TI Liberalization and Incentives for Labor Migration: Theory with Application to NAFTA. **AU** Markusen, James R.; Zahniser, Stephen.

Zak, Paul J.

TI Time-to-Build and Cycles. **AU** Asea, Patrick K.; Zak, Paul J.

Zame, William

TI Clubs and the Market: Continuum Economics. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne;

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Zame, William R.

TI Clubs and the Market: Large Finite Economies. **AU** Ellickson, Bryan; Grodal, Birgit; Scotchmer, Suzanne; Zame, William R.

Zanjani, George

TI Consumption vs. Production of Insurance. **AU** Philipson, Tomas; Zanjani, George.

Zarnowitz, Victor

PD October 1997. **TI** Business Cycles Observed and Assessed: Why and How They Matter. **AA** FIBER, Inc. and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6230; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** E32, E37, N10. **KW** Economic Fluctuations. Growth. Business Cycles.

AB Business cycles are on the whole well defined and described, yet they have no generally accepted explanation. Classical literature on the subject favored for the most part the concept of self-sustaining or endogenous fluctuations, but recent models stress outside factors and exogenous random shocks. The lesson of recent history is that monetary factors influence the course of economic activity along with real and expectational variables. Highly aggregative models are unable to deal with the diversity of causes and consequences of business cycles. Disaggregation is essential for theories that emphasize endogenous processes of spending, saving, borrowing and investing. Certain variables have long been critically important in business cycles as shown by historical studies within and across countries: profits, investment, interest rates, money and credit. Leads and lags, nonlinearities and asymmetries also had demonstrably eminent roles, which they retain. Multiple-shock models are superior to single-shock models.

PD January 1998. **TI** Has the Business Cycle Been Abolished? **AA** FIBER and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6367; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 15. **PR** $5.00. **JE** E32, E37, E63. **KW** Business Cycles. Recessions. Stability. Growth. Inflation.

AB Long business expansions have repeatedly generated expectations of self-perpetuating prosperity, yet such popular forecasts always proved wrong eventually. Few business cycle peaks are successfully predicted. Analysts have been prompter to recognize troughs than peaks. Oil price boosts and monetary policy shifts triggered some recent cyclical downturns, but even in these particular episodes other more regularly observed developments played major roles. The insistence on single shocks as the causes of recessions is erroneous; the older emphasis on movements in the growth of demand, money and credit, profits and investment deserves a revival. The relatively new but now widely held belief is that, for recession-free stability to reign, real growth must be no more than moderate and inflation must stay quiescent but financial asset prices can rise indefinitely. The risk of overheating alone is being emphasized but downside as well as upside risks exist and both need to continually considered.

Zhang, June

TI Econometric Models of Limit-Order Executions. **AU** Lo, Andrew W.; MacKinlay, A. Craig; Zhang, June.

Zigic, Kresimir

PD August 1998. **TI** Strategic Trade Policy: How Important is the International Constraint? The Case of Optimal Tariff When Technological Innovations Spill Over to the Foreign Competitor. **AA** CERGE. **SR** Centre for Economic Policy Research Discussion Paper: 1957; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 44. **PR** 5 pounds or 8 dollars or 8 euros. **JE** F13, L13. **KW** Optimal Tariffs. Strategic Trade Policy. Bertrand Competition. Cournot Competition. Technological Spillovers.

AB In this paper we discuss the incentives of a welfare maximizing government to implement strategic trade policy when, on the one hand, there is uncertainty about the relevant market information (like the type of competition, demand function, cost function, etc.), but, on the other hand, the environment of the contest between the firms is specific: there are two firms and the interaction among them is accompanied by technological spillovers from the domestic firm to the foreign firm. The two bench mark oligopoly models, Bertrand and Cournot, are assumed to be possible types of market competition. In order to analyze the problem of strategic policy under uncertainty, it is first necessary to work out in depth the optimal tariff policy in a perfect information set-up for both the Cournot and the Bertrand case. We argue that the 'informational' criticism of strategic trade policy is less relevant than was previously thought.

Zilcha, Itzhak

TI Saving Behavior in Stationary Equilibrium with Random Discounting. **AU** Karni, Edi; Zilcha, Itzhak.

Zingales, Luigi

PD November 1997. **TI** Survival of the Fittest or the Fattest? Exit and Financing in the Trucking Industry. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6273; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** G30, L13, L52, L92. **KW** Trucking. Transportation. Deregulation. Capital Markets. Efficiency.

AB This paper studies the impact that capital market imperfections have on the natural selection of the most efficient firms by estimating the effect of the pre-deregulation level of leverage on the survival of trucking firms after the Carter deregulation. Highly leveraged carriers are less likely to survive the deregulation shock, even after controlling for various measures of efficiency. This effect is stronger in the imperfectly competitive segment of the motor carrier industry. High debt seems to affect survival by curtailing investments and reducing the price per-ton-mile that a carrier can afford to charge after deregulation.

TI Power in a Theory of the Firm. **AU** Rajan, Raghuram G.; Zingales, Luigi.

PD December 1997. **TI** Corporate Governance. **AA** University of Chicago and National Bureau of Economic

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Research. **SR** National Bureau of Economic Research Working Paper: 6309; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 17. **PR** $5.00. **JE** D20, G31, G32, L21. **KW** Corporate Governance. Incomplete Contracts. Firms.

AB This essay summarizes my own personal view of what corporate governance is about. I argue that it makes sense to discuss corporate governance only in an incomplete contract world. In this world, the notion of corporate governance is intrinsically related to the definition of the firm. In this respect, I review the shortcomings of the existing definitions of the firm and the possible applications of the idea that the firms are a "nexus of specific investments" introduced by Rajan and Zingales (1997a and 1997b). I conclude by discussing the limitations of the incomplete contracts approach to corporate governance.

TI The Cost of Diversity: The Diversification Discount and Inefficient Investment. **AU** Rajan, Raghuram G.; Servaes, Henri; Zingales, Luigi.

Zucker, Lynne G.

PD January 1998. **TI** Capturing Technological Opportunity via Japan's Star Scientists: Evidence from Japanese Firms' Biotech Patents and Products. **AU** Zucker, Lynne G.; Darby, Michael R. **AA** University of California, Los Angeles and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 6360; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** L65, O31, O32, R12. **KW** Biotechnology. Innovations. Knowledge Spillovers. Firm Location. Genetic Engineering.

AB Using detailed data on biotechnology in Japan, the authors find that identifiable collaborations between particular university star scientists and firms have a large positive impact on firms' research productivity, increasing the average firm's biotech patents by 34 percent, products in development by 27 percent, and products on the market by 8 percent as of 1989-1990. However, there is little evidence of geographically localized knowledge spillovers. In Japan, the legal and institutional context implies that firm scientists work in the stars' university laboratories in contrast to America where the stars are more likely to work in the firm's labs. As a result, star collaborations in Japan are less localized around their research universities so that the universities' local economic development impact is lessened. Stars' scientific productivity is increased less during collaborations with firms in Japan as compared to the U.S.

PD February 1998. **TI** Fundamentals or Population Dynamics and the Geographic Distribution of U.S. Biotechnology Enterprises, 1976-1989. **AU** Zucker, Lynne G.; Darby, Michael R.; Peng, Yusheng. **AA** Zucker and Darby: University of California, Los Angeles and National Bureau of Economic Research. Peng: Chinese University of Hong Kong. **SR** National Bureau of Economic Research Working Paper: 6414; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** not available. **PR** $5.00. **JE** L65, O31, R12, R23, R30. **KW** Biotechnology. Firm Location. Resource Mobilization. Population Ecology. Fundamentals Models.

AB Population ecology models are elegant in form and adequate in describing aggregate data, but poor in telling stories and predicting the location of growth. Fundamentals models emphasizing the variables central to resource mobilization, such as intellectual human capital, can predict where and when biotechnology enterprises emerge and agglomerate. Density dependence and previous founding dependence proxy many underlying processes; the legitimation and competition interpretation is more conjectural than empirically tenable. The authors argue and demonstrate for biotechnology that an alternative model based on the fundamentals related to resource reallocation and mobilization provides a stronger frame to explore industry formation. Fundamentals models outperform population ecology models in the estimations, while a combined model driven by fundamentals but incorporating weak population dynamics does best. In repeated dynamic simulations, the population ecology model predictions are essentially uncorrelated with the panel data on biotechnology entry by year and region.

Zurlinden, Mathias

TI Are Interventions Self-Exciting? **AU** Fischer, Andreas; Zurlinden, Mathias.

Zweimuller, Josef

PD August 1998. **TI** Patents in a Model of Endogenous Growth. **AU** Zweimuller, Josef; O'Donoghue, Ted. **AA** Zweimuller: University of Linz. O'Donoghue: Cornell University. **SR** Centre for Economic Policy Research Discussion Paper: 1951; Centre for Economic Policy Research, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.demon.co.uk. **PG** 48. **PR** 5 pounds or 8 dollars or 8 euros. **JE** O31, O34, O38, O40. **KW** Innovation. Patent Policy. Intellectual Property. Patent Design. Growth.

AB This paper examines patent protection in an endogenous-growth model. Our aim is two-fold. First, we show how the patent policies discussed by the recent patent-design literature can influence R&D in the endogenous- growth framework, where the role of patents has been largely ignored. Second, we explore how the general-equilibrium framework contributes to the results of the patent-design literature. In a general-equilibrium model, both incentives to innovate and monopoly distortions depend on the proportion of industries that conduct R&D. Furthermore, patents affect the allocation of R&D resources across industries, and patents can distort resources away from industries where they are most productive.

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