

ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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

Acemoglu, Daron

PD March 2002. **TI** Economic Backwardness in Political Perspective. **AU** Acemoglu, Daron; Robinson, James A. **AA** Acemoglu: MIT and CEPR. Robinson: University of California, Berkeley. **SR** CEPR Discussion Paper: 3261; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H20, N10, O10, O30, O40. **KW** Political Economy. Institutions. Development. Industrialization.

AB We construct a simple model where political elites may block technological and institutional development, because of a "political replacement effect." Innovations often erode elites' incumbency advantage, increasing the likelihood that they will be replaced. Fearing replacement, political elites are unwilling to initiate change, and may even block economic development. We show that elites are unlikely to block development when there is a high degree of political competition, or when they are highly entrenched. It is only when political competition is limited and also their power is threatened that elites will block development. We also show that such blocking is more likely to arise when political stakes are higher, and that external threats may reduce the incentives to block. We argue that this model provides an interpretation for why Britain, Germany and the US industrialized during the nineteenth century, while the landed aristocracy in Russia and Austria-Hungary blocked development.

PD March 2002. **TI** Economic Backwardness in Political Perspective. **AU** Acemoglu, Daron; Robinson, James A. **AA** Acemoglu: MIT and NBER. Robinson: University of California, Berkeley. **SR** National Bureau of Economic Research Working Paper: 8831; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 39. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** N10, N40, O17, O31. **KW** Political Elite. Political Replacement. Development History.

AB See the abstract for Acemoglu, Daron; Robinson, James A., March 2002. "Economic Backwardness in Political Perspective". CEPR Discussion Paper: 3261; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

PD March 2002. **TI** Cross-Country Inequality Trends. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8832; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00

per order for shipping outside U.S.). **JE** J31, O15. **KW** Wage Inequality. Technological Change. European Labour Market.

AB The economics profession has made considerable progress in understanding the increase in wage inequality in the U.S. and the UK over the past several decades, but currently lacks a consensus on why inequality did not increase, or increased much less, in (continental) Europe over the same time period. I review the two most popular explanations for these differential trends: that relative supply of skills increased faster in Europe, and that European labor market institutions prevented inequality from increasing. I argue that these two explanations go some way towards accounting for the differential cross-country inequality trends, but do not provide an entirely satisfactory explanation. In addition, it appears that relative demand for skills increased differentially across countries. Motivated by this reasoning, I develop a simple theory where labor market institutions creating wage compression in Europe also encourage more investment in technologies increasing the productivity of less-skilled workers, thus implying less skill-biased technical change in Europe than in the U.S.

Acharya, Viral V.

PD March 2000. **TI** Corporate Bonds: Valuation, Hedging, and Optimal Call and Default Policies. **AU** Acharya, Viral V.; Carpenter, Jennifer N. **AA** New York University. **SR** New York University Salomon Center Working Paper: S/00/24; Publications Department, New York University Salomon Center, Stern School of Business, 44 West 4th Street, Suite 9-160, New York, NY 10012-0021. Website: www.stern.nyu.edu/salomon. **PG** 30. **PR** \$10.00 each; \$150.00 yearly subscription; make checks payable to New York University. **JE** G19, G32. **KW** Defaultable Bonds. Call Options. Firm Value.

AB This paper studies the valuation and risk management of callable, defaultable bonds when both interest rates and firm value are stochastic and when the issuer follows optimal call and default policies. Since interest rate sensitivity is low when call is imminent and firm value sensitivity is high when default is imminent, characterizing the issuer's call and default policies is essential to understanding corporate bond risk management. We develop analytical results on optimal call and default rules and use them to explain the dynamics of a hedging strategy for corporate bonds using Treasury bonds and issuer equity. To clarify the interaction between the issuer's embedded call and default options, we compare the callable defaultable bond to its pure callable and pure defaultable counterparts. Each bond's embedded option is a call on a riskless, noncallable host bond, distinguished only by its strike price. This generalized call

option perspective generates intuition for a variety of results.

PD March 2002. **TI** The Effects of Focus and Diversification on Bank Risk and Return: Evidence from Individual Bank Loan Portfolios. **AU** Acharya, Viral V.; Hasan, Iftekhhar; Saunders, Anthony. **AA** Acharya: London Business School and CEPR. Hasan: New Jersey Institute of Technology. Saunders: New York University. **SR** CEPR Discussion Paper: 3252; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G21, G28, G31, G32. **KW** Focus. Diversification. Monitoring. Bank Risk. Bank Return.

AB We study empirically the effect of focus (specialization) versus diversification on the return and the risk of banks using data from 105 Italian banks over the period 1993-99. Specifically, we analyze the trade-offs between (loan portfolio) focus and diversification using a unique data set that is able to identify individual bank loan exposures to different industries, to different sectors and to different geographical regions. Our results are consistent with a theory that predicts a deterioration in bank monitoring quality at high levels of risk and a deterioration in bank monitoring quality upon lending expansion into newer or competitive industries. We find that industrial loan diversification reduces bank return while endogenously producing riskier loans for all banks in our sample; this effect being most powerful for high-risk banks. Sectoral loan diversification produces an inefficient risk-return trade-off only for high-risk banks. Geographical diversification on the other hand does result in an improvement in the risk-return trade-off for banks with low levels of risk. A robust result that emerges from our empirical findings is that diversification of bank assets is not guaranteed to produce superior performance and/or greater safety for banks.

PD March 2002. **TI** Is the International Convergence of Capital Adequacy Regulation Desirable? **AA** London Business School and CEPR. **SR** CEPR Discussion Paper: 3253; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D62, E58, G21, G28, G38. **KW** Bank Regulation. Capital Adequacy. Closure Policy. Risk-Shifting. Financial Integration. International Spillovers.

AB The merit of having international convergence of bank capital requirements in the presence of divergent closure policies of different central banks is examined. While the privately optimal level of bank capital decreases with regulatory forbearance (they are strategic substitutes), the socially optimal level of bank capital increases with regulatory forbearance (they are strategic complements). Hence, in optimal regulatory design, the level of minimum bank capital requirement increases with the forbearance in central bank closure policy. The lack of such linkage leads to a spillover from more forbearing to less forbearing economies and reduces the competitive advantage of banks in less forbearing economies. Linking the central bank's forbearance to its alignment with domestic bankowners, it is shown that in equilibrium a regression towards the worst closure policy may result: the central banks of initially less forbearing economies have to adopt greater forbearance as well.

Akerberg, Daniel A.

PD February 2002. **TI** Unobserved Product Differentiation in Discrete Choice Models: Estimating Price Elasticities and Welfare Effects. **AU** Akerberg, Daniel A.; Rysman, Marc. **AA** Akerberg: UCLA and NBER. Rysman: Boston University. **SR** National Bureau of Economic Research Working Paper: 8798; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C25, C35. **KW** Discrete Choice. Logit. Random Coefficients. Product Differentiation.

AB Standard discrete choice models such as logit, nested logit, and random coefficients models place strong restrictions on how unobservable product space increases with the number of products. We argue (and show with Monte Carlo experiments) that these restrictions can lead to biased conclusions regarding price elasticities and welfare consequences from additional products. In addition, these restrictions can identify parameters which are not intuitively identified given the data at hand. We suggest two alternative models that relax these restrictions, both motivated by structural interpretations. Monte-Carlo experiments and an application to data show that these alternative models perform well in practice.

Adams, Christopher P.

PD February 2002. **TI** Selection of "High Performance Work Systems" in U.S. Manufacturing. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 247; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. **PG** 26. **PR** no charge. **JE** L23, M54. **KW** Human Resource Practices. Work Systems. Complements.

AB This paper analyzes the use of two important human resource practices (self-managed work teams and formal training programs) in U.S. manufacturing. These practices are often used in conjunction with each other and their use is associated with improved firm performance - hence the term "high performance work systems." The results of this paper raise concerns about the interpretation of studies that show a relationship between the use of particular systems of practices and higher performance but do not account for selection of practices by the firm. The paper uses a theoretical model to analyze the mechanism through which these practices improve firm performance. The results of the theoretical model are tested using an empirical model that allows practices to be chosen simultaneously, allows for the choice of practices to interact, and allows for this interaction to vary based on observable characteristics of the firm. The paper shows that the value of individual practices to a firm depends on characteristics of the firm's product market and on the choice of other practices by the firm.

PD October 2002. **TI** Does Size Really Matter? Empirical Evidence on Group Incentives. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 252; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. **PG** 18. **PR** no charge. **JE** L25, M12, M52. **KW** Free Riding. Group Size.

Incentives. Profit Sharing.

AB The paper empirically analyzes the economic theory and intuition that the "free rider" problem will overwhelm firm-wide incentives in large firms. Kandel and Lazear (1992) claim that in a simple model of an equitable partnership, Nash equilibrium effort levels fall with the number of partners -- the 1/N problem. The paper shows that this result is crucially dependent on an unstated assumption on the production function. In particular, if worker effort levels are complementary, effort levels can increase with the number of partners. This difference may explain the empirical finding that the 1/N problem is substantial in medical and legal practices (where effort levels are independent), but less important in manufacturing (where effort levels are complementary). The empirical results suggest that the use of firm-wide incentives increases with a firm's size, at least for smaller firms. The results do not support the claim that the use of other human resource practices, like self-managed work teams, allows the firm to mitigate the 1/N problem.

PD December 2002. **TI** Agent Discretion, Adverse Selection, and the Risk-Incentive Trade-Off. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 255; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. **Contact Person:** troundtree@ftc.gov. **Website:** www.ftc.gov/bc/econwork.htm. **PG** 29. **PR** no charge. **JE** D82, J33, M52. **KW** Agency Theory. Principal-Agent Problem. Incentives. Profit Sharing.

AB A basic tenet of incentive theory states that there is a trade-off between risk and incentives. By implication, greater variation in firm profits leads to a reduction in the use of profit sharing. Surprisingly, there is little empirical evidence for this relationship. This paper reexamines the difference between the theoretical prediction and the empirical evidence, and shows that the key is agent discretion over task choice. A theoretical model represents agent discretion as an adverse selection problem. This model guides the empirical analysis of contracts given to employees in British manufacturing firms. For employees without discretion over the tasks they perform, there is a negative relationship between variation in firm profits and the use of profit sharing. For employees with discretion, there is a positive relationship.

TI Focusing on Demand: Using eBay Data to Analyze the Demand for Telescopes. **AU** Bivins, Laura L.; Adams, Christopher P.

Ahmad, Ehtisham

PD August 2002. **TI** Intergovernmental Grants Systems and Management: Applications of a General Framework to Indonesia. **AU** Ahmad, Ehtisham; Ma, Jun; Searle, Bob; Piperno, Stefano. **AA** Ahmad: IMF. Ma: World Bank. Searle: Commonwealth Grants Commission, Australia. Piperno: Indonesian Finance Ministry. **SR** International Monetary Fund Working Paper: WP/02/128; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website:** www.imf.org. **PG** 29. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** H70. **KW** Indonesia. Fiscal Decentralization. Equalization Grants. **AB** Intergovernmental equalization grants have been described as "the glue that holds a nation together." Getting the grants system right is critical to countries as they decentralize.

This paper illustrates general principles with an example based on Indonesia in 2000. A general grant should be used to supplement own revenues and to finance local service provision where there are no central mandates. The special needs of backward regions would be better provided for by specific grants. Specific grants need to be taken into account in the general grants scheme.

PD August 2002. **TI** Indonesia: Managing Decentralization. **AU** Ahmad, Ehtisham; Mansoor, Ali. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/136; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website:** www.imf.org. **PG** 17. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** H70. **KW** Intergovernmental Relations. Decentralization. Indonesia.

AB The process of decentralization in Indonesia was initiated after a long period of autocratic rule. Despite the political imperatives, there is a need to carefully sequence the fiscal decentralization to ensure that financing follows the assignment of functions. The functions should be commensurate with the capacity to provide public services. The paper argues for the proper sequencing to avoid jeopardizing macroeconomic stability or the effective delivery of public services.

Ait-Sahalia, Yacine

PD May 2002. **TI** Nonparametric Option Pricing Under Shape Restrictions. **AU** Ait-Sahalia, Yacine; Duarte, Jefferson. **AA** Ait-Sahalia: Princeton University and NBER. Duarte: University of Washington. **SR** National Bureau of Economic Research Working Paper: 8944; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C14, G12. **KW** Nonparametric Models. Option Pricing. Locally Polynomial Estimators.

AB Frequently, economic theory places shape restrictions on functional relationships between economic variables. This paper develops a method to constrain the values of the first and second derivatives of nonparametric locally polynomial estimators. We apply this technique to estimate the state price density (SPD), or risk-neutral density, implicit in the market prices of options. The option pricing function must be monotonic and convex. Simulations demonstrate that nonparametric estimates can be quite feasible in the small samples relevant for day-to-day option pricing, once appropriate theory-motivated shape restrictions are imposed. Using S&P500 option prices, we show that unconstrained nonparametric estimators violate the constraints during more than half the trading days in 1999, unlike the constrained estimator we propose.

PD May 2002. **TI** Closed-Form Likelihood Expansions for Multivariate Diffusions. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8956; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C32, G12. **KW** Closed-Form Expansions. Multivariate Diffusions. Likelihood Function.

AB This paper provides closed-form expansions for the transition density and likelihood function of arbitrary

multivariate diffusions. The expansions are based on a Hermite series, whose coefficients are calculated explicitly by exploiting the special structure afforded by the diffusion hypothesis. Because the transition function for most diffusion models is not known explicitly, the expansions of this paper can help make maximum-likelihood a practical estimation method for discretely sampled multivariate diffusions. Examples of interest in financial econometrics are included.

Aizenman, Joshua

PD April 2002. TI Financial Opening: Evidence and Policy Options. AA University of California, Santa Cruz and NBER. SR National Bureau of Economic Research Working Paper: 8900; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F21, F32, F34, F36. KW Capital Inflows. Developing Countries. Financial Crises. Growth. Open Markets.

AB This paper evaluates the empirical evidence of increasing the chances of financial crises by opening up developing countries to short-term capital inflows, and appraises the various proposals made for mitigating the severity of financial crises. We point out that there is solid evidence that financial opening increases the chance of financial crises. There is more tenuous evidence that financial opening contributes positively to long-run growth. Hence, there may be a complex trade-off between the adverse intermediate run and the beneficial long run effects of financial opening. The literature is abounded with proposals aimed at improving this intertemporal trade-off, reducing the costs of financial crises. A version of the Lucas critic may limit the welfare gain of these proposals. A better understanding of the structural characteristics leading to exposure and crises is the key for designing a successful restructuring of the global capital market. Some of the reforms may fall short of success due to coordination failure. Finally, some of the proposals may be too optimistic, ignoring the time inconsistency and political economy considerations, as well as presuming the ability to verify unambiguously the quality of adjustment.

Akhavein, Jalal

PD March 2001. TI The Diffusion of Financial Innovations: An Examination of the Adoption of Small Business Credit Scoring by Large Banking Organizations. AU Akhavein, Jalal; Frame, W. Scott; White, Lawrence J. AA Akhavein: University of Pennsylvania. Frame: Federal Reserve Bank of Atlanta. White: New York University. SR New York University Salomon Center Working Paper: S/01/15; Publications Department, New York University Salomon Center, Stern School of Business, 44 West 4th Street, Suite 9-160, New York, NY 10012-0021. Website: www.stern.nyu.edu/salomon. PG 17. PR \$10.00 each; \$150.00 yearly subscription; make checks payable to New York University. JE G21, O31. KW Credit Scoring. Small Business Lending. Financial Innovation. Technology Diffusion. AB There have been few quantitative investigations of financial innovation and the diffusion of these new technologies. Of the latter, there have been only three prior quantitative studies, and all three used the same data set on ATMs. This paper contributes to the financial innovation literature by examining the diffusion of a recent important innovation of the 1990s: banks' use of credit scoring for small

business lending. We examine the responses of 95 large banking organizations to a survey that asked whether they had adopted credit scoring for small business lending as of June 1997 (56 had done so) and, if they had adopted it, when they had done so. We estimate hazard and tobit models to explain the diffusion pattern of small business credit scoring models. The hazard model indicates that larger banking organizations innovated earlier, as did those located in the New York Federal Reserve district. The tobit model confirms these results and also finds that organizations with fewer separately chartered banks but more branches innovated earlier, which is consistent with theories stressing the importance of bank organizational form on lending style. Though the managerial variables' signs are consistent with our expectations, none yields significant results.

Al-Najjar, Nabil I.

PD March 2002. TI Unforeseen Contingencies. AU Al-Najjar, Nabil I.; Anderlini, Luca; Felli, Leonardo. AA Al-Najjar: Northwestern University. Anderlini: Georgetown University. Felli: University of London, CESifo, and CEPR. SR CEPR Discussion Paper: 3271; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D81, K12. KW Unforeseen Contingencies. Incomplete Contracts. Fine Variability.

AB We develop a model of unforeseen contingencies. These are contingencies that are understood by economic agents -- their consequences and probabilities are known -- but are such that every description of such events necessarily leaves out relevant features that have a non-negligible impact on the parties' expected utilities. Using a simple co-insurance problem as a backdrop, we introduce a model where states are described in terms of objective features, and the description of an event specifies a finite number of such features. In this setting, unforeseen contingencies are present in the co-insurance problem when the first-best risk-sharing contract varies with the states of nature in a complex way that makes it highly sensitive to the component features of the states. In this environment, although agents can compute expected payoffs, they are unable to include in any ex-ante agreement a description of the relevant contingencies that captures (even approximately) the relevant complexity of the risky environment.

PD May 2003. TI Undescribable Contingencies. AU Al-Najjar, Nabil I.; Anderlini, Luca; Felli, Leonardo. AA Al-Najjar: Northwestern University. Anderlini: Georgetown University. Felli: London School of Economics. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1370; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 36. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C69, D81, D89. KW Incomplete Contracts. Finite Invariance. Fine Variability. AB We develop a model of complex undescribable contingencies. These are contingencies that are understood by economic agents -- their consequences and probabilities are known -- but are such that every description of such events necessarily leaves out relevant features that have a non-negligible impact on the parties' expected utilities. Using a

simple co-insurance problem as a backdrop, we introduce a model where states are described in terms of objective features, and the description of an event specifies a finite number of such features. In this setting, undescribable contingencies are present when the first- best risk-sharing contract varies with the states of nature in a complex way that makes it highly sensitive to the component features of the states. We also show that two key ingredients of our model -- probabilities that are finitely additive but fail countable additivity, and a state space that is small (discrete in our model) in a measure- theoretic sense -- are necessary ingredients of any model of undescribable contingencies that delivers our results.

Albanesi, Stefania

PD April 2002. TI Expectation Traps and Monetary Policy. AU Albanesi, Stefania; Chari, V. V.; Christiano, Lawrence J. AA Albanesi: Bocconi University. Chari: University of Minnesota. Christiano: Northwestern University and NBER. SR National Bureau of Economic Research Working Paper: 8912; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E31, E50, E61, E63. KW Monetary Policy. Inflation. Commitment. Multiple Equilibria. Expectation Traps.

AB Why is it that inflation is persistently high in some periods and persistently low in other periods? We argue that lack of commitment in monetary policy may bear a large part of the blame. We show that, in a standard equilibrium model, absence of commitment leads to multiple equilibria, or expectation traps. In these traps, expectations of high or low inflation lead the public to take defensive actions which then make it optimal for the monetary authority to validate those expectations. We find support in cross-country evidence for key implications of the model.

Alonso-Gamo, Patricia

PD August 2002. TI Lithuania: History and Future of the Currency Board Arrangement. AU Alonso-Gamo, Patricia; Fabrizio, Stefania; Kramarenko, Vitali; Wang, Qing. AA IMF. SR International Monetary Fund Working Paper: WP/02/127; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 25. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E42, E52, E61, F33. KW Real Effective Exchange Rate. Competitiveness. Currency Board Arrangement.

AB The paper examines the evolution of the institutional setup of Lithuania's Currency Board Arrangement (CBA) and competitiveness from 1994 through 2001, with a view to determining the resilience of the Lithuanian CBA to external shocks in 2002-03. First, several indicators of competitiveness are analyzed in the context of productivity gains and flexibility of the labor market and prices are considered. Then, the equilibrium exchange rate and misalignments of the actual rate from it are estimated in a cointegration framework. The paper concludes that, under current policies, the CBA would be able to cope with sizable external shocks during 2002-03 provided supporting policies remain in place.

Alquist, Ron

PD March 2002. TI Productivity and the Euro-Dollar

Exchange Rate Puzzle. AU Alquist, Ron; Chinn, Menzie D. AA Alquist: IMF. Chinn: University of California, Santa Cruz and NBER. SR National Bureau of Economic Research Working Paper: 8824; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F31, F41. KW Productivity. Dollar/Euro Exchange Rate.

AB This paper documents the evidence for a productivity-based model of the dollar/euro real exchange rate over the 1985-2001 period. We estimate cointegrating relationships between the real exchange rate, productivity, and the real price of oil using the Johansen (1988) and Stock-Watson (1993) procedures. We find that each percentage point in the US-Euro area productivity differential results in a real appreciation of the dollar of five percentage points. This finding is robust to the estimation methodology, the variables included in the regression, and the sample period. We conjecture that productivity-based models cannot explain the observed patterns with the standard set of assumptions, and describe a case in which the model can be reconciled with the observed data.

Amelina, Maria

PD July 2002. TI Seductions of an Underdevelopment Trap: Systemic Impediments to Agricultural Reform in Russia. AU Amelina, Maria; Gershenson, Dmitriy. AA Amelina: World Bank. Gershenson: IMF. SR International Monetary Fund Working Paper: WP/02/126; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 32. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE D78, P26, P32. KW Agriculture. Collective Farms. Transition. Russian Federation.

AB Despite ambitious agricultural reforms initiated by the federal government, inefficient and unprofitable producers predominate in post- Soviet Russia. However, in some regions, a more robust restructuring has taken place. Observing two Russian regions -- one with substantially restructured agricultural production and one in which Soviet-style coordination predominates -- we develop a model of the interactions between political and economic incentives that lead to these divergent outcomes. The model identifies region- and sector- specific characteristics that, while encouraging some regional governments to maintain Soviet-style redistribution structures and make producers forsake more efficient outcomes as more costly, push other regions to pursue reform.

Ameriks, John

PD May 2002. TI Wealth Accumulation and the Propensity to Plan. AU Ameriks, John; Caplin, Andrew; Leahy, John. AA Ameriks: TIAA-CREF Institute. Caplin: New York University and NBER. Leahy: Boston University and NBER. SR National Bureau of Economic Research Working Paper: 8920; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 31. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D14, D19, E21. KW Household Wealth. Financial Planning. Saving.

AB Why do similar households end up with very different levels of wealth? We show that differences in the attitudes and skills with which they approach financial planning are a

significant factor. We use new and unique survey data to assess these differences and to measure each household's "propensity to plan." We show that those with a higher such propensity spend more time developing financial plans, and that this shift in planning effort is associated with increased wealth. The propensity to plan is uncorrelated with survey measures of the discount factor and the bequest motive, raising a question as to why it is associated with wealth accumulation. Part of the answer lies in the very strong relationship we uncover between the propensity to plan and how carefully households monitor their spending. It appears that this detailed monitoring activity helps households to save more and to accumulate more wealth.

Amir, Eli

PD November 1999. TI What Value Analysts? AU Amir, Eli; Lev, Baruch; Sougiannis, Theodore. AA Amir: Tel Aviv University. Lev: New York University. Sougiannis: University of Illinois at Urbana-Champaign. SR Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/12; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. PG 24. PR \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. JE G12, G14. KW Analysts. Earnings Forecasts. Investor Decisions. AB We evaluate the contribution of analysts' earnings forecasts to investors' decisions by comparing the association between annual excess returns and a broad set of information items derived from financial statements with the association between excess returns and that information set plus the present value of five-year ahead analysts' earnings forecasts. We thus bring to a sharp focus the incremental contribution (over financial statement information) of the major product of analysts' -- near and medium-term earnings forecasts -- to investors' decisions as reflected by annual excess returns. Because analysts not only contribute (possibly) to investors, they observe stock price behavior and learn from investors' decisions there is inherent endogeneity. We use a system of simultaneous equations to control for the endogeneity of both excess returns and analysts' forecasts, allowing us to isolate the net contribution of analysts' forecasts to capital markets. We find that their contribution is estimated as a modest 12 percent. This result suggests that analysts' mostly react to changes in market values rather than cause them. However, this contribution is substantial in firms, sectors and circumstances where the informativeness of financial statements is relatively low.

Amir, Rabah

PD December 2002. TI Impact-Adjusted Citations as a Measure of Journal Quality. AA Universite Catholique de Louvain. SR CORE Discussion Paper: 2002/74; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 20. PR \$5 per paper; \$100 per year. JE A19, B41, C49. KW Journal Ranking. Impact-Adjusted Citations. Stationary Markov Chains. Invariant Distribution.

AB We provide a simple theoretical foundation, based on the theory of Markov chains, for the objective empirical procedure

for journal ranking devised by Liebowitz and Palmer. An elementary characterization is derived that substantially clarifies the meaning, scope and underlying intuition of the procedure, and allows a precise illustrative discussion of its strengths and weaknesses. Several suggestions are made to correct its shortcomings, which may prove useful in much-needed future rankings. The present analysis suggests that a suitably amended version of the LP procedure would emerge as a highly adequate measure for ranking journals.

Anderlini, Luca

TI Unforeseen Contingencies. AU Al-Najjar, Nabil I.; Anderlini, Luca; Felli, Leonardo.

TI Undescribable Contingencies. AU Al-Najjar, Nabil I.; Anderlini, Luca; Felli, Leonardo.

Andersen, Torben G.

PD May 2002. TI Micro Effects of Macro Announcements: Real-Time Price Discovery in Foreign Exchange. AU Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.; Vega, Clara. AA Andersen: Northwestern University and NBER. Bollerslev: Duke University and NBER. Diebold: University of Pennsylvania and NBER. Vega: University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 8959; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F31, G12, G14, G15. KW Exchange Rates. Expectations. Macro Announcements. Realizations.

AB Using a new dataset consisting of six years of real-time exchange rate quotations, macroeconomic expectations, and macroeconomic realizations (announcements), we characterize the conditional means of U.S. dollar spot exchange rates versus German Mark, British Pound, Japanese Yen, Swiss Franc, and the Euro. In particular, we find that announcement surprises (that is, divergences between expectations and realizations, or "news") produce conditional mean jumps; hence high-frequency exchange rate dynamics are linked to fundamentals. The details of the linkage are intriguing and include announcement timing and sign effects. The sign effect refers to the fact that the market reacts to news in an asymmetric fashion: bad news has greater impact than good news, which we relate to recent theoretical work on information processing and price discovery.

Andersen, Torben M.

PD January 2003. TI The Macroeconomic Policy Mix in a Monetary Union with Flexible Inflation Targeting. AA University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2003/02; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 25. PR no charge. JE E52, E58, E61, E62, E63. KW EMU. Policy-Mix. Shocks. Policy Cooperation.

AB Policy mix problems may arise in a monetary union with centralized monetary policy and decentralized fiscal policy. A consequence of this may be an inappropriate stabilization of shocks. This paper addresses how policy coordination problems are affected by the objectives of the monetary authority. It is shown that uncoordinated fiscal policies tend to be too counter-cyclical in the case of aggregate shocks, and that this

bias can be reduced by lowering the weight on output stability in monetary policy. Conversely, for country-specific shocks uncoordinated fiscal policies tend to be too pro-cyclical and this bias can be reduced by increasing the weight on output stability in monetary policy. Considering the assignment of policy tasks -- within the set of binding policy rules for fiscal and monetary policy - we find that flexible inflation targeting dominates strict inflation targeting.

Anderson, James E.

PD March 2002. **TI** Imperfect Contract Enforcement. **AU** Anderson, James E.; Young, Leslie. **AA** Anderson: Boston College and NBER. Young: Chinese University of Hong Kong. **SR** National Bureau of Economic Research Working Paper: 8847; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 34. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** K12, L14. **KW** Imperfect Contracts. Spot Markets. LDCs. Enforceability.

AB We model imperfect contract enforcement when repudiators and their victims default to spot trading. The interaction between the contract and spot markets under improved enforcement can exacerbate repudiation and reduce contract execution, harming all traders. Improved contract execution benefits traders on the excess side of the spot market by attracting potential counter-parties, but harms them by impeding their exit from contracts found to be unfavorable. Multiple equilibria and multiple optima are possible, with anarchy a local optimum, perfect enforcement a local minimum and imperfect enforcement a global optimum. LDCs exhibit parameter combinations such that imperfect enforcement is optimal from their side of international markets. The model thus rationalizes the internationally varying patterns of imperfect enforceability observable in survey data.

Andrews, Donald W. K.

PD August 2002. **TI** Higher-Order Improvements of the Parametric Bootstrap for Long-Memory Gaussian Processes. **AU** Andrews, Donald W. K.; Lieberman, Offer. **AA** Andrews: Yale University. Lieberman: Technion-Israel Institute of Technology and Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1378; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 42. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C12, C13, C15. **KW** Asymptotics. Confidence Intervals. Delta Method. Edgeworth Expansion. Gaussian Process. Long Memory. Maximum Likelihood. Parametric Bootstrap. T Statistic. Whittle Likelihood.

AB This paper determines coverage probability errors of both delta method and parametric bootstrap confidence intervals (CIs) for the covariance parameters of stationary long-memory Gaussian time series. CIs for the long-memory parameter do are included. The results establish that the bootstrap provides higher-order improvements over the delta method. Analogous results are given for tests. The CIs and tests are based on one or another of two approximate maximum likelihood estimators. The first estimator solves the first-order conditions with respect to the covariance parameters of a "plug-in" log-likelihood function that has the unknown mean replaced by the sample mean. The second estimator does likewise for a plug-in Whittle log-likelihood. The magnitudes of the coverage probability

errors for one-sided bootstrap CIs for covariance parameters for long-memory time series are shown to be essentially the same as they are with iid data. This occurs even though the mean of the time series cannot be estimated at the usual $n^{1/2}$ rate.

PD October 2002. **TI** Adaptive Local Polynomial Whittle Estimation of Long-Range Dependence. **AU** Andrews, Donald W. K.; Sun, Yixiao. **AA** Andrews: Yale University. Sun: UCSD. **SR** Yale Cowles Foundation Discussion Paper: 1384; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 50. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C14, C22. **KW** Adaptive Estimator. Asymptotic Bias. Asymptotic Normality. Bias Reduction. Local Polynomial. Long Memory. Minimax Rate. Optimal Bandwidth. Whittle Likelihood.

AB The local Whittle (or Gaussian semiparametric) estimator of long range dependence, proposed by Kunsch (1987) and analyzed by Robinson (1995a), has a relatively slow rate of convergence and a finite sample bias that can be large. In this paper, we generalize the local Whittle estimator to circumvent these problems. Instead of approximating the short-run component of the spectrum, $\phi(\lambda)$, by a constant in a shrinking neighborhood of frequency zero, we approximate its logarithm by a polynomial. This leads to a "local polynomial Whittle" (LPW) estimator. We specify a data-dependent adaptive procedure that adjusts the degree of the polynomial to the smoothness of $\phi(\lambda)$ at zero and selects the bandwidth. The resulting "adaptive LPW" estimator is shown to achieve the optimal rate of convergence, which depends on the smoothness of $\phi(\lambda)$ at zero, up to a logarithmic factor.

Arcidiacono, Peter

PD June 2002. **TI** Ability Sorting and the Returns to College Major. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/26; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 42. **PR** no charge. **JE** C35, D83, J21, J24. **KW** Dynamic Discrete Choice. Returns to Education. Human Capital.

AB Large earnings and ability differences exist across majors. This paper seeks to estimate the monetary returns to particular majors as well as find the causes of the ability sorting across majors. In order to accomplish this, this paper estimates a dynamic model of college and major choice. Even after controlling for selection, large earnings premiums exist for certain majors. Differences in monetary returns explain little of the ability sorting across majors; virtually all ability sorting is because of preferences for particular majors in college and the workplace, with the former being larger than the latter.

Arellano, Cristina

PD April 2002. **TI** Credit Frictions and "Sudden Stops" in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises. **AU** Arellano, Cristina; Mendoza, Enrique G. **AA** Arellano: Duke University. Mendoza: University of Maryland and NBER. **SR** National Bureau of Economic Research Working Paper: 8880; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 63. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D52, E44, F32, F41. **KW** Emerging Markets Crises. Credit Frictions. Business

Cycles. Sudden Stop.

AB Financial frictions are a central element of most of the models proposed for explaining the "Sudden Stop" phenomenon in the literature on emerging markets crises. To date, few studies have aimed to examine the quantitative implications of these models and to integrate them with an equilibrium business cycle framework for emerging economies. This paper surveys these studies viewing them as ability-to-pay and willingness-to-pay variations of a framework that adds occasionally binding borrowing constraints to the small open economy real-business-cycle model. A common feature of the different models is that agents factor in the risk of future Sudden Stops in their optimal plans, so that equilibrium allocations and prices are distorted even when credit constraints do not bind. Sudden Stops are a property of the unique, flexible-price competitive equilibrium of these models that occurs in a particular region of the state space in which negative shocks make borrowing constraints bind. The resulting nonlinear effects imply that solving the models requires nonlinear numerical methods, which are described in the survey. The results show that the models can yield relatively infrequent Sudden Stops with large current account reversals and deep recessions nested within smoother business cycles.

Arnott, Richard

PD April 2002. **TI** The Property Tax as a Tax on Value: Deadweight Loss. **AU** Arnott, Richard; Petrova, Petia. **AA** Arnott: Boston College and NBER. Petrova: Boston College. **SR** National Bureau of Economic Research Working Paper: 8913; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H21, H22, Q15. **KW** Property Tax. Efficiency.

AB Consider an atomistic developer who decides when and at what density to develop his land, under a property tax system characterized by three time-invariant tax rates: the tax rate on pre-development land value, the tax rate on post-development residual site value, and the tax rate on structure. Arnott (2002) identified the subset of property value tax systems which are neutral. This paper investigates the relative efficiency of four idealized, non-neutral property value tax systems (Canadian property tax system, simple property tax system, residual site value tax system, and differentiated property tax system) under the assumption of a constant rental growth rate.

Arteta, Carlos O.

PD March 2003. **TI** Are Financially Dollarized Countries More Prone to Costly Crises? **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 763; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 49. **PR** no charge. **JE** F33, F41, G21. **KW** Dollarization. Banking Crises. Currency Crashes. Devaluations.

AB In view of the role of liability dollarization in recent financial crises, whether or not the widespread presence of foreign-currency-denominated deposits and credits in developing-country banking systems leads to greater financial fragility is an open and pressing question. Using a comprehensive dataset on deposit and credit dollarization for a large number of developing and transition economies, I find

little evidence that high dollarization heightens the probability of banking crises or currency crashes. Furthermore, while empirical results suggest that banking crises and currency crashes are contractionary, there is no robust evidence that they are more costly in highly dollarized countries than in countries where dollarization is low. This extensive empirical search highlights that macroeconomic and exchange rate policies are far more important than bank dollarization in determining crisis risks and costs.

Asplund, Marcus

PD March 2002. **TI** Price Discrimination in Oligopoly: Evidence from Swedish Newspapers. **AU** Asplund, Marcus; Eriksson, Rickard; Strand, Niklas. **AA** Asplund: Goteborg University, University of London, and CEPR. Eriksson and Strand: Stockholm School of Economics. **SR** CEPR Discussion Paper: 3269; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D43, L13, L82. **KW** Price Discrimination. Oligopoly. Newspapers.

AB This paper provides an empirical examination of third-degree price discrimination in the Swedish newspaper industry. The results show that price discrimination is more prevalent in competitive markets and among newspapers with low market shares. This supports predictions from recent theoretical work, including Chen (1997) and Fudenberg and Tirole (2000), that suggest that firms attempt to poach consumers from rivals by offering targeted discounts. In addition, we find weak evidence that newspapers in markets with large inflows of new consumers and those covering wide geographical areas offer more discounts.

Auriol, Emmanuelle

PD April 2002. **TI** On Robust Constitution Design. **AU** Auriol, Emmanuelle; Gary-Bobo, Robert. **AA** Auriol: Universite de Toulouse I. Gary-Bobo: Universite de Cergy-Pontoise, CESifo, and CEPR. **SR** CEPR Discussion Paper: 3303; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D71, D72. **KW** Collective Choice. Incomplete Information. Mechanism Design. Representative Democracy.

AB We study a class of representation mechanisms, based on reports made by a random subset of agents, called representatives, in a collective choice problem with quasi-linear utilities. We do not assume the existence of a common prior probability describing the distribution of preference types. In addition, there is no benevolent planner. An individual who cannot be assumed to be impartial, a self-interested executive, carries out decisions. These assumptions impose new constraints on Mechanism Design. A robust mechanism is defined as maximizing expected welfare under a vague prior probability distribution, and over a set of mechanisms which is at the same time immune from opportunistic manipulations by the executive, and compatible with truthful revelation of preferences by representatives. Robust mechanisms are characterized and their existence is shown. Sampling Groves mechanisms are shown to be robust.

Austen-Smith, David

PD January 2002. **TI** Peer Pressure and Job Market Signaling. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1352; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 30. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D82, I21, J24. **KW** Peer Pressure. Educational Signaling.

AB Although the debilitating consequences of peer pressure are well- documented and carry a strong intuition when applied to investment in education, it is not evident how such pressures might arise or be sustained in any sort of rational choice setting. This paper develops a multiperiod model of endogenous peer pressure and education. The model involves an individual whose productive ability (type) is private information. The key idea is that individuals face a tension between signaling their type to the outside labor market and signaling their type to a peer group: signals that induce high wages can be signals that induce peer rejection. The main results are that when individuals are sufficiently impatient, all equilibria satisfying a standard refinement involve all types accepted by the group pooling on a common low level of education and all types rejected by the group separating at distinctly higher levels of education; and that when individuals are very patient, there is an increase in the variation of education levels within the group and an increase in the variance of types deemed acceptable by the group. Thus, the more those involved discount the future, the more acute peer pressure becomes and the more homogenous groups become.

PD November 2002. **TI** Deliberation and Voting Rules. **AU** Austen-Smith, David; Feddersen, Tim. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1359; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 36. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D71, D82. **KW** Committees. Majority Rule. Voting Rules.

AB We analyze a formal model of decision-making by a deliberative committee. There is a given binary agenda. Individuals evaluate the two alternatives on both private and common interest grounds. Each individual has two sorts of private information going into committee: (a) perfect information about their personal bias and (b) noisy information about which alternative is best with respect to a (commonly held) normative criterion. Prior to a committee vote to choose an alternative, committee members engage in deliberation, modeled as a simultaneous cheap-talk game. We explore and compare equilibrium properties under majority and unanimity voting rules, paying particular attention to the character of debate (who influences who and how) and quality of the decision in each instance. On balance, majority rule induces more information sharing and fewer decision-making errors than unanimity. Furthermore, the influence and character of deliberation per se can vary more under majority rule than under unanimity.

PD December 2002. **TI** The Inferiority of Deliberation under Unanimity Rule. **AU** Austen-Smith, David; Feddersen, Tim. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1360; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 12. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D71, D82. **KW** Deliberation. Fully Revealing Debate. Unanimity Rule.

AB A deliberative committee is a group of at least two individuals who publicly communicate with each other prior to voting on a set of alternatives. We examine a model in which members of such a committee have private information and common, although not necessarily, identical values. We demonstrate in a very general setting that the requirement of a unanimous vote to choose one of two alternatives makes it impossible for even a minimally diverse committee to fully reveal all private information prior to voting. Moreover, whenever full revelation is possible under the unanimity rule, it is possible under any other rule. Finally, we show that other rules may support full revelation when unanimity rule does not.

PD January 2003. **TI** Redistribution in a Divided Society. **AU** Austen-Smith, David; Wallerstein, Michael. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1362; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 24. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D63, J15. **KW** Affirmative Action. Redistribution. Flat Tax.

AB The paper develops an integrated political economy model in which individuals are distinguished by earning ability and an ascriptive characteristic such as race, ethnicity, or religion. The policy space is a transfer payment to low-income workers financed by a flat tax on wages and an affirmative action constraint on firms' hiring decisions. The distribution of income and the policy are endogenous, with the latter being the outcome of a legislative bargaining game between three parties. The model provides support for the common claim that racial divisions reduce support for welfare expenditures, even when voters have color-blind preferences. We show that relatively advantaged members of both the majority and minority group benefit from the introduction of a second dimension of redistribution, while the less advantaged members of the majority are the principal losers.

Avisse, Richard

TI Mondialisation et regionalisation: le cas des industries du textile et de l'habillement (Globalisation and Regionalisation: The Textile Clothing Case). **AU** Fouquin, Michel; Morand, Pascal; Avisse, Richard; Minvielle, Gildas; Dumont, Philippe.

Azuma, Yoshiaki

PD March 2002. **TI** A Theory of the Informal Sector. **AU** Azuma, Yoshiaki; Grossman, Herschel I. **AA** Azuma: Doshisha University. Grossman: Brown University and NBER. **SR** National Bureau of Economic Research Working Paper:

8823; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE K42, O17. KW Informal Sector. State Extraction.

AB In many countries, especially poor ones, a heavy burden of taxes, bribes, and bureaucratic hassles drives many producers into the informal sector. Is this situation explicable only as a consequence of either the ignorance or the ineptitude of the state authorities? On the contrary this paper shows that we can attribute the existence of a large informal sector to the fact that, because productive endowments contain important unobservable components, the state cannot adjust the amounts that it extracts from producers in the formal sector according to each producer's endowment. Furthermore, if either the distribution of endowments is sufficiently unequal or the production of private substitutes for public services is sufficiently easy, the state will extract a sufficiently large amount from producers in the formal sector that poorly endowed producers will choose to work in the informal sector. This result obtains both for a proprietary state, which maximizes its own net revenue, and for a hypothetical benevolent state, which would maximize the total net income of producers. However, a proprietary state would create an informal sector for a larger set of combinations of parameter values than would a hypothetical benevolent state.

Bacchiega, Emanuele

PD December 2002. **TI** Wage Bargaining and Vertical Differentiation. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2002/76; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 12. PR \$5 per paper; \$100 per year. **JE** J31, L11. **KW** Vertical Differentiation. Workers' Skills. Wage Bargaining. Welfare.

AB This article applies Nash Bargaining to wage setting in a vertically differentiated oligopoly and to study its welfare effects. The market outcome crucially depends on the bargaining power attributed to the agents. I show that the resulting wage bargaining structure is likely to lead to another source of distortion that adds to the classical one derived by oligopoly pricing and quality choice.

Baker, Malcolm

PD March 2002. **TI** Market Liquidity as a Sentiment Indicator. **AU** Baker, Malcolm; Stein, Jeremy C. **AA** Baker: Harvard Business School. Stein: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8816; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G12, G14, G32. **KW** Liquidity Increases. Lower Returns. Irrational Investors.

AB We build a model that helps explain why increases in liquidity—such as lower bid-ask spreads, a lower price impact of trade, or higher share turnover—predict lower subsequent returns in both firm-level and aggregate data. The model features a class of irrational investors, who underreact to the information contained in order flow, thereby boosting liquidity. In the presence of short-sales constraints, unusually high liquidity is a symptom of the fact that the market is currently dominated by

these irrational investors, and hence is overvalued. This theory can also explain how managers might successfully time the market for seasoned equity offerings (SEOs), by simply following a rule of thumb that involves issuing when the SEO market is particularly liquid. Empirically, we find that: i) aggregate measures of equity issuance and share turnover are highly correlated yet ii) in a multiple regression, both have incremental predictive power for future equal-weighted market returns.

Balan, David J.

PD January 2003. **TI** Have Lazear-Style Implicit Contracts Disappeared? **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 256; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 30. PR no charge. **JE** J31, J33. **KW** Deferred Compensation. Incentives. Implicit Contracts.

AB A well-known theory (Lazear, 1979) argues that wage patterns in which younger workers are underpaid relative to marginal revenue product and older workers are overpaid relative to marginal revenue product can be understood as an implicit contract designed to combat principal-agent problems in environments where worker monitoring is costly. In this paper I argue that a number of recent developments (most notably the legal ban on mandatory retirement) have caused the formation of these implicit contracts between firms and young workers to decline (or cease). I derive testable implications of this hypothesis and test it. The results are consistent with the hypothesis. The results from some sub-groups do not support the hypothesis, but do not strongly refute it. This lack of support may indicate that the hypothesis is false, but it also may be due to the crudeness of the method for assigning workers to the different sub-groups. The results from the female sample support the hypothesis, but the strength of this support depends on the regression specification used.

Ball, Laurence

PD May 2002. **TI** The NAIRU in Theory and Practice. **AU** Ball, Laurence; Mankiw, N. Gregory. **AA** Ball: Johns Hopkins University and NBER. Mankiw: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8940; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E24, E31, J60. **KW** NAIRU. Unemployment. Business Cycles. Inflation. Productivity Growth.

AB This paper discusses the NAIRU -- the non-accelerating inflation rate of unemployment. It first considers the role of the NAIRU concept in business cycle theory, arguing that this concept is implicit in any model in which monetary policy influences both inflation and unemployment. The exact value of the NAIRU is hard to measure, however, in part because it changes over time. The paper then discusses why the NAIRU changes and, in particular, why it fell in the United States during the 1990s. The most promising hypothesis is that the decline in the NAIRU is attributable to the acceleration in productivity growth.

Banks, James

PD April 2000. **TI** UK Household Portfolios.

AU Banks, James; Smith, Sarah. AA IFS. SR Institute for Fiscal Studies Working Paper: W00/14; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 24.

PR free from website; 3 pounds for hardcopies. JE D14, H31. KW Portfolio Composition. Tax Treatment.

AB This paper presents a detailed analysis of the composition of household portfolios, using both aggregate and micro-data. Among the key findings is that most household wealth is held in the form of housing and pensions. Over time, there has been a shift away from housing towards financial assets, driven largely by the growth in life and pension funds. Liquid financial wealth (excluding life and pension funds) is not predominantly held in risky form. By far the most commonly held asset is an interest-bearing account at a bank or building society account. The unconditional portfolio share held in risky assets (i.e. averaged across those with and without any risky assets) rises with both age and total financial wealth. However, most of the variation in unconditional portfolio shares is due to differences in ownership rates as opposed to the proportion of the portfolio held in risky assets. Multivariate analysis shows that the conditional portfolio share in risky assets actually falls with age as classical portfolio theory would predict. Finally, the tax treatment of savings products has an effect on portfolio choice. These results are in accordance with those found by Poterba in the US.

PD November 2000. TI Wealth Inequality in the United States and Great Britain. AU Banks, James; Blundell, Richard; Smith, James P. AA Banks and Blundell: IFS and University College London. Smith: RAND. SR Institute for Fiscal Studies Working Paper: W00/20; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 53.

PR free from website; 3 pounds for hardcopies. JE D14, D31. KW Wealth Distribution. US and UK. Financial Wealth. Bequests.

AB In this paper we describe the household wealth distribution in the US and UK, and compare both wealth inequality and the form in which wealth is held. Unconditionally there are large differences in financial wealth between the two countries in the top quintile of the wealth distribution. After controlling for age and income differences between the two countries, we show that the median US household accumulates more financial wealth than their UK counterpart. We explore a number of alternative reasons for these differences and reject some explanations as implausible. These include differential receipt of financial inheritances or desired bequests, as well as differential average rates of return to corporate equity or housing. We also find wealth held in different forms across the two countries which to some extent offsets the differences we observe in financial wealth patterns.

Bao, Shuming

TI Geography, Economic Policy, and Regional Development in China. AU Demurger, Sylvie; Sachs, Jeffrey D.; Woo, Wing Thye; Bao, Shuming; Chang, Gene; Mellinger, Andrew.

TI Geography, Economic Policy, and Regional Development in China. AU Demurger, Sylvie; Sachs, Jeffrey D.; Woo, Wing Thye; Bao, Shuming; Chang, Gene; Mellinger,

Andrew.

Barberis, Nicholas

PD April 2002. TI Comovement. AU Barberis, Nicholas; Shleifer, Andrei; Wurgler, Jeffrey. AA Barberis: University of Chicago and NBER. Shleifer: Harvard University and NBER. Wurgler: New York University. SR National Bureau of Economic Research Working Paper: 8895; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G11, G12, G14. KW Comovement. Returns. Fundamentals View. Category-Based Comovement. Habitat-Based Comovement.

AB A number of studies have identified patterns of positive correlation of returns, or comovement, among different traded securities. We distinguish three views of such comovement. The traditional "fundamentals" view explains the comovement of securities through positive correlations in the rational determinants of their values, such as cash flows or discount rates. "Category-based" comovement occurs when investors classify different securities into the same asset class and shift resources in and out of this class in correlated ways. A related phenomenon of "habitat-based" comovement arises when a group of investors restricts its trading to a given set of securities, and moves in and out of that set in tandem. We present models of each of the three types of comovement, and then assess them empirically using data on stock inclusions into and deletions from the S&P 500 index. These results are broadly supportive of the category and habitat views of comovement, but not of the fundamentals view. More generally, we argue that these non-traditional views may help explain other instances of comovement in the data.

Barrios, Salvador

PD December 2002. TI Economic Integration and Regional Business Cycles: Evidence from the Iberian Regions. AU Barrios, Salvador; de Lucio, Juan Jose. AA Barrios: Universite Catholique de Louvain. de Lucio: Universidad. Alcala de Henares. SR CORE Discussion Paper: 2002/73; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 15. PR \$5 per paper; \$100 per year. JE E32, F15, R11. KW Economic Integration. Business Cycles. European Regions. Border Effect. Spain. Portugal.

AB This paper provides evidence of the positive impact of economic integration on EU regions' business cycles convergence by focusing on two neighboring countries: Spain and Portugal. We show that while a rise in cross-country business cycle correlation has also been experienced by other European countries, it has been relatively more pronounced for Iberian regions. Econometric evidence suggests that the existence of an administrative border, the economic size of regions and their industrial structures can explain a substantial proportion of regional cycles.

PD January 2003. TI Multinationals and Local Indigenous Development. AU Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric. AA Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/05; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348

Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 19. PR \$5 per paper; \$100 per year. JE F23, R11, R12. KW Local Development. Multinationals. Manufacturing Industry. Ireland.

AB We investigate to what extent foreign multinationals have fostered local indigenous development in Ireland. Specifically, we examine whether foreign presence has induced indigenous net plant entry within the same regions and in bordering regions. To this end we employ an entry rate model on an exhaustive panel level data set for Irish manufacturing plants. Our results show that multinationals can foster local development both within and in surrounding regions, although the extent of these effects varies between policy preferential and non-preferential regions.

PD February 2003. **TI** Multinationals' Location Choice, Agglomeration Economies and Public Incentives. **AU** Barrios, Salvador; Gorg, Holger; Strobl, Eric. **AA** Barrios and Strobl: Universite Catholique de Louvain. Gorg: University of Nottingham. **SR** CORE Discussion Paper: 2003/17; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 24. PR \$5 per paper; \$100 per year. JE F23, R38. **KW** Multinational Location. Agglomeration Economies. Public Incentives. Regional Policy. Nested Logit.

AB We study the regional location of multidimensionals in Ireland since the 1970s by focusing on the role played by agglomeration economies and public incentives intent on dispersing industrial activity to the more disadvantaged areas of Ireland. We find that regional policy has only been effective in attracting low-tech firms to the disadvantaged areas during the time when there was a much more laissez-faire approach to regional policy and when the primary industrial policy emphasis was on attracting hi-tech firms into Ireland in general. Our results also show that hi-tech firms are spread more evenly across the country and that urbanization economies were for these firms a more important locational determinant than public incentives.

Barro, Jason R.

PD April 2002. **TI** HMO Penetration, Ownership Status, and the Rise of Hospital Advertising. **AU** Barro, Jason R.; Chu, Michael. **AA** Barro: Harvard Business School and NBER. Chu: not available. **SR** National Bureau of Economic Research Working Paper: 8899; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 14. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I11, I18, L10, L30. **KW** Advertising. Health. Marketing Expenses.

AB We examine the recent increase in hospital advertising expenditures. We first illustrate that the rise in hospital advertising has not been universal. Large, not-for-profit, teaching hospitals have, by far, experienced the largest increase in spending. Adjusting for size, for-profit hospitals over this period have actually decreased their marketing expenses. This increase in advertising spending is best explained by managed care penetration. There is a small and marginally significant relationship between increases in for-profit presence in hospital markets and an increase in advertising spending by the not-for-profit hospitals in those markets.

Barro, Robert J.

PD May 2002. **TI** Religion and Political Economy in an International Panel. **AU** Barro, Robert J.; McCleary, Rachel M. **AA** Barro: Harvard University and NBER. McCleary: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8931; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 41. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE O10, O40, Z12. **KW** Political Economy. Religion. Education. Urbanization. Economic Growth.

AB Economic and political developments affect religiosity, and the extent of religious participation and beliefs influence economic performance and political institutions. We study these two directions of causation in a broad cross-country panel that includes survey information over the last 20 years on church attendance and an array of religious beliefs. Although religiosity declines overall with economic development, the nature of the response varies with the dimension of development. Church attendance and religious beliefs are positively related to education (thereby conflicting with theories in which religion reflects non-scientific thinking) and negatively related to urbanization. Attendance also declines with higher life expectancy and lower fertility. We investigate the effects of official state religions, government regulation of the religion market, Communism, religious pluralism, and the denominational composition of religious adherence. On the other side, we find that economic growth responds positively to the extent of some religious beliefs but negatively to church attendance. That is, growth depends on the extent of believing relative to belonging. These results hold up when we use as instrumental variables the measures of official state religion, government regulation, and religious pluralism.

PD May 2002. **TI** IMF Programs: Who is Chosen and What Are the Effects? **AU** Barro, Robert J.; Lee, Jong-Wha. **AA** Barro: Harvard University and NBER. Lee: Korea University. **SR** National Bureau of Economic Research Working Paper: 8951; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F33, F34, F40, O40. **KW** IMF. Economic Growth.

AB IMF lending practices respond to economic conditions but are also sensitive to political-economy variables. Specifically, the sizes and frequencies of loans are influenced by a country's presence at the Fund, as measured by the country's share of quotas and professional staff. IMF lending is also sensitive to a country's political and economic proximity to some major shareholding countries of the IMF -- the United States, France, Germany, and the United Kingdom. We measured political proximity by voting patterns in the United Nations and economic proximity by bilateral trading volumes. These results are of considerable interest for their own sake but also provide instrumental variables for estimating the effects of IMF lending on economic performance. Instrumental estimates indicate that the size of IMF lending is insignificantly related to economic growth in the contemporaneous five-year period but has a significantly negative effect in the subsequent five years.

Basu, Parantap

PD June 2002. **TI** When to Tax Labor? **AU** Basu, Parantap; Renstrom, Thomas I. **AA** Basu: Fordham University. Renstrom: University of Rochester and CEPR.

SR Wallis Institute of Political Economy Working Paper: 28; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. **PG** 19. **PR** 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. **JE** E62, H21. **KW** Optimal Taxation. Dynamic Taxation. Indivisible Labor.

AB We analyze optimal dynamic taxation when labor supply is indivisible, as in Hansen (1985) and Rogerson (1988). Markets are complete, and an employment lottery determines who works. The consumer can buy insurance to diversify this extrinsic income uncertainty. The optimal wage tax is zero in both the short and long run only when leisure is neutral. If leisure is normal (inferior), labor should be taxed (subsidized). We further derive a wide range of preferences, including HARA, which encompasses normal and non-normal leisure. For those preferences we characterize the dynamic paths of the wage tax.

Battistin, Erich

PD May 2000. **TI** What Do We Learn from Recall Consumption Data? **AU** Battistin, Erich; Miniaci, Raffaele; Weber, Guglielmo. **AA** Battistin: Padua University and IFS. Miniaci: Padua University. Weber: Padua University, IFS, and CEPR. **SR** Institute for Fiscal Studies Working Paper: W00/10; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. **PG** 35. **PR** free from website; 3 pounds for hardcopies. **JE** C82, E21. **KW** Non-Durables. Savings. Italy.

AB In this paper we use two complementary Italian data sources (the 1995 Istat and Bank of Italy household surveys) to generate household-specific non-durable expenditure and savings measures in the Bank of Italy sample that contains relatively high-quality income data. We show that food expenditure data are of comparable quality and informational content across the two surveys, once heaping, rounding and time averaging are properly accounted for. We therefore depart from standard practice and rely on structural estimation of an inverse Engel curve on Istat data to impute non-durable and total expenditure to Bank of Italy observations, and show how these estimates can be used to analyze saving and consumption age profiles conditional on demographics.

Bauwens, Luc

PD February 2003. **TI** The Moments of Log-ACD Models. **AU** Bauwens, Luc; Galli, Fausto; Giot, Pierre. **AA** Bauwens and Galli: Universite Catholique de Louvain. Giot: University of Namur and Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/11; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 13. **PR** \$5 per paper; \$100 per year. **JE** C41, C52. **KW** Duration Model. Overdispersion. Autocorrelation Function. High Frequency Data.

AB We provide existence conditions and analytical expressions of the moments of logarithmic autoregressive conditional duration (Log-ACD) models. We focus on the dispersion index and the autocorrelation function and compare them with those of ACD (Engle and Russell, 1998) and SCD

models. Using duration data for several stocks traded on the New York Stock Exchange, we compare the models in terms of their ability to fit some stylized facts.

Bayoumi, Tamim

PD July 2002. **TI** It's Not What You Make, It's How You Use IT: Measuring the Welfare Benefits of the IT Revolution Across Countries. **AU** Bayoumi, Tamim; Haacker, Markus. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/117; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 17. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D60, F43, O47, O57. **KW** Technological Change. Information Technology. Terms of Trade. Welfare Benefits.

AB This paper analyzes the welfare benefits from falling relative prices of IT (information technology) goods across a wide range of countries. Using two separate methodologies and datasets, we find that welfare benefits mainly accrue to users of IT, not their producers, because of falling relative prices. This is important, as IT production and use are highly differentiated across countries, and implies that earlier work on how IT production affects real GDP, while useful in calibrating the overall benefits of the IT revolution, are a less valuable way of assessing the distribution of benefits.

Bchir, Mohamed Hedi

PD April 2002. **TI** Impacts économiques et sociaux de l'élargissement pour l'Union européenne et la France (Social and Economic Impact of Enlargement on European Union and France). **AU** Bchir, Mohamed Hedi; Maurel, Mathilde. **AA** Bchir: CEPII and Université Paris I. Maurel: Université Paris I. **SR** CEPII Working Paper: 2002/03; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 55. **PR** no charge. **JE** C68, F15. **KW** Transition. EU Enlargement. CGE Model. CAP.

AB This paper assesses the consequences of EU enlargement to CEECs, for France and the EU, with four simulations using the CGE model MIRAGE built by the CEPII. It first assumes that all residual trade barriers are abolished. It then explores the consequence of investment decisions being taken in a larger market after the enlargement process. In the third scenario, the paper assumes that entering EU makes total factor productivity exogeneously higher. Finally, the effects of the enlargement on the Common Agricultural Policy (CAP) are analyzed using two scenarios: (i) the total amount of funds distributed through the CAP is unchanged, and (ii) increases in funds depends upon the size of the agricultural sector in each country. The consequences of the enlargement are rather limited, if one excludes agriculture. For this sector, the impact is much stronger in France. Convergence and industrial restructuring in sectors characterized by increasing returns to scale have a positive impact in France and in Europe. This paper is written in French.

PD December 2002. **TI** MIRAGE, a Computable General Equilibrium Model for Trade Policy Analysis. **AU** Bchir, Mohamed Hedi; Decreux, Yvan; Guerin, Jean-Louis; Jean, Sebastien. **AA** CEPII. **SR** CEPII Working Paper: 2002/17; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 32. **PR** no charge. **JE** D58, F12, F13, F17. **KW** Computable GE Model. Trade

Policy. Dynamics. Foreign Direct Investment. Imperfect Competition.

AB MIRAGE is a multi-region, multi-sector computable general equilibrium model, devoted to trade policy analysis. It incorporates imperfect competition, product differentiation by variety and by quality, and foreign direct investment, in a sequential dynamic set-up where installed capital is assumed to be immobile. Adjustment inertia is linked to capital stock reallocation and to market structure changes. MIRAGE draws upon a detailed measure of trade barriers and of their evolution under given hypotheses, thanks to the database MACMaps. Simulations of trade liberalization between the European Union and its periphery illustrate the sensitivity of the results to the main assumptions.

Bear, Larry Alan

PD March 2000. **TI** The Impact of the Rule of Law on the Structure and Function of Securities Markets. **AU** Bear, Larry Alan; Maldonado-Bear, Rita. **AA** New York University. **SR** New York University Salomon Center Working Paper: S/00/25; Publications Department, New York University Salomon Center, Stern School of Business, 44 West 4th Street, Suite 9-160, New York, NY 10012-0021. Website: www.stern.nyu.edu/salomon. **PG** 41. **PR** \$10.00 each; \$150.00 yearly subscription; make checks payable to New York University. **JE** G18, G28, K22. **KW** Securities Markets. Rule of Law.

AB The time is long past when either economists or lawyers, on the basis of their own singular disciplinary focus, could fully understand or cope efficiently with either the forms or effects of law and regulation on the competitive market system. The paper attempts to make clear to both academics and managers involved with securities markets, the Constitutional-Rule of Law basis for legal and regulatory activity here- and how quickly such activity can change and produce immediate, profound effects on both markets and participants. The paper focuses on several current and troublesome securities areas, and concludes with an examination of the future and securities markets law and regulation in cyberspace.

Beine, Michel

PD April 2002. **TI** The Impact of Central Bank Intervention on Exchange-Rate Forecast Heterogeneity. **AU** Beine, Michel; Benassy-Quere, Agnes; Dauchy, Estelle; MacDonald, Ronald. **AA** Beine: University of Lille 2 and University of Brussels. Benassy-Quere: University of Paris X and CEPII. Dauchy: University of Paris I and MIT. MacDonald: University of Strathclyde. **SR** CEPII Working Paper: 2002/04; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 20. **PR** no charge. **JE** E52, F31. **KW** Central Bank Intervention. Foreign Exchange Markets. Survey Expectations. Market Micro-Structure.

AB This paper investigates the impact of central bank intervention in the foreign exchange market on forecast heterogeneity. Market heterogeneity is based on a sample of forecasts made by a large number of commercial banks over two distinct periods for the DEM (or EUR) and the JPY against the USD. It shows that, in general, forecast heterogeneity increases as a result of interventions, whether the interventions are unexpected (DEM-EUR) or expected (JPY). The results also emphasize the role of rumors, especially in the YEN-USD market. In sum, official interventions are shown to move market

opinions, albeit differently, across the two markets.

Bekaert, Geert

PD February 2002. **TI** Uncovered Interest Rate Parity and the Term Structure. **AU** Bekaert, Geert; Wei, Min; King, Yuhang. **AA** Bekaert: Columbia Business School and NBER. Wei and King: Columbia Business School. **SR** National Bureau of Economic Research Working Paper: 8795; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F31, F37. **KW** Uncovered. Interest Rate Parity. Expectations Hypotheses. Term Structure. UIRP. EHTS.

AB This paper examines uncovered interest rate parity (UIRP) and the expectations hypotheses of the term structure (EHTS) at both short and long horizons. The statistical evidence against UIRP is mixed and is currency-dependent rather than horizon-dependent. Economically, the deviations from UIRP are less pronounced than previously documented. The evidence against the EHTS is statistically more uniform, but, economically, actual spreads and theoretical spreads (spreads constructed under the null of the EHTS) do not behave very differently, especially at long horizons. Partly because of this, the deviations from the EHTS only play a minor role in explaining deviations from UIRP at long horizons. A random walk model for both exchange rates and interest rates fits the data marginally better than the UIRP-EHTS model.

Benassy-Quere, Agnes

TI The Impact of Central Bank Intervention on Exchange-Rate Forecast Heterogeneity. **AU** Beine, Michel; Benassy-Quere, Agnes; Dauchy, Estelle; MacDonald, Ronald.

PD July 2002. **TI** The Survival of Intermediate Exchange Rate Regimes. **AU** Benassy-Quere, Agnes; Coeure, Benoit. **AA** Benassy-Quere: University of Paris X-Nanterre and CEPII. Coeure: French Ministry of Economy, Finance and Industry. **SR** CEPII Working Paper: 2002/07; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 37. **PR** no charge. **JE** F31, F33. **KW** Exchange Rate Regime. Developing Countries. Logit Model.

AB The paper proposes a model of exchange-rate regime choice which accounts for the existence of a continuous range of regimes, the need for real exchange-rate adjustment in response to shocks, the existence of capital account shocks and of balance-sheet effects, the sensitivity of prices to the nominal exchange rate, and the need for a commitment to make any given regime sustainable. Non-ordered Logit estimations on a cross-section of 126 emerging market and developed countries before and after the 1997-1998 currency crises broadly support our approach. Specifically, it shows that there is still a case for intermediate regimes in countries where the interest rate channel is weaker and that do not depend heavily on commodities. The empirical model correctly predicts up to 83% of observed exchange rate regimes, and the recent "hollowing out" of intermediate regimes. It also provides a benchmark to assess the recent changes in individual exchange rate regimes.

Beresteanu, Arie

PD March 2002. **TI** An Optimal Shape of Income Tax: Evidence from Zero Income Tax Countries -- Paraguay & Uruguay. **AU** Beresteanu, Arie; Dahan, Momi. **AA** Beresteanu: Duke University. Dahan: Hebrew

University. **SR** Duke University Department of Economics Working Paper: 03/05; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 20. **PR** no charge. **JE** C31, H21. **KW** Optimal Income Tax. Income Distribution. Hazard Rate.

AB Most of the existing literature on the optimal shape of income tax has a common result -- decreasing marginal tax rates -- a sharp contrast with real world income tax systems. Diamond (1998) made explicit the factors that affect the optimal shape of income tax rates. Special attention was given to one of the effects: the distribution effect. The main goal of this paper is to empirically explore whether the "distribution effect" implies rising or declining marginal income tax rates with special interest at high levels of income. We estimate the hourly wage distribution as a proxy for the distribution of skills. Based on data from Paraguay and Uruguay, we show that the desired income tax schedule implied by the "distribution effect" should exhibit increasing marginal tax rates at high levels of income. We use a nonparametric estimation technique to avoid using any functional form assumptions on the skill distribution.

Bergemann, Dirk

PD August 2002. **TI** The Value of Benchmarking. **AU** Bergemann, Dirk; Hege, Ulrich. **AA** Bergemann: Yale University. Hege: HEC School of Management, Tilburg University, and CEPR. **SR** Yale Cowles Foundation Discussion Paper: 1379; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 29. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D83, D92, G24, G31. **KW** Venture Financing. Optimal Stopping. Benchmarking. Stage Financing. Abandonment Option.

AB We consider the provision of venture capital in a dynamic model with multiple research stages, where time and investment needed to meet each benchmark are unknown. The allocation of funds is subject moral hazard. The optimal contract provides for incentive payments linked to attaining the next benchmark, which must be increasing in the funding horizon of each stage. Benchmarking reduces agency costs, directly by shortening the agent's guaranteed funding horizon, and indirectly via an implicit incentive effect of information rents in future financing rounds. The ex ante need to provide incentives and the venture capitalist's desire to cut information rents ex post create a hold-up conflict, which can be overcome by providing all funds in every stage in a single up-front payment. Empirical patterns of the evolution of financing rounds and research intensity over the lifetime of a project are explained as optimal choices: the optimal capital allocated and the funding horizon are increasing from one stage to the next. This emphasizes the notion that early stages are the riskiest in an innovative venture.

Berger, Allen N.

PD April 2001. **TI** The Effects of Dynamic Changes in Bank Competition on the Supply of Small Business Credit. **AU** Berger, Allen N.; Goldberg, Lawrence G.; White, Lawrence J. **AA** Berger: Board of Governors of the Federal Reserve System. Goldberg: University of Miami. White: New York University. **SR** New York University Salomon Center Working Paper: S/01/16; Publications Department, New York University Salomon Center, Stern School of Business, 44 West 4th Street, Suite 9-160, New York, NY 10012-0021. Website:

www.stern.nyu.edu/salomon. **PG** 20. **PR** \$10.00 each; \$150.00 yearly subscription; make checks payable to New York University. **JE** G21, G28, G34, L89. **KW** Bank Mergers. Small Business.

AB We study the effects of structural changes in banking markets on the supply of credit to small businesses. Specifically, we examine whether bank mergers and acquisitions (M&As) and entry have "external" effects on small business loans by other banks in the same local markets. The results suggest modest positive external effects from these dynamic changes in competition, except that large banks may reduce small business lending in reaction to entry. We confirm bank size and age as important determinants of this lending, and show that the measured age effect does not appear to be driven by local market M&A activity.

PD April 2002. **TI** To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. **AU** Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C. **AA** Berger: Board of Governors of the Federal Reserve System and Wharton Financial Institutions Center. Dai: Norwegian School of Management BI. Ongena: Tilburg University. Smith: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, Finance and Economics Discussion Paper Series: 2002/25; Ms. Karen Blackwell, FEDS Secretary, Mail Stop 77, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/feds/. **PG** 36. **PR** no charge. **JE** G15, G21, G28, G34. **KW** Bank. Globalization. Europe. Mergers.

AB We model two dimensions of bank globalization, bank nationality (a bank from the firm's host nation, its home nation, or a third nation) and bank reach (a global, regional, or local bank), using a two-stage nested multinomial logit model. Our data set includes over 2,000 foreign affiliates of multinational corporations operating in 20 European nations. We find that these firms frequently use host nation banks for cash management services, and that bank reach may be strongly influenced by this choice of bank nationality. Our results suggest limits to the degree of future bank globalization.

Berger, Mark C.

TI Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System. **AU** Black, Dan A.; Berger, Mark C.; Noel, Brett J.; Smith, Jeffrey A.

Berger, Wolfram

PD August 2002. **TI** Spreading Currency Crises: The Role of Economic Interdependence. **AU** Berger, Wolfram; Wagner, Helmut. **AA** University of Hagen. **SR** International Monetary Fund Working Paper: WP/02/144; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 17. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E58, F33, F41. **KW** Currency Crisis. Trade Links. Fixed Exchange Rates. Multiple Equilibria. Self-Fulfilling Expectations.

AB We analyze in this paper how the mutual dependence of private sector expectations in different countries on one another influences the stability of fixed exchange rate regimes. The crisis probabilities of countries trading with one another are

interdependent because wage setters react to an imminent loss of international competitiveness stemming from an increase in the crisis probability of a trading partner. If a currency crisis in one country is perceived to be increasingly likely, the probability of devaluation of its trading partners' currencies to restore their international competitiveness rises as well. Thus, not only actual devaluations but also an increasing crisis probability may trigger currency crises elsewhere. We show that not only fundamental weaknesses but also spontaneous shifts in market sentiment may play a role in precipitating currency crises.

Bergoeing, Raphael

PD April 2002. **TI** Policy-Driven Productivity in Chile and Mexico in the 1980s and 1990s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo. **AA** Bergoeing: University of Chile. Kehoe, P.: University of Minnesota, Federal Reserve Bank of Minneapolis, and NBER. Kehoe, T.: University of Minnesota and Federal Reserve Bank of Minneapolis. Soto: Pontificia Universidad Catolica de Chile and Banco Central de Chile. **SR** National Bureau of Economic Research Working Paper: 8892; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 7. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E52, N16, O47. **KW** Productivity Growth. Banking Reforms. Bankruptcy Procedures. Chile. Mexico.

AB Both Chile and Mexico experienced severe economic crises in the early 1980s, but Chile recovered much faster than did Mexico. Using growth accounting and a calibrated dynamic general equilibrium model, we conclude that the crucial determinant of this difference between the two countries was the faster productivity growth in Chile, rather than higher investment or employment. Our hypothesis is that this difference in productivity was driven by earlier policy reforms in Chile, the most crucial of which were in banking and bankruptcy procedures. We propose a theoretical framework in which government policy affects both the allocation of resources and the composition of firms.

Berry, Steven

PD May 2002. **TI** Limit Theorems for Estimating the Parameters of Differentiated Product Demand Systems. **AU** Berry, Steven; Linton, Oliver B.; Pakes, Ariel. **AA** Berry: Yale University. Linton: London School of Economics. Pakes: Harvard University. **SR** Yale Cowles Foundation Discussion Paper: 1372; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. **Website:** cowles.econ.yale.edu/. **PG** 51. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C15, C35, D43, L13. **KW** Choice Models. Method of Moments. Random Coefficients. Product Differentiation.

AB We provide an asymptotic distribution theory for a class of Generalized Method of Moments estimators that arise in the study of differentiated product markets when the number of observations is associated with the number of products within a given market. We allow for three sources of error: the sampling error in estimating market shares, the simulation error in approximating the shares predicted by the model, and the underlying model error. The limiting distribution of the parameter estimator is normal provided the size of the

consumer sample and the number of simulation draws grows at a large enough rate relative to the number of products. We specialize our distribution theory to the Berry, Levinsohn, and Pakes (1995) random coefficient logit model and a pure characteristic model. The required rates differ for these two frequently used demand models. A small Monte Carlo study shows that the difference in asymptotic properties of the two models is reflected in the models' small sample properties. These differences impact directly on the computational burden of the two models.

Berthelemy, Jean-Claude

PD August 2002. **TI** Will There Be New Emerging-Market Economies in Africa by the Year 2020? **AU** Berthelemy, Jean-Claude; Soderling, Ludvig. **AA** Berthelemy: University of Paris. Soderling: IMF. **SR** International Monetary Fund Working Paper: WP/02/131; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website:** www.imf.org. **PG** 34. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** O10, O40, O55, O57, Q10. **KW** Africa. Growth. Education. Labor Reallocation. Diversification.

AB This paper examines past African growth experience and attempts to simulate future ones. In addition to more commonly used determinants of total factor productivity, a measure of the effect of labor reallocation and an index of economic diversification are constructed and included as factors for long-term growth. A simple model is constructed for the purpose of simulating growth scenarios up to the year 2020 for Burkina Faso, Cote d'Ivoire, Ghana, Mali, Tanzania, and Uganda. Even if one makes relatively optimistic assumptions, Africa is not likely to reach "Asian tiger" levels of growth. The results also suggest that growth will depend, to a large extent, on educational investments and productivity gains in agriculture.

Bertinelli, Luisito

TI Multinationals and Local Indigenous Development. **AU** Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric.

Bertrand, Marianne

PD March 2002. **TI** How Much Should We Trust Differences-in-Differences Estimates? **AU** Bertrand, Marianne; Duflo, Esther; Mullainathan, Sendhil. **AA** Bertrand: University of Chicago, NBER, and CEPR. Duflo: MIT, NBER, and CEPR. Mullainathan: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8841; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C13, E24, K39. **KW** Difference-in-Difference. Panel Data. Serial Correlation. Regime Change.

AB Most Difference-in-Difference (DD) papers rely on many years of data and focus on serially correlated outcomes. Yet almost all these papers ignore the bias in the estimated standard errors that serial correlation introduces. This is especially troubling because the serial correlation in the independent variable itself (e.g., the passage of law) will exacerbate the bias in the standard errors. To illustrate the severity of this issue, we randomly generate placebo laws in state-level data on female

wages from the Current Population Survey. For each law, we use OLS to compute the DD estimate of its "effect" as well as the standard error for this estimate. The standard errors are severely biased: with about 20 years of data, DD estimation finds an "effect" significant at the 5% level of up to 45% of the placebo laws. Two simple techniques can solve this problem for large sample sizes. The first technique involves collapsing the data and ignoring the time-series variation altogether; the second technique is to estimate standard errors while allowing for an arbitrary covariance structure between time periods. We also suggest a third technique, based on randomization inference testing methods, which works well irrespective of sample size.

Besharov, Gregory

PD May 2002. **TI** Inefficient Local Regulation of Local Externalities. **AU** Besharov, Gregory; Zweiman, Ari. **AA** Besharov: Duke University. Zweiman: John A. Levin & Co. **SR** Duke University Department of Economics Working Paper: 02/32; available only on website. **Website:** www.econ.duke.edu/Papers/wpindex.html. **PG** 26. **PR** no charge. **JE** D62, H73, K32. **KW** Local Externalities. Federalism. Subsidiarity. Environmental Regulation.

AB Since only the residents of a single jurisdiction are affected by local consumption externalities, local regulation might be expected to be inefficient. Yet when production has increasing returns to scale, one jurisdiction's choice of regulatory standard affects the prices and availability of goods in other jurisdictions. These extra-jurisdictional effects can lead to inefficient outcomes with local regulation. Because of commitment failure, jurisdictions may choose divergent standards when an intermediate one is Pareto superior. There may also be coordination failures. The results question the usefulness of "subsidiarity" and "fiscal equivalence" as commonly conceived.

PD September 2002. **TI** Seeking Lobbying Rents in the Provision of Local Public Goods. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/34; available only on website. **Website:** www.econ.duke.edu/Papers/wpindex.html. **PG** 17. **PR** no charge. **JE** D72. **KW** Rent-Seeking. Public Goods. Lobbying.

AB Combining rent-seeking and menu auction models allows the study of efficiency in a political economy where lobbying creates rents that politicians expend resources to obtain. Policy choices, lobbying, and rent-seeking are determined endogenously. When all interests lobby, equilibrium local public good provision and rents do not depend on who achieves office. Having only a fixed cost of rent-seeking replicates citizen candidate results. Generalizing the model, so that additional expenditures have effect, reduces entrants and rent-seeking costs. Even when entry would suggest full rent dissipation, the small number of entrants to political contests gives rise to less.

PD February 2003. **TI** Reconsidering the Experimental Evidence for Quasi-Hyperbolic Discounting. **AU** Besharov, Gregory; Coffey, Bentley. **AA** Besharov: Duke University. Coffey: Duke University. **SR** Duke University Department of Economics Working Paper: 03/03; available only on website. **Website:** www.econ.duke.edu/Papers/wpindex.html. **PG** 22. **PR** no charge. **JE** D91. **KW** Hyperbolic Discounting. Quasi-Hyperbolic Preferences.

AB The results of experiments on choices for rewards across time are claimed as support for the quasi-hyperbolic discounting model of consumption preferences. In fact, the evidence could be generated by agents who discount exponentially. Our theoretical results suggest that when experimental rewards are financial, quasi-hyperbolic agents choose to maximize wealth. When rewards are not financial, the choices of even exponential agents cannot be theoretically restricted because of complementarities across goods and time, and because of learning that occurs between decisions. Since generalizing preferences from exponential to quasi-hyperbolic is neither necessary nor sufficient to generate the experimental results, there is a fundamental identification problem.

PD March 2003. **TI** The Outbreak of the Cost Disease: Baumol and Bowen and the Modern Case for the Arts. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 03/06; available only on website. **Website:** www.econ.duke.edu/Papers/wpindex.html. **PG** 31. **PR** no charge. **JE** Z11. **KW** Economics of the Arts.

AB William Baumol and William Bowen's work on the economics of the arts in the 1960's laid the foundation for a new field and provided arguments for public support. This paper discusses influences on their work, the nature of their analysis, and their impact on the development of the economics of the arts.

Besley, Timothy

PD March 2002. **TI** Can Labour Regulation Hinder Economic Performance? Evidence from India. **AU** Besley, Timothy; Burgess, Robin. **AA** Besley: London School of Economics and CEPR. Burgess: London School of Economics. **SR** CEPR Discussion Paper: 3260; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H00, H10, I30, J50, K20, L50, L60, O20, O40. **KW** Industrial Relations. Labor Regulation.

AB This paper investigates whether the industrial relations climate in Indian states has affected the pattern of manufacturing growth in the period 1958-92. We show that pro-worker amendments to the Industrial Disputes Act are associated with lowered investment, employment, productivity and output in registered manufacturing. Regulating in a pro-worker direction is also associated with increases in urban poverty. This suggests that attempts to redress the balance of power between capital and labor can end up hurting the poor.

Bester, Helmut

PD March 2002. **TI** Externalities and the Allocation of Decision Rights in the Theory of the Firm. **AA** Free University and CEPR. **SR** CEPR Discussion Paper: 3276; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D23, L14, L22. **KW** Control Rights. Decision Rights. Delegation. Externalities. Incomplete Contracts. Theory of the Firm.

AB This paper views authority as the right to undertake decisions that have external effects on other members of the organization. Because of contractual incompleteness, monetary incentives are insufficient to internalize these effects in the

decision-maker's objective. The optimal assignment of decision rights minimizes the resulting inefficiencies. We illustrate this in a principal-agent model where the principal retains the authority to select "large" projects but delegates the decision right to the agent to implement "small" projects. Extensions of the model discuss the role of effort incentives, asymmetric information and multi-stage decisions.

Bewley, Truman

PD October 2002. TI Fairness, Reciprocity, and Wage Rigidity. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1383; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 44. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE E31, J31, J41. KW Wage Rigidity. Morale. Fairness. Reciprocity.

AB This paper contains a review of work on wage rigidity. The work includes field studies, economic experiments, and psychological surveys. Economists have done the field studies and experiments, and management scientists and experimental psychologists have done the surveys.

Bhattacharya, Rina

PD August 2002. TI Fiscal Consequences of Armed Conflict and Terrorism in Low- and Middle-Income Countries. AU Bhattacharya, Rina; Chakravarti, Shamit; Clements, Benedict J.; Gupta, Sanjeev. AA IMF. SR International Monetary Fund Working Paper: WP/02/142; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 19. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE H56, O15, O23, O55. KW Fiscal Policy. Growth. Armed Conflict. Terrorism.

AB This paper analyses the fiscal effects of armed conflict and terrorism on low- and middle-income countries. An analysis of 22 conflict episodes shows that armed conflict is associated with lower growth and higher inflation, and has adverse effects on tax revenues and investment. It also leads to higher government spending on defense, but this tends to be at the expense of macroeconomic stability rather than at the cost of lower spending on education and health. Our econometric estimates are consistent with the hypothesis that conflict and terrorism have a significant negative impact on growth through changes in the composition of government spending. On the revenue side, the fiscal accounts are affected only through reduced real economic activity. Thus there is potential for a sizable "peace dividend" for countries that are able to resolve conflict and terrorism.

Biais, Bruno

PD March 2002. TI The Microstructure of Stock Markets. AU Biais, Bruno; Glosten, Lawrence; Spatt, Chester S. AA Biais: Universite de Toulouse I and CEPR. Glosten: Columbia Business School. Spatt: Carnegie Mellon University. SR CEPR Discussion Paper: 3288; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D82, G12, G14, G20. KW Market Microstructure. Liquidity. Bid-Ask Spread. Market Design. Transactions Costs.

AB We survey the literature analyzing the price formation and trading process, and the consequences of market organization for price discovery and welfare. We develop a united perspective on theoretical, empirical and experimental approaches. We discuss the evidence on transaction costs and the price impact of trades and its analyses in terms of adverse selection, inventory costs and market power. We review the extent to which the associated frictions can be mitigated by such features of market design as the degree of transparency, the use of call auctions, the discreteness of the pricing grid and the regulation of competition between liquidity suppliers or exchanges.

Bikhchandani, Sushil

PD November 2002. TI Ascending Auctions and Linear Programming. AU Bikhchandani, Sushil; de Vries, Sven; Schummer, James; Vohra, Rakesh V. AA Bikhchandani: UCLA. De Vries: TU Munchen. Schummer and Vohra: Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1368; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 30. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C61, D44. KW Vickrey Auctions. Multi-Item Auctions. Combinatorial Auctions. Duality. Primal-Dual Algorithm.

AB Based on the relationship between dual variables and sealed-bid Vickrey auction payments (established by Bikhchandani and Ostroy), we consider simpler, specific formulations for various environments. For some of those formulations, we interpret primal-dual algorithms as ascending auctions implementing the Vickrey payments. We focus on three classic optimization problems: assignment, matroid, and shortest-path problems.

Billmeier, Andreas

PD June 2002. TI Exchange Rate Pass-Through and Monetary Policy in Croatia. AU Billmeier, Andreas; Bonato, Leo. AA Billmeier: European University Institute. Bonato: IMF. SR International Monetary Fund Working Paper: WP/02/109; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 24. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E31, E52, F41. KW Croatia. Pass-Through. VAR. Inflation. Cointegration.

AB Exchange rate targeting is considered the best policy option in dollarized economies when wages and prices are indexed to the exchange rate. Croatia is a highly dollarized economy, but empirical investigation conducted in this paper shows that exchange rate pass-through has been low after stabilization. This finding, which is robust to different methodologies (VAR, cointegration), would suggest that dollarization is mostly limited to financial assets and therefore that strict exchange rate targeting may not necessarily be the best option. However, policy implications are unclear due to the endogeneity of the pass-through to the policy regime.

Birdsall, Nancy

PD April 2002. TI Will HIPC Matter? The Debt Game

and Donor Behaviour in Africa. AU Birdsall, Nancy; Claessens, Stijn; Diwan, Ishac. AA Birdsall: Carnegie Endowment for International Peace (CEIP). Claessens: University of Amsterdam and CEPR. Diwan: World Bank and NBER. SR CEPR Discussion Paper: 3297; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F34, F35, O11, O19. KW Debt Relief Foreign Aid. Low-Income Countries. International Organizations. HIPC.

AB In this paper we focus on the question: Will the HIPC debt reduction program help in the transformation of the development assistance business and change the rules of the "debt game" in Africa? We concentrate on the donor and official creditor side, by exploring how the growing debt of African countries, over the last two decades, has affected the provision of new resources by the donor community. Our results indicate, if debt levels are reduced sufficiently in high debt countries, that donors can shift from the current pattern of non-selectivity and defensive lending to a low debt regime -- a regime that has in the past allowed selectivity in lending in relation to levels of poverty and quality of policy.

Bivins, Laura L.

PD January 2003. TI Focusing on Demand: Using eBay Data to Analyze the Demand for Telescopes. AU Bivins, Laura L.; Adams, Christopher P. AA FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 257; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 18. PR no charge. JE D12, D44, L41, L68. KW Demand Estimates. On-Line. Auctions. E-Bay.

AB This paper analyzes the value of using data from on-line auctions to determine product market definitions and competitive effects of mergers. Traditionally this type of demand analysis has been based on retail transaction data, particularly "scanner" data. However, such data is not always readily available and may be difficult to interpret. Auction data, particularly data from on-line auctions like eBay may be easy to access and may be much easier to interpret. The authors analyze data from a series of auctions for 3 different types of telescopes, held over an eight week period. The results suggest that the demand for telescopes is very elastic and that the two types of telescope designs (the Schmidt-Cassegrain and the Maksutov-Cassegrain designs) are in different product markets, supporting a position taken by the Commission in a recent case.

Black, Dan A.

PD March 2002. TI Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System. AU Black, Dan A.; Berger, Mark C.; Noel, Brett J.; Smith, Jeffrey A. AA Black: Syracuse University. Berger: University of Kentucky. Noel: American Express-TRS. Smith: University of Maryland and NBER. SR National Bureau of Economic Research Working Paper: 8825; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE C91, H31, J64, J65. KW Unemployment Insurance. WPRS. Unemployment Duration.

AB This paper examines the effect of the Worker Profiling and Reemployment Services (WPRS) system. This program "profiles" UI claimants to determine their probability of benefit exhaustion (or expected spell duration) and then provides mandatory employment and training service to claimants with high predicted probabilities (or long expected spells). Using a unique experimental design, we estimate that the WPRS program reduces mean weeks of UI benefit receipt by about 2.2 weeks, reduces mean UI benefits received by about \$143, and increases subsequent earnings by over \$1,050. Much (but not all) of the effect results from a sharp increase in early exits from UI in the experimental treatment group compared to the experimental control group. These exits coincide with claimants finding out about their mandatory program obligations rather than with actual receipt of employment and training services. Overall, the profiling program appears to successfully reduce the moral hazard associated with the UI program without increasing the take-up rate.

Blank, Rebecca M.

PD March 2002. TI Can Equity and Efficiency Complement Each Other? AA University of Michigan and NBER. SR National Bureau of Economic Research Working Paper: 8820; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D31, H31, I38. KW Redistribution. Equity/Efficiency Tradeoff.

AB Economists tend to assume that redistributive transfers increase equity but cause a loss in efficiency, the so-called "leaky bucket" effect. This paper explores situations where efficiency losses are small or where equity and efficiency might even complement each other. A simple model identifies key parameters that cause leaky buckets and which policy can affect. Three situations are discussed where the equity/efficiency tradeoff may be low: When transfers go to populations with no capacity to change their behavior; when transfers go to programs that limit efficiency losses through behavioral requirements; and when commodities that function as long-term investments and create future income gains are subsidized.

Blonigen, Bruce A.

PD March 2002. TI Do Bilateral Tax Treaties Promote Foreign Direct Investment? AU Blonigen, Bruce A.; Davies, Ronald B. AA Blonigen: University of Oregon and NBER. Davies: University of Oregon. SR National Bureau of Economic Research Working Paper: 8834; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F21, F23, H25. KW Tax Treaties. Foreign Direct Investment.

AB We explore the impact of bilateral tax treaties on foreign direct investment using data from OECD countries over the period 1982-1992. We find that recent treaty formation does not promote new investment, contrary to the common expectation. For certain specifications we find that treaty formation may actually reduce investment as predicted by arguments suggesting treaties are intended to reduce tax evasion rather than promote foreign investment.

PD April 2002. TI Technology, Agglomeration, and Regional Competition for Investment. AU Blonigen, Bruce

A.; Kolpin, Van. AA Blonigen: University of Oregon and NBER. Kolpin: University of Oregon. SR National Bureau of Economic Research Working Paper: 8862; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F23, H71, L23. KW Regional Competition. Competition for Investment.

AB The active "courting" of firms by municipalities, regions, and even nations has a long-standing history and the competition for firm location through a wide variety of incentives seems to have escalated to new heights in recent years. We develop a model that explores technology development by firms that face regional competition for their investment and examine the endogenous determination of regions' policies, firm technology, and agglomeration externalities. In particular, we find that regional competition leads firms to inefficiently distort their research and development efforts in hopes of improving their standing in the competition amongst regions for their investment. This loss in efficiency is aggravated by the agglomeration externalities that are inherently present in many industries. We offer several case studies that provide evidence consistent with our theoretical conclusions.

PD May 2002. TI Estimating the Knowledge-Capital Model of the Multinational Enterprise: Comment. AU Blonigen, Bruce A.; Davies, Ronald B.; Head, Keith. AA Blonigen: University of Oregon and NBER. Davies: University of Oregon. Head: University of British Columbia. SR National Bureau of Economic Research Working Paper: 8929; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 15. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F10, F21, F23. KW Multinational Enterprise. Knowledge-Capital. Foreign Direct Investment.

AB A recent article by D.L. Carr, J.R. Markusen, and K.E. Maskus (CMM) estimates a regression specification based upon the "knowledge-capital" model of the Multinational Enterprise (MNE). The knowledge-capital model combines "horizontal" motivations for FDI -- the desire to place production close to customers and thereby avoid trade costs -- with "vertical" motivations -- the desire to carry out unskilled-labor intensive production activities in locations with relatively abundant unskilled labor. The CMM estimates pool inward and outward U.S. affiliate sales data from 1986 through 1994 and appear to support the knowledge-capital model of the MNE. We show that CMM's empirical framework mis-specifies the terms measuring differences in skilled-labor abundance, key variables that identify vertical MNE motivations. After correcting this specification error, estimates no longer reject the horizontal model in favor of the knowledge-capital model. Instead, the data strongly support the predictions of the horizontal model of MNEs: affiliate activity between countries decreases as absolute differences in skilled-labor abundance widen. Qualitatively identical results are also found using data that include a wider variety of parent and host countries, including data for the OECD.

Bloom, David E.

PD March 2002. TI Longevity and Life Cycle Savings. AU Bloom, David E.; Canning, David; Graham, Bryan. AA Bloom: Harvard University and NBER. Canning:

Queen's University of Belfast. Graham: Harvard University. SR National Bureau of Economic Research Working Paper: 8808; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E21, I12. KW Life Cycle. Savings Rates. Longevity.

AB We add health and longevity to a standard model of life cycle saving and show that, under plausible assumptions, increases in longevity lead to higher savings rates at every age, even when retirement is endogenous. In a stable population these higher savings rates are offset by increased old age dependency, but during the disequilibrium phase, when longevity is rising, the effect on aggregate savings rates can be substantial. Our results explain the boom in savings in East Asia during 1950-90 as a combination of rising life expectancy and falling youth dependency, though they predict that savings in the region will return to more normal levels as populations age. We also find that falling life expectancies in Africa are associated with declining savings rates.

Bloom, Nicholas

PD August 2000. TI The Dynamic Effects of Real Options and Irreversibility on Investment and Labor Demand. AA IFS and University College London. SR Institute for Fiscal Studies Working Paper: W00/15; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 20. PR free from website; 3 pounds for hardcopies. JE D8, D92, E22. KW Investment. Labor Demand. Uncertainty. Real Options. Irreversibility.

AB This paper shows that, contrary to common beliefs, the real options effect of uncertainty and irreversibility play no role in the long run rate of investment. This is proven for both the standard investment model from the literature, and also a broader class of model with multiple lines of capital, labor and general demand processes. Real options and irreversibility, however, are shown to play an important role in the short run dynamics of investment and labor demand. Specifically, they reduce the short run response of investment and hiring to demand shocks, and lead to a lagged response to past demand shocks. These results are proven for an arbitrary degree of aggregation, and so apply to investment and hiring at all from the firm level up to the macro level.

PD November 2000. TI Patents, Productivity and Market Value in a Panel of British Firms. AU Bloom, Nicholas; van Reenen, John. AA University College London and IFS. SR Institute for Fiscal Studies Working Paper: W00/21; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 17. PR free from website; 3 pounds for hardcopies. JE O31, O33. KW Patents. Productivity. Market Value. Innovation.

AB Patents citations are a potentially powerful indicator of technological innovation. In this paper we describe the IFS-Leverhulme patents dataset that we have constructed by combining information from the US Case-Western Patent database with UK company accounts and share price information from the London Stock Exchange. Patents citations like patent counts, are highly skewed and have a modal lag of four years. Analyzing data on over 200 major British firms since 1968 we show that patents have an economically and

statistically significant impact on firm-level productivity and market value. Patent citations contain more information than simple counts. A doubling in the stock of citation-weighted patents is associated with a four percent increase in (total factor) productivity and an eight percent increase in market value. As expected patenting and citation information feeds into market values immediately but appears to have some additional lagged effects of productivity suggesting gradual take up of new technologies.

Blundell, Richard

PD 2000. **TI** Estimation in Dynamic Panel Data Models: Improving on the Performance of the Standard GMM Estimator. **AU** Blundell, Richard; Bond, Stephen; Windmeijer, Frank. **AA** Blundell: IFS and University College London. Bond: IFS and Nuffield College, Oxford. Windmeijer: IFS. **SR** Institute for Fiscal Studies Working Paper: W00/12; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. **PG** 31. **PR** free from website; 3 pounds for hardcopies. **JE** C22, C23, C32, C33. **KW** Autoregressive Panel. System GMM.

AB This chapter reviews developments to improve on the poor performance of the standard GMM estimator for highly autoregressive panel series. It considers the use of the "system" GMM estimator that relies on relatively mild restrictions on the initial condition process. This system GMM estimator encompasses the GMM estimator based on the non-linear moment conditions available in the dynamic error components model and has substantial asymptotic efficiency gains. Simulations, that include weakly exogenous covariates, find large finite sample biases and very low precision for the standard first differenced estimator. The use of the system GMM estimator not only greatly improves the precision but also greatly reduces the finite sample bias. An application to panel production function data for the US is provided and confirms these theoretical and experimental findings.

TI Wealth Inequality in the United States and Great Britain. **AU** Banks, James; Blundell, Richard; Smith, James P.

Bodenhorn, Howard

PD March 2002. **TI** Partnership and Hold-Up in Early America. **AA** Lafayette College and NBER. **SR** National Bureau of Economic Research Working Paper: 8814; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D23, L14, L22. **KW** Ownership. Imperfect Contracts.

AB Williamson (1985) argues that individuals form firms with specific internal governance structures to mitigate certain types of opportunistic behavior that may inhibit efficient contraction between independent contractors. But once firms are established, the individuals that comprise them may still act opportunistically. This paper investigates a specific historical case: the partnership in early America. Partnerships grappled with information-based problems, such as adverse selection, moral hazard, as well as ex ante and ex post contractual opportunism, including hold-up. Asset specificity and imperfect contracts made partnerships vulnerable to hold-up, especially when one partner invested in a sunk asset that enhanced the productivity of all other partners. This was a particular problem facing existing partners when they invited a new partner into

their firm. Empirical evidence from the mid-nineteenth century suggests that individuals mitigated the effects of pre- and post-contractual opportunism by forming partnerships with others of similar age, productivity, and capital. This finding brings the traditional interpretation of partnerships as mentor-protege relationships into question.

PD May 2002. **TI** The Complexion Gap: The Economic Consequences of Color Among Free African Americans in the Rural Antebellum South. **AA** Lafayette College and NBER. **SR** National Bureau of Economic Research Working Paper: 8957; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 34. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J70, N30, Q15. **KW** Discrimination. Land Ownership. Wealth Distribution. Labor Market.

AB Historians of U.S. race relations typically portray southern whites as reluctant to recognize or act favorably upon complexion-based differences within the African American community. Historians contend that mixed-race African Americans (mulattoes) received few advantages as a result of their partly white heritage. This paper shows that there was a distinct complexion gap in late antebellum America. Mulatto men were more likely than black men to own farms or operate them as tenants, whereas black men were more likely to find employment as farm laborers throughout their lives. Quantile regressions also reveal a complexion gap in wealth accumulation. Mulattoes acquired more property than blacks, particularly at the upper end of the wealth distribution. Thus, an analysis of data included in the 1860 census implies a complex social hierarchy based on subtle gradations in skin color. At the upper end of the wealth distribution, light-complected mulattoes demonstrated a greater propensity to socioeconomic advancement than dark-complected blacks.

Boldrin, Michele

PD March 2002. **TI** Factor Saving Innovation. **AU** Boldrin, Michele; Levine, David. **AA** Boldrin: University of Minnesota, Universidad Carlos III de Madrid, and CEPR. Levine: UCLA and Harvard University. **SR** CEPR Discussion Paper: 3262; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D24, D51, O31, O33, O41, O47. **KW** One, Two and Multisector Growth Models. Measurement of Economic Growth. Aggregate Productivity. Technological Change. Choices and Consequences. Innovation and Invention. Processes and Incentives.

AB It has been argued that concave models exhibit less "endogeneity of growth" than models with increasing returns to scale. Here we study a simple model of factor saving technological improvement in a concave framework. Capital can be used either to reproduce itself, or, at some additional cost, to produce a higher quality of capital, which requires less labor input. If better quality capital can be produced quickly, we get a model of exogenous balanced growth as a special case of ours. If, however, better quality capital can be produced slowly, we get a model of "endogenous growth" in which the growth rate of the economy and the rate of adoption of new technologies is determined by preferences, technology and initial conditions. Moreover, in the latter case, the process of growth is necessarily uneven, exhibiting a natural cycle with

alternating periods of high and slow growth. Growth paths and technological innovations also exhibit dependence upon initial conditions. The model provides a step toward a theory of endogenous innovation under conditions of perfect competition.

PD March 2002. **TI** The Case Against Intellectual Property. **AU** Boldrin, Michele; Levine, David. **AA** Boldrin: University of Minnesota, Universidad Carlos III de Madrid, and CEPR. Levine: UCLA and Harvard University. **SR** CEPR Discussion Paper: 3273; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** K11, L12, L43, O31. **KW** Intellectual Property. Monopoly Power. Patents and Copyrights.

AB According to a common argument, the presence of strong intellectual property rights spurs innovation, which then leads to fiercer competition, higher economic growth and increasing benefits for the average consumers. We argue that, in the case of intellectual property rights, this has led to misconceptions and abuses. Current legislation on intellectual property confuses the protection of property rights on objects in which ideas are embodied with the attribution of monopoly power on the idea itself and, furthermore, with restrictions on the usage of such goods on the part of the buyers. This implies that both patent and copyright laws should be dramatically altered. To back up our claim we provide theoretical arguments, even for the most extreme case in which goods are produced at a positive fixed cost and zero marginal cost.

PD March 2002. **TI** Perfectly Competitive Innovation. **AU** Boldrin, Michele; Levine, David. **AA** Boldrin: University of Minnesota, Universidad Carlos III de Madrid, and CEPR. Levine: UCLA and Harvard University. **SR** CEPR Discussion Paper: 3274; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D62, L16, O11, O31, O33. **KW** Endogenous Innovation. Monopoly Power.

AB We construct a competitive model of innovation and growth under constant returns to scale. Previous models of growth under constant returns cannot model technological innovation. Current models of endogenous innovation rely on the interplay between increasing returns and monopolistic markets. In fact, established wisdom claims monopoly power to be instrumental for innovation and sees the non-rivalrous nature of ideas as a natural conduit to increasing returns. The results here challenge the positive description of previous models and the normative conclusion that monopoly through copyright and patent is socially beneficial.

PD March 2002. **TI** The Intergenerational State: Education and Pensions. **AU** Boldrin, Michele; Montes, Ana. **AA** Boldrin: University of Minnesota, Universidad Carlos III de Madrid, and CEPR. Montes: Universidad de Murcia. **SR** CEPR Discussion Paper: 3275; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H11, H31, H42, I22, O11. **KW** Public Education. Public Pensions. Overlapping Generations. Educational Finance.

AB When an economy lacks the credit markets to finance investment in the human capital of young people, the competitive equilibrium allocation is inefficient. When generations overlap, this failure can be mitigated by properly designed social institutions such as public education and public pensions, institutions which jointly constitute an intergenerational transfer scheme supporting the complete market allocation. Through the public financing of education, the young borrow from the middle aged to invest in human capital. When employed, they pay back their debt via a social security tax, the proceedings of which finance pension payments to the now elderly lenders. When the complete market allocation is achieved, a certain equality should be observed among implicit rates of return and the market rate of return. We test this prediction by using micro and macro data from Spain. The results are surprisingly good. We also use the model to quantify the impact of undergoing demographic change on the implicit rates of return. The results point, unsurprisingly, to dramatic changes in generational rates of return. Contrary to the predictions of earlier studies, our findings suggest that future generations are not necessarily going to be worse off than current ones.

Bollerslev, Tim

TI Micro Effects of Macro Announcements: Real-Time Price Discovery in Foreign Exchange. **AU** Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.; Vega, Clara.

Bonato, Leo

TI Exchange Rate Pass-Through and Monetary Policy in Croatia. **AU** Billmeier, Andreas; Bonato, Leo.

Bond, Stephen

TI Estimation in Dynamic Panel Data Models: Improving on the Performance of the Standard GMM Estimator. **AU** Blundell, Richard; Bond, Stephen; Windmeijer, Frank.

Boone, Jan

PD March 2002. **TI** Transparency, Prices and Welfare with Imperfect Substitutes. **AU** Boone, Jan; Potters, Jan. **AA** Boone: CentER, Tilburg University and CEPR. Potters: CentER, Tilburg University. **SR** CEPR Discussion Paper: 3256; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D40, L10. **KW** Transparency. Substitution. Prices. **AB** Markets that are not completely transparent feature complex comparative statics with respect to the effect of number of firms, elasticity of substitution between goods and degree of transparency on equilibrium prices. The main result is that the following "common wisdom" is incorrect: more transparent markets always feature lower prices, higher consumer welfare and lower price dispersion.

Bordo, Michael D.

PD June 2002. **TI** Boom-Busts in Asset Prices, Economic Instability, and Monetary Policy. **AU** Bordo, Michael D.; Jeanne, Olivier. **AA** Bordo: Rutgers University and NBER. Jeanne: IMF. **SR** National Bureau of Economic Research Working Paper: 8966; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 19. **PR** \$10.00 per copy (plus \$10.00

per order for shipping outside U.S.). **JE** E52, G12, N20. **KW** Asset Pricing. Economic Instability. Monetary Policy.

AB The link between monetary policy and asset price movements has been of perennial interest to policy makers. In this paper we consider the potential case for pre-emptive monetary restrictions when asset price reversals can have serious effects on real output. First, we provide some historical background on two famous asset price reversals: the U.S. stock market crash of 1929 and the bursting of the Japanese bubble in 1989. We then present some stylized facts on boom-bust dynamics in stock and property prices in developed economies. We then discuss the case for a pre-emptive monetary policy in the context of a stylized "Dynamic New Keynesian" framework with collateral constraints in the productive sector. We find that whether such a policy is warranted depends on the economic conditions in a complex, non-linear way. The optimal policy cannot be summarized by a simple policy rule of the type considered in the inflation-targeting literature.

Borjas, George J.

PD May 2002. **TI** Homeownership in the Immigrant Population. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8945; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 34. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J11, R21. **KW** Immigrants. Homeownership.

AB This paper analyzes the determinants of homeownership in immigrant households over the 1980-2000 period. The study finds that immigrants have lower homeownership rates than natives and that the homeownership gap widened significantly during that period. The differential location decisions of immigrant and native households, as well as the changing national origin mix of the immigrant population, helps explain much of the homeownership gap. The evidence also indicates that the growth of ethnic enclaves in major American cities could become an important factor in increasing immigrant demand for owner-occupied housing in many metropolitan areas.

Bossone, Biagio

PD June 2002. **TI** In Finance, Size Matters. **AU** Bossone, Biagio; Lee, Jong-Kun. **AA** Bossone: IMF and Bank of Italy. Lee: World Bank and Bank of Korea. **SR** International Monetary Fund Working Paper: WP/02/113; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 39. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D21, G14, L16. **KW** Banks. Financial Infrastructure. Financial Intermediation. Financial Systems. Systemic Scale Economies.

AB This study investigates the relationship between production efficiency in financial intermediation and financial system size. The study predicts and tests for the existence of "systemic scale economies" (SSEs), whereby value-maximizing intermediaries operating in large systems are expected to have lower production costs and lower costs of risk absorption and reputation signaling than intermediaries operating in small systems. The study investigates different channels through which the SSEs work their effects through the intermediaries and estimates such effects using a large banking data panel. The

study shows strongly supporting evidence in favor of SSEs. It also finds that the institutional environment, the risk environment, and market concentration affect significantly the production efficiency of financial intermediaries.

Bouet, Antoine

PD December 2001. **TI** Market Access Maps: A Bilateral and Disaggregated Measure of Market Access. **AU** Bouet, Antoine; Fontagne, Lionel; Mimouni, Mondher; Pichot, Xavier. **AA** Bouet: CEPII and Pau University. Fontagne: CEPII. Mimouni: International Trade Center. Pichot: Pau University. **SR** CEPII Working Paper: 2001/18; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 38. **PR** no charge. **JE** F02, F13, F15, F18. **KW** Protectionism. Market Access. Custom Duties. Tariff Quotas. Technical Norms. Environmental Norms. Anti-Dumping Duties. Tariff Peaks.

AB MACMaps (Market Access Maps) is a bilateral and disaggregated measure of market access which has been constructed to integrate the major instruments of protection (ad valorem and specific duties, prohibitions, tariff quotas, anti-dumping duties, norms) at the most detailed level (tariff lines), as well as all discriminatory regimes. It is derived from TRAINS (UNCTAD) source files, and AMAD (the Agricultural Market Access Database results from a co-operative effort by Agriculture and AgriFood -- Canada, the EU Commission - Agriculture Direction-, the FAO, the OECD, the World Bank, the UNCTAD, and the United States Department of Agriculture - Economic Research Service) databases, and integrating notifications obtained from member countries of the WTO regarding their anti-dumping regimes. Lastly these files are combined with data from the COMTRADE (UN) database. MACMaps measures the market access for 223 exporting countries into 137 countries at the level of the tariff lines for the year 1999.

Bowman, David

PD March 2003. **TI** New Keynesian, Open-Economy Models and Their Implications for Monetary Policy. **AU** Bowman, David; Doyle, Brian M. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 762; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 39. **PR** no charge. **JE** E12, E52, F41. **KW** New Keynesian. Policy Coordination. Optimal Monetary Policy. Pricing-to-Market. Current Account Dynamics.

AB The considerable amount of research in recent years on New Keynesian, open-economy models -- models with nominal price rigidities and intertemporally maximizing agents -- has yielded fresh insights for what Alan Blinder has called the "dark art" of making monetary policy. The literature has made its greatest contributions in understanding the transmission of shocks across countries, exchange rate pass-through and the effects of different pricing rules, and how these impact optimal monetary policy rules and international policy coordination. While the literature has by no means solved the great mysteries of open-economy macroeconomics, it has laid out a framework where we can ask normative questions of monetary policy, such as how much a central bank should react to movements in the exchange rate. However, monetary policy remains an empirical

endeavor, and would be helped by further work which empirically estimates or calibrates these new models.

Brav, Alon

PD March 2002. **TI** Asset Pricing with Heterogeneous Consumers and Limited Participation: Empirical Evidence. **AU** Brav, Alon; Constantinides, George M.; Geczy, Christopher C. **AA** Brav: Duke University. Constantinides: University of Chicago and NBER. Geczy: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 8822; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D91, E21, G12. **KW** Equity Premium. Stochastic Discount Factor.

AB We present evidence that the equity premium and the premium of value stocks over growth stocks are explained in the 1982-1996 period with a stochastic discount factor (SDF) calculated as the weighted average of individual households' marginal rate of substitution with low and economically plausible values of the relative risk aversion (RRA) coefficient. Household consumption of non-durables and services is reconstructed from the CEX database. Since the above premia are not explained with a SDF calculated as the per capita marginal rate of substitution with a low value of the RRA coefficient, the evidence supports the hypothesis of incomplete consumption insurance. We also present evidence is that a SDF calculated as the per capita marginal rate of substitution is better able to explain the equity premium and does so with a lower value of the RRA coefficient, as the definition of asset holders is tightened to recognize the limited participation of households in the capital market.

Brewer, Mike

PD September 2000. **TI** Comparing In-Work Benefits and Financial Work Incentives for Low- Income Families in the US and the UK. **AA** IFS. **SR** Institute for Fiscal Studies Working Paper: W00/16; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. **PG** 35. **PR** free from website; 3 pounds for hardcopies. **JE** H24, H31, I38, J22. **KW** Income Transfers. Low-income. Welfare. Work Incentives.

AB The goals of income transfer systems in the US and the UK for low- income families are to reduce poverty and welfare dependency as well as to encourage work. Both the US and the UK have made in-work benefits a key part of their strategy through the Earned Income Tax Credit (EITC) and Working Families' Tax Credit (WFTC) respectively. Although similar in aims, there are significant differences in how the WFTC and EITC are structured and how they work operationally. In both countries, the combination of in-work benefits and welfare benefits produces a theoretical budget constraint with good financial incentives for lone parents to take a minimum wage job, but poor incentives to increase earnings beyond that. Help with housing and childcare costs reduces financial work incentives in both countries. Two further factors make direct comparisons of financial work incentives difficult. First, little is known about take-up rates of in-work and other welfare benefit rates in the US and the UK. Second, the differences in assessment and payment mechanisms between the EITC and the WFTC mean that low-income families in the UK and US may respond very differently to apparently similar financial

incentives.

Brocas, Isabelle

PD March 2002. **TI** Do the "Three-Point Victory" and "Golden Goal" Rules Make Soccer More Exciting? A Theoretical Analysis of a Simple Game. **AU** Brocas, Isabelle; Carrillo, Juan D. **AA** Brocas: Columbia Business School, Universite Libre de Bruxelles, and CEPR. Carrillo: Columbia Business School. **SR** CEPR Discussion Paper: 3266; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** B41, C72. **KW** Soccer Rules. Game Theory.

AB This note argues that a rigorous application of simple game theory may provide unambiguous yet non-trivial theoretical insights about the behavior of players in simple games. This contrasts with a commonly held view that many predictions in applied game theory are either obvious or inconclusive. To illustrate our point, we analyze the merits of two controversial changes in soccer rules, namely the "three-point victory" and the "golden goal". Starting from standard premises, we present some original conclusions that are neither trivial nor the result of a twisted argument. We feel that soccer is a particularly good example for our exercise due to the simplicity of its main rules, but also to the proliferation of ad-hoc reasoning among soccer fans.

Brooks, Robin J.

PD September 2002. **TI** The Rise in Comovement Across National Stock Markets: Market Integration or Global Bubble? **AU** Brooks, Robin J.; Del Negro, Marco. **AA** Brooks: IMF. Del Negro: Federal Reserve Bank of Atlanta. **SR** International Monetary Fund Working Paper: WP/02/147; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 14. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** G11, G15. **KW** Diversification. Risk. International Financial Markets. Industrial Structure.

AB The degree of comovement across national stock markets has increased dramatically since the mid-1990s. This has overturned a stylized fact in the international portfolio diversification literature that diversifying across countries is more effective for risk reduction than diversifying across industries. We investigate if this rise in comovement is a permanent phenomenon driven by greater economic and financial integration, or a temporary effect associated with the recent stock market bubble. At the global level, our results point to the bubble. At a regional level, we find evidence of a significant rise in market integration within Europe, possibly a reflection of institutional changes such as the EMU.

Brown, Donald J.

PD January 2003. **TI** Tests of Independence in Separable Econometric Models. **AU** Brown, Donald J.; Wegkamp, Marten H. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1395; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 19. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C12, C13, C14. **KW** Cramer-Von Mises

Distance. Empirical Independence. Random Utility Models. Semir.

AB A common stochastic restriction in econometric models separable in the latent variables is the assumption of stochastic independence between the unobserved and observed exogenous variables. Both simple and composite tests of this assumption are derived from properties of independence empirical processes and the consistency of these tests is established.

Brown, Martin

PD March 2002. **TI** Contractual Incompleteness and the Nature of Market Interactions. **AU** Brown, Martin; Falk, Armin; Fehr, Ernst. **AA** Brown: University of Zurich. Falk: IZA, University of Bonn, and CEPR. Fehr: University of Zurich, CEPR, CESifo, and IZA. **SR** CEPR Discussion Paper: 3272; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C72, C90, K12, L14. **KW** Contract Enforcement. Incomplete Contracts. Involuntary Unemployment. Repeated Transaction.

AB We provide experimental evidence that contractual incompleteness, specifically, the absence of third party enforcement of workers' effort or the quality of the good traded, causes a fundamental change in the nature of market interactions relative to the case with complete contracts. If contracts are complete the vast majority of trades are initiated by public offers. Most trades take place in one-shot transactions and the contracting parties are indifferent with regard to the identity of their trading partner. If contracts are incomplete the vast majority of trades are initiated by private offers. The contracting parties form long-term relationships and the provision of low effort or bad quality is penalized by the termination of the relationship. The threat of terminating the relationship turns out to be an extremely powerful discipline device. Markets with incomplete contracts resemble a collection of bilateral trading islands rather than a competitive market. The short side of the market shares the gains from trade with the long side of the market so that there is little disagreement about contract terms. Our results support theories of the labor market that are based on the idea that unemployment is a worker discipline device.

Bubula, Andrea

PD September 2002. **TI** The Evolution of Exchange Rate Regimes Since 1990: Evidence from De Facto Policies. **AU** Bubula, Andrea; Otker-Robe, Inci. **AA** Bubula: Columbia University. Otker-Robe: IMF. **SR** International Monetary Fund Working Paper: WP/02/155; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. **Website:** www.imf.org. **PG** 30. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F31, F33. **KW** Exchange Rates. De Facto Regimes. Bipolar View. Pegs. Floats.

AB This paper presents a monthly database on de facto exchange rate regimes that covers all IMF members since 1990. Information from IMF country reports and other sources, including exchange rate data, is utilized to determine de facto exchange rate policies. Countries are categorized based on these policies using the IMF nomenclature adopted in 1999. This approach ensures the forward compatibility of the

database. The database is then used to examine whether the "bipolar view" of exchange regimes holds with de facto regimes. It is found that the proportion of countries adopting "intermediate" regimes has indeed been shrinking in favor of greater flexibility or greater fixity, especially for countries more integrated with international markets. Analyses based on Markov chains of regime transitions, however, provide (mixed) evidence against the bipolar view.

Buchner, Barbara

PD April 2002. **TI** Back to Kyoto? US Participation and the Linkage Between R&D and Climate Cooperation. **AU** Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor; Marchiori, Carmen. **AA** Buchner, Cersosimo, and Marchiori: Fondazione Eni Enrico Mattei. Carraro: University of Venice, Fondazione Eni Enrico Mattei, CEPR, CESifo, and Centre for European Policy Studies, Brussels. **SR** CEPR Discussion Paper: 3299; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** O32, O34, Q54, Q58. **KW** Agreements. Climate. Incentives. Negotiations. Policy. Technological Change. Kyoto.

AB The US decision not to ratify the Kyoto Protocol and the recent outcomes of the Bonn and Marrakech Conferences of the Parties drastically reduces the effectiveness of the Kyoto Protocol in controlling GHG emissions. The reason is not only the reduced emission abatement in the US, but also the spillover effects on technology and countries' relative bargaining power induced by the US decision. Therefore, it is crucial to analyze whether an incentive strategy exists that could induce the US to revise their decision and to comply with the Kyoto commitments. One solution, occasionally proposed in the literature and in actual policymaking, is to link negotiations on climate change control with decisions concerning international R&D cooperation. This paper explores this idea. We examine the extended regime in which cooperation takes place on both dimensions (GHG emissions and R&D from the viewpoint of countries' profitability and free-riding incentives. Finally, we explore the economic and environmental benefits of a new, recently proposed regime, which aims at achieving GHG emission control by enhancing cooperation on technological innovation and diffusion (without targets on emissions).

Budd, John W.

PD March 2002. **TI** International Rent Sharing in Multinational Firms. **AU** Budd, John W.; Konings, Josef; Slaughter, Matthew J. **AA** Budd: University of Minnesota. Konings: Catholic University of Leuven and CEPR. Slaughter: Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 8809; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F23, F36, J31. **KW** Multinational Profits. Affiliates' Wages. Cross-Country Risk-Sharing.

AB We use a unique firm-level panel data set of multinational parents and their foreign affiliates to analyze whether profits are shared across borders within multinational firms. Using both fixed-effects and generalized method-of-moments estimators, affiliate wage levels are estimated to

respond to both affiliate and parent profitability. The elasticity of affiliate wages to parent profits per worker is approximately 0.03, which can explain over 20 percent of the observed variation in affiliate wages. These results reveal a previously ignored aspect of labor-market rent sharing. They also reveal an important micro-level linkage with potential macro-level implications. International rent sharing can transmit economic conditions across national borders, and can thereby provide an implicit cross-country risk-sharing mechanism.

Bulir, Ales

PD June 2002. TI Aid and Fiscal Management. AU Bulir, Ales; Lane, Timothy. AA IMF. SR International Monetary Fund Working Paper: WP/02/112; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 27. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F35, O23. KW Foreign Aid. Fiscal Management. Economic Growth.

AB This paper focuses on the macroeconomic aspects of fiscal management in aid-receiving countries. Despite the declining share of aid in budgets of donor countries, aid continues to play an important role in many developing countries. The paper first discusses the implications of aid in the economy as a whole and highlights the possibility of Dutch-disease effects of aid. Second, it discusses the implications of aid for short-term fiscal policy management -- in particular, how actual or anticipated changes in aid receipts should be reflected in government spending.

Burgess, Robin

TI Can Labour Regulation Hinder Economic Performance? Evidence from India. AU Besley, Timothy; Burgess, Robin.

Burmeister, Edwin

PD May 2002. TI A Retrospective View of Hicks' "Capital and Time: A Neo-Austrian Theory." AA Duke University. SR Duke University Department of Economics Working Paper: 02/19; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. PG 39. PR no charge. JE B25, B31, E22, O10. KW Hicks. Time. Neo-Austrian Theory. Capital. Technology.

AB In 1973 Sir John Hicks published "Capital and Time: A Neo-Austrian Theory." This was his third book with the word "capital" in its title, the first being his classic "Value and Capital" (1939) and the second being "Capital and Growth" (1965). It departed significantly from his earlier work by assuming that the technology of an economy consisted of a set of neo-Austrian production processes in which a time sequence of inputs produces a time sequence of outputs. In June, 1974, I published a review article in the *Journal of Economic Literature* entitled "Synthesizing the Neo-Austrian and Alternative Approaches to Capital Theory: A Survey" using Hicks' book as a filter to select a list of topics for discussion. Now, with some 30 years of hindsight, I will revisit some of those topics that, in my view, remain both unsolved and important.

Butensky, Noah E.

TI Glucksman Fellows Research Reports: 1) Quantifying the Impact of Option-Based Compensation on Earnings for the 50 Largest U.S. Technology Companies, 2) A Study on the Measurement and Prediction of the Indirect Costs of

Bankruptcy, 3) Price Effects of Addition or Deletion from the Standard & Poor's 500 Index: Evidence of Increasing Market Efficiency, 4) A Study of Two-Step Spinoffs, 5) An Examination of Predictors of Long-term Equity Performance After Corporate Spinoffs in the 1990s, 6) An Examination of the Impact of Long-Term Growth Estimates. AU Silber, William L.; Butensky, Noah E.; Cays, Stephen E.; Cusick, Philip A.; Low, Audra L.; Ruta, Sebastian; Swope, Matthew.

Cadiou, Loic

PD December 2002. TI Evolutions démographiques et marche du travail: des liens complexes parfois contradictoires (Demographic Evolutions and Labour Market: Complex and Conflicting Links). AU Cadiou, Loic; Genet, Julien; Guerin, Jean-Louis. AA Cadiou: CPR. Genet: Case of the Deposits and Consignments. Guerin: CEPII. SR CEPII Working Paper: 2002/16; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. PG 30. PR no charge. JE J11, J64. KW Aging. Demographics. Labor Markets.

AB Changing demographics are both a source for concern and optimism, raising fears on the financing of pensions systems or on the dynamism of the economy but also hopes of recovery on the unemployment front. The pensions issue has already been widely studied: population aging raises the problem of balancing contributions rates, pensioners relative level of life, and retirement age. However, the other consequences of demographic evolutions receive less attention. This study focuses on the complex relationship between demography and labor markets. While there are few doubts that the coming inversion of the trend in the active labour market population will constitute a major break, its impacts are uncertain: demography is only one of the determinants of macro-aggregates and its channels of transmission are many and sometimes contradictory. The only thing sure is that these evolutions will not be enough by themselves to ensure a return to full employment. This paper is written in French.

Cai, Fang

PD February 2003. TI Was There Front Running During the LTCM Crisis? AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 758; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 43. PR no charge. JE E44, G14. KW Strategic Trading. Financial Crisis. Margin Constraints. Trading Behavior. Market Microstructure.

AB This paper uses a unique dataset of audit trail transactions to examine the trading behavior of market makers in the Treasury bond futures market when Long-Term Capital Management (LTCM) faced binding margin constraints in 1998. Although identities are concealed in the dataset, I find strong evidence that during the crisis market makers engaged in front running against customer orders from a particular clearing firm (coded "PI7") that closely match various features of LTCM's trades through Bear Stearns. That is, market makers traded on their own accounts in the same direction as PI7 customers did, but one or two minutes beforehand. Furthermore, a significant percentage of market makers made abnormal profits on most of the trading days during the crisis although these profits were more than offset by abnormal losses after the private sector recapitalization of LTCM. Moreover, I

show that before the rescue, a market maker's cumulative abnormal profit was positively correlated both to her tie as contra party with PI7 and to the intensity of her front running, but these relationships turned negative after the rescue. The overall evidence suggests that the recapitalization plan effectively relaxed LTCM's binding constraints and therefore reversed the profitability of front running.

Campa, Jose Manuel

PD May 2002. **TI** Exchange Rate Pass-Through into Import Prices: A Macro or Micro Phenomenon? **AU** Campa, Jose Manuel; Goldberg, Linda S. **AA** Campa: IESE Business School and NBER. Goldberg: Federal Reserve Bank of New York and NBER. **SR** National Bureau of Economic Research Working Paper: 8934; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E52, F10, F31, F41. **KW** Exchange Rates. Imports. Monetary Policy. Currency Pricing. OECD.

AB Exchange rate regime optimality, as well as monetary policy effectiveness, depends on the tightness of the link between exchange rate movements and import prices. Recent debates hinge on whether producer currency pricing (PCP) or local currency pricing (LCP) of imports is more prevalent, and on whether exchange rate pass-through rates are endogenous to a country's macroeconomic conditions. We provide cross country and time series evidence on both of these issues for the imports of twenty-five OECD countries. Across the OECD and especially within manufacturing industries, there is compelling evidence of partial pass-through in the short-run, rejecting both PCP and LCP. Over the long-run, PCP is more prevalent for many types of imported goods. Higher inflation and exchange rate volatility are weakly associated with higher pass-through of exchange rates into import prices. However, for OECD countries, the most important determinants of changes in pass-through over time are microeconomic and relate to the industry composition of a country's import bundle.

Campbell, John Y.

PD May 2002. **TI** Equity Volatility and Corporate Bond Yields. **AU** Campbell, John Y.; Taksler, Glen B. **AA** Campbell: Harvard University and NBER. Taksler: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8961; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 19. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G12. **KW** Equity Volatility. Corporate Bond Yields.

AB This paper explores the effect of equity volatility on corporate bond yields. Panel data for the late 1990's show that idiosyncratic firm-level volatility can explain as much cross-sectional variation in yields as can credit ratings. This finding, together with the upward trend in idiosyncratic equity volatility documented by Campbell, Lettau, Malkiel, and Xu (2001), helps to explain recent increases in corporate bond yields.

Campos, Nauro F.

PD March 2002. **TI** Growth in Transition: What We Know, What We Don't and What We Should. **AU** Campos, Nauro F.; Coricelli, Fabrizio. **AA** Campos: University of Newcastle and CEPR. Coricelli: Universita di Siena. **SR** CEPR Discussion Paper: 3246; Centre for Economic

Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** O11, O40, P20, P23, P24. **KW** Transition. Growth. Central and Eastern Europe. Former Soviet Union. Stylized Facts.

AB This essay surveys macroeconomic issues that marked the transition from centrally planned to market economy in Central and Eastern European and former Soviet Union countries. We first establish a set of stylized facts of the transition so far, namely: (1) output fell, (2) capital shrank, (3) labor moved, (4) trade reoriented, (5) the structure changed, (6) institutions collapsed, and (7) the transition costs. We then critically survey the theoretical literature on transition, discussing various explanations for the initial output fall as well as medium term issues, such as optimal speed of transition, disorganization, institutions and sectoral reallocation as a source of output dynamics. Last, we review the empirical literature to assess how well it translates the theoretical models and explains the stylized facts. The essay concludes with a succinct list of suggestions for future research.

Canagarajah, Sudharshan

PD July 2002. **TI** Poverty in a Wealthy Economy: The Case of Nigeria. **AU** Canagarajah, Sudharshan; Thomas, Saji. **AA** Canagarajah: IMF and World Bank. Thomas: IMF. **SR** International Monetary Fund Working Paper: WP/02/114; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 25. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** I32, O15, O40. **KW** Economic Growth. Poverty. Income Distribution. Nigeria.

AB This paper describes the nature and evolution of poverty in Nigeria between 1985 and 1992. It highlights the potential wealth of the Nigerian economy and examines how the economic policies pursued in the 1980s and 1990s impacted economic growth and welfare. The headcount measure of poverty in Nigeria declined from 43 percent to 34 percent between 1985 and 1992. Decomposing the factors causing the reduction in poverty shows that the overall decline of 9 percentage point was the net result of a 14 percentage point decline owing to the growth factor and a 5 percentage point increase owing to the income distribution factor. The paper proposes that promoting broad-based growth and targeted interventions in health, education, and infrastructure need to be central strategies in the fight against poverty in Nigeria.

Canning, David

TI Longevity and Life Cycle Savings. **AU** Bloom, David E.; Canning, David; Graham, Bryan.

Canova, Fabio

PD March 2002. **TI** G-7 Inflation Forecasts. **AA** Universitat Pompeu Fabra and CEPR. **SR** CEPR Discussion Paper: 3283; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C32, C33, E37. **KW** Forecasting. Inflation. Panel VAR Models. Markov Chain. Monte Carlo Methods.

AB This paper compares the forecasting performance of some leading models of inflation for the cross section of G-7

countries. We show that bivariate and trivariate models suggested by economic theory or statistical analysis are hardly better than univariate models. Phillips curve specifications fit well into this class. Significant improvements in both the MSE of the forecasts and turning point prediction are obtained with time-varying coefficients models that exploit international interdependencies. The performance of the latter class of models is independent of the sample, while it is not the case for standard specifications.

Caplin, Andrew

TI Wealth Accumulation and the Propensity to Plan.
AU Ameriks, John; Caplin, Andrew; Leahy, John.

Card, David

PD February 2002. TI What Have Two Decades of British Economic Reform Delivered? AU Card, David; Freeman, Richard B. AA Card: University of California, Berkeley and NBER. Freeman: NBER. SR National Bureau of Economic Research Working Paper: 8801; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 40. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H11, N10, N14, N40, P16, P17. KW UK. Economic Reforms. Margaret Thatcher. Productivity Growth.

AB Beginning in 1979 with the newly elected Thatcher Government and continuing under successive Conservative and Labor Governments, the United Kingdom embarked on a two-decade-long experiment in economic reform. To evaluate the effects of these reforms we compare trends in macroeconomic outcomes in the UK relative to the US, Germany, and France. During the 1980s and 1990s Britain halted the relative declines in GDP per capita and labor productivity that had characterized earlier decades, and partially closed the gap in income per capita with France and Germany. These gains were mainly attributable to relative rises in employment and hours. Unlike its EU competitors, Britain was able to achieve high employment rates with rising real wages for workers. The case that the change in economic performance can be credited to market-oriented reforms is difficult to decisively prove. Nevertheless, based on our own macro-level analyses, and micro-level evidence from several companion studies, we conclude that economic reforms contribute to halting the nearly century-long trend in relative economic decline of the UK relative to its historic competitors, Germany and France.

Carneiro, Pedro

PD March 2002. TI Removing the Veil of Ignorance in Assessing the Distributional Impacts of Social Policies. AU Carneiro, Pedro; Hansen, Karsten T.; Heckman, James J. AA Carneiro and Hansen: University of Chicago. Heckman: University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8840; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 14. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D33, H43, I28. KW Distributional Effects. Policy Evaluation. Education Reform.

AB This paper summarizes our recent research on evaluating the distributional consequences of social programs. This research advances the economic policy evaluation literature beyond estimating assorted mean impacts to estimate distributions of outcomes generated by different policies and

determine how those policies shift persons across the distributions of potential outcomes produced by them. Our approach enables analysts to evaluate the distributional effects of social programs without invoking the "Veil of Ignorance" assumption often used in the literature in applied welfare economics. Our methods determine which persons are affected by a given policy, where they come from in the ex-ante outcome distribution and what their gains are. We apply our methods to analyze two proposed policy reforms in American education. These reforms benefit the middle class and not the poor.

Carpenter, Jennifer N.

TI Corporate Bonds: Valuation, Hedging, and Optimal Call and Default Policies. AU Acharya, Viral V.; Carpenter, Jennifer N.

Carraro, Carlo

PD March 2002. TI Stable Coalitions. AU Carraro, Carlo; Marchiori, Carmen. AA Carraro: University of Venice, Fondazione Eni Enrico Mattei, CEPR, CESifo, and Centre for European Policy Studies, Brussels. Fondazione Eni Enrico Mattei. SR CEPR Discussion Paper: 3258; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE H00, H20, H30. KW Agreements. Coalitions. Incentives. Negotiations. Stability.

AB This paper examines recent theoretical developments in the theory of coalition stability. It focuses on the relationship between the incentives to defect from a coalition, the size of the resulting equilibrium coalition structure and the different assumptions on membership rules, coalition behavior, players' conjectures, etc. The paper considers several cases. Simultaneous versus sequential moves, linear versus circular order of moves, Nash versus rational conjectures, open versus exclusive membership, monotonic versus non-monotonic payoff functions and orthogonal versus non-orthogonal reaction functions. The profitable and stable coalition will be derived for each possible configuration of the rules of the game, the pay-off functions and the membership rules. The results show that the size of the profitable and stable coalition highly depends on the chosen configuration and that the equilibrium outcome ranges from a small coalition with a few signatories to full cooperation. The paper explores under which conditions a large stable coalition is likely to emerge, and identifies the institutional setting that favors the emergence of such coalition.

TI Back to Kyoto? US Participation and the Linkage Between R&D and Climate Cooperation. AU Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor; Marchiori, Carmen.

Carrillo, Juan D.

TI Do the "Three-Point Victory" and "Golden Goal" Rules Make Soccer More Exciting? A Theoretical Analysis of a Simple Game. AU Brocas, Isabelle; Carrillo, Juan D.

Carroll, Raymond J.

PD August 2002. TI More Efficient Kernel Estimation in Nonparametric Regression with Autocorrelated Errors. AU Carroll, Raymond J.; Linton, Oliver B.; Mammen, Enno; Xiao, Zhijie. AA Carroll: Texas A&M University. Linton:

London School of Economics. Mammen: Universitat Heidelberg. Xiao: University of Illinois at Urbana-Champaign. SR Yale Cowles Foundation Discussion Paper: 1375; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 53. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C14, C22. KW Time Series Regression. Nonparametric Regression. Kernel. Efficiency.

AB We propose a modification of kernel time series regression estimators that improves efficiency when the innovation process is autocorrelated. The procedure is based on a pre-whitening transformation of the dependent variable that has to be estimated from the data. We establish the asymptotic distribution of our estimator under weak dependence conditions. It is shown that the proposed estimation procedure is more efficient than the conventional kernel method. We also provide simulation evidence to suggest that gains can be achieved in moderate sized samples.

Cassiman, Bruno

PD March 2002. TI Complementarity in the Innovation Strategy: Internal R&D, External Technology Acquisition and Cooperation. AU Cassiman, Bruno; Veugelers, Reinhilde. AA Cassiman: Universidad de Navarra. Veugelers: Katholieke Universiteit Leuven. SR CEPR Discussion Paper: 3284; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D21, O31, O32. KW Complementarity. Innovation. R&D. Technology Acquisition.

AB Successful innovation depends on the development and integration of new knowledge in the innovation process. In order to innovate successfully, the firm will combine different innovation activities. In addition to doing their own research and development, firms typically are engaged in the acquisition of knowledge on the technology market and cooperate actively in R&D with other firms and research organizations. In this paper we provide evidence on complementarity between different innovation activities. Using data from the Community Innovation Survey on Belgian manufacturing firms, we show that firms that are only engaged in a single innovation strategy, either internal R&D activities or sourcing technology externally, introduced fewer new or substantially improved products compared to firms which combine internal and external sourcing. This result is consistent with complementarity between own R&D and external technology sourcing activities. Furthermore, we show that the different innovation activities are strongly positively correlated and identify common drivers, resulting in the perceived complementarity between these innovation activities.

Catao, Luis A.

PD September 2002. TI Sovereign Defaults: The Role of Volatility. AU Catao, Luis A.; Sutton, Bennett W. AA IMF. SR International Monetary Fund Working Paper: WP/02/149; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 23. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F34, H63. KW Sovereign Debt. Macroeconomic Volatility. Emerging Markets.

AB While the relationship between volatility and credit risk

is central to much of the literature on finance and banking, it has been largely neglected in empirical macro studies on sovereign defaults. This paper presents new econometric estimates for a panel of 25 emerging market countries over 1970-2001, breaking down aggregate volatility into its external and domestic policy components. We find that countries with historically higher macroeconomic volatility are more prone to default, and particularly so if part of this volatility is policy-induced. Reducing policy volatility thus appears to be key to improving a country's credit standing.

Cays, Stephen E.

TI Glucksman Fellows Research Reports: 1) Quantifying the Impact of Option-Based Compensation on Earnings for the 50 Largest U.S. Technology Companies, 2) A Study on the Measurement and Prediction of the Indirect Costs of Bankruptcy, 3) Price Effects of Addition or Deletion from the Standard & Poor's 500 Index: Evidence of Increasing Market Efficiency, 4) A Study of Two-Step Spinoffs, 5) An Examination of Predictors of Long-term Equity Performance After Corporate Spinoffs in the 1990s, 6) An Examination of the Impact of Long-Term Growth Estimates. AU Silber, William L.; Butensky, Noah E.; Cays, Stephen E.; Cusick, Philip A.; Low, Audra L.; Ruta, Sebastian; Swope, Matthew.

Cecchetti, Stephen G.

PD May 2002. TI The New Economy and the Challenges for Macroeconomic Policy. AA Ohio State University and NBER. SR National Bureau of Economic Research Working Paper: 8935; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 22. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E30, E50, E63, O30. KW New Economy. Technology. Fiscal Policy. Monetary Policy.

AB The accelerated introduction of information and communications technology into the economy has created numerous challenges for policymakers. This paper describes this New Economy and then proceeds to examine difficulties created for policymakers. The increased flexibility of the new economy argues against trying to use fiscal policy for stabilization and creates both immediate and long-term difficulties for monetary policy. Immediate difficulties concern the problems associated with estimating potential output when the productivity trend is shifting. During periods of transition, it is extremely difficult to distinguish permanent from transitory shifts in output growth, and adjust policy correctly. In the long-term, central banks must face the prospect of a significant decline in the demand for their liabilities, and a resulting loss of their primary interest rate policy instrument. The disappearance of the demand for central bank money for inter-bank settlements seems very unlikely, and so this concern seems unwarranted.

Cersosimo, Igor

TI Back to Kyoto? US Participation and the Linkage Between R&D and Climate Cooperation. AU Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor; Marchiori, Carmen.

Cette, Gilbert

PD March 2003. TI L'investissement en TIC aux Etats-Unis et dans quelques pays europeens (Comparing US and Some European Countries Investments in ICT). AU Cette,

Gilbert; Noual, Pierre-Alexandre. AA Cette: Bank of France. Noual: University of Chicago. SR CEPII Working Paper: 2003/03; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. PG 34. PR no charge. JE E22, O47, O57, R34. KW ICT. Investment. Factor Demands. Diffusion. Over-Accumulation.

AB This article investigates the causes of the European (France, Germany, the Netherlands and the United Kingdom) lag in ICT (information and communication technologies) investment, compared to the United States. This empirical study uses annual macroeconomic data. The econometric estimations of an investment model suggest over-accumulation of ICT in the United States at the end of the 1990's, as well as under-accumulation in France and Germany. Based on the regressions, we find that the cost-elasticity is roughly the same for the United States and the European countries, and that the exchange rate can explain part of the lag in the diffusion of ICT in Europe. This paper is written in French.

Chakravarti, Shamit

TI Fiscal Consequences of Armed Conflict and Terrorism in Low- and Middle-Income Countries. AU Bhattacharya, Rina; Chakravarti, Shamit; Clements, Benedict J.; Gupta, Sanjeev.

Chan, William M.

PD March 2002. TI Suspense. AU Chan, William M.; Courty, Pascal; Li, Hao. AA Chan: University of Hong Kong. Courty: University of London and CEPR. Li: University of Toronto. SR CEPR Discussion Paper: 3251; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D80, J33, L83. KW Incentives. Sports Economics. Tournament.

AB In a dynamic model of sports competition, we show that when spectators care only about the level of effort exerted by contestants, rewarding schemes that depend linearly on the final score difference provide more efficient incentives for efforts than schemes based only on who wins and loses. This result is puzzling because rank order schemes are the dominant forms of reward in sports competitions. The puzzle can be explained if one takes into account the fact that spectators also care about the suspense in the game. We define the spectators' demand for suspense as a greater utility derived from contestants' efforts when the game is closer. As the demand for suspense increases, so does the advantage of rank order schemes relative to linear score difference schemes. This relative advantage is realized by suitably increasing the winners prize in rank order schemes. When the demand for suspense is sufficiently high, the optimal rank order scheme dominates all linear score difference schemes, and in a limit case, it is optimal among all incentive schemes that reward contestants on the basis of the final score difference.

Chan-Lau, Jorge A.

PD September 2002. TI Asian Flu or Wall Street Virus? Price and Volatility Spillovers of the Tech and Non-Tech Sectors in the United States and Asia. AU Chan-Lau, Jorge A.; Ivaschenko, Iryna V. AA IMF. SR International Monetary Fund Working Paper: WP/02/154; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 13.

PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE G12, G14, G15. KW Price Spillovers. Volatility Spillovers. GARCH Models. Stock Markets. Asia.

AB This paper, using T-GARCH models, finds that the United States has been the major source of price and volatility spillovers to stock markets in the Asian region during three different periods in the last decade: the pre-Long Term Capital Management crisis period, the "tech bubble" period, and the "stock market correction" period. Hong Kong SAR, Japan, and Singapore also were important spillover sources within the Asian region and affected United States to a lesser degree during the "stock market correction" period. There is also evidence of structural breaks in the stock price and volatility dynamics induced during the "tech bubble" period.

Chang, Ganlin

PD March 1999. TI Asset Prices and Default-Free Term Structure in an Equilibrium Model of Default. AU Chang, Ganlin; Sundaresan, Suresh M. AA Columbia University. SR Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/04; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. PG 42. PR \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. JE D51, G12. KW Borrowing Technology. Default-free. Term Structure. Default Premia.

AB We present an equilibrium framework in which asset prices, default-free term structure, and default premia are determined simultaneously. In our framework the Cox, Ingersoll and Ross (CIR) (1985) economy is endowed with a "borrowing technology" (or a bank). This technology allows the consumer to augment his initial endowment but commits him to pay a fixed flow rate (promised interest payments) until default. Upon default the consumer loses a fraction of his wealth. The circumstances under which this borrowing technology will be active are characterized. The existence of an active borrowing technology and the possibility of default results in an optimal endogenous default boundary. We characterize equity premium, the intertemporal marginal rates of substitution (IMRS), optimal consumption, default premium and the default-free term structure in our economy. By determining the default-free term structure and the default premia simultaneously, we bridge the term structure theory of CIR with the default risk (risk structure) theory of Merton (1974).

Chang, Roberto

PD March 2002. TI Dollarization: Analytical Issues. AU Chang, Roberto; Velasco, Andres. AA Chang: Rutgers University. Velasco: Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8838; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E42, F41, F42. KW Dollarization. Seignorage. Policymaking Credibility. Optimal Currency Area.

AB This paper discusses major analytical aspects of dollarization and their practical implications. We develop a simple model to stress that dollarization implies the loss of

independent monetary policy and of seigniorage, yet the significance of such losses can only be evaluated in conjunction with assumptions about the policymaking process. If the government is benevolent and has no credibility problems, dollarization causes a fall in welfare, which can be measured by the implied seigniorage loss or using Mundellian optimal currency area criteria. However, outcomes are rather different if credibility is absent and dollarization can serve as a commitment device: the welfare impact of dollarization is ambiguous, and seigniorage measures and Mundellian criteria may be misleading indicators of the true cost of dollarization. We also evaluate other implications of dollarization, such as those related to last resort lending and financial stability.

Chari, Anusha

PD April 2002. **TI** Capital Account Liberalization: Allocative Efficiency or Animal Spirits? **AU** Chari, Anusha; Henry, Peter Blair. **AA** Chari: University of Michigan. Henry: Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8908; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E20, F30, F40, G31. **KW** Liberalization. Capital Stock. Cost of Capital. Investment.

AB In the year that capital-poor countries open their stock markets to foreign investors, the growth rate of their typical firm's capital stock exceeds its pre-liberalization mean by 4.1 percentage points. In each of the next three years the average growth rate of the capital stock for the 369 firms in the sample exceeds its pre-liberalization mean by 6.1 percentage points. However, there is no evidence that differences in the liberalization-induced changes in the cost of capital or investment opportunities drive the cross-sectional variation in the post-liberalization investment increases.

Chari, V. V.

TI Expectation Traps and Monetary Policy. **AU** Albanesi, Stefania; Chari, V. V.; Christiano, Lawrence J.

Chateau, Jean

PD October 2002. **TI** Demographic Evolutions and Unemployment: An Analysis of French Labour Market with Workers Generations. **AU** Chateau, Jean; Guerin, Jean-Louis; Legros, Florence. **AA** CEPII. **SR** CEPII Working Paper: 2002/11; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 33. **PR** no charge. **JE** E24, H55, J10, J64. **KW** Aging. Unemployment. Matching Model. Social Security.

AB This paper describes a segmented matching labor market with generations of workers. This model is calibrated on French data. The results refute the usual idea, according to which a decrease in labor supply leads to a decrease in unemployment. Instead, the combination of pure demographic effects with a fiscal wedge effect from an increase in social security enrollment rates leads to a serious rise of the unemployment rate. Various alternative specifications are also studied, such as an increase in work duration or a lowering of the replacement rate.

PD November 2002. **TI** When are Structural Deficits Good Policies? **AA** CEPII. **SR** CEPII Working Paper: 2002/14; CEPII, Publications, 9, rue Georges Pitard, 75740

Paris Cedex 15, France. Website: www.cepii.fr. **PG** 24. **PR** no charge. **JE** D91, E62, H62. **KW** Deficit Finance. Distortionary Taxation. Intertemporal Choice.

AB This paper analyses the marginal allocative and welfare effects of various structural budget-deficits in a representative-agent model where the Ricardian equivalence theorem does not hold because of distortionary taxation. To conduct this analysis, we present numerical examples based on a parameterized "typical" European economy. The paper explores whether deficits pursuant to temporarily higher public investment spending or income tax cuts may correspond to welfare-enhancing and self-financing policies. For plausible range of parameters and tax rates, deficit-financed public investment policies may actually be self-financed. However, dynamic Laffer curves seem to be ruled out for tax cuts.

Chatterji, Pinka

PD March 2002. **TI** Substance Use and Suicidal Behaviors Among Young Adults. **AU** Chatterji, Pinka; Dave, Dhaval; Kaestner, Robert; Markowitz, Sara. **AA** Chatterji: Montefiore Medical Center. Dave: NBER. Kaestner: University of Illinois at Chicago and NBER. Markowitz: NBER and Rutgers University. **SR** National Bureau of Economic Research Working Paper: 8810; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I12, I19. **KW** Alcohol. Illicit Drugs. Substance Abuse. Suicide.

AB The purpose of this paper is to examine the causal impact of alcohol and illicit drug use on suicidal behaviors among college students. Every year, more American youth die from suicide than from all leading natural cause of death combined. Substance use has been identified as a leading risk factor in suicidal behaviors. We use instrumental variables to estimate a structural model of suicidal thoughts and attempts. A reduced form equation is also estimated which directly relates the determinants of alcohol and drug use to suicidal behaviors. Data come from the Core Institute's Alcohol and Drug Surveys of College Students. The results are consistent with a causal mechanism from alcohol and illicit drug consumption to suicide thoughts and attempts.

Chauvin, Sophie

PD October 2002. **TI** Regional Trade Integration in the Southern Africa. **AU** Chauvin, Sophie; Gaulier, Guillaume. **AA** CEPII. **SR** CEPII Working Paper: 2002/12; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 40. **PR** no charge. **JE** F15, F17, O24, O55. **KW** Africa. Economic Integration. Trade Forecasting. SADC FTA.

AB In September 2000, the SADC FTA was launched wherein full liberalization of trade is expected by 2012. The SADC FTA is intended to act as a catalyst for increased regional integration. Nevertheless what are the benefits expected from the SADC FTA given the structural disparities of the economies of its participating members? Is it really feasible to expand intra-SADC trade? To address the potential of increasing intra SADC trade we present and analyze three complementary approaches. The first two ones refer to trade indices: export diversification indices, revealed comparative advantages, and trade complementarity indices. The last one is based on gravity model. Given that SADC countries have concentrated and similar comparative advantages, our static

analysis suggests that the room for further trade within SADC is limited.

Chen, Fangruo

PD December 1998. TI Market Segmentation, Advanced Demand Information and Supply Chain Performance. AA Columbia University. SR Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/02; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. PG 26. PR \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. JE L11, L12. KW Order Delays. Monopolist. Price Discrimination.

AB A monopolist firm sells a single product to a market where the customers may be enticed to accept a delay in when their orders are shipped. The enticement is a discounted price for the product. The market consists of several segments with different degrees of aversion to delays. The firm offers a price schedule under which the customers each self-select the price they pay and when their orders are to be shipped. When a customer agrees to wait, the firm gains advanced demand information which can be used to reduce its supply chain costs. This article explores the costs and benefits of this pricing strategy.

Chevalier, Arnaud

PD December 2000. TI Graduate Over-Education in the UK. AA LSE. SR CEE Discussion Paper: 07; Centre for Economic Performance, LSE, Houghton Street, London WC2A 2AE. Contact: cee@lse.ac.uk. Website: cee.lse.ac.uk. PG 22. PR 5 pounds single copies; 60 pounds annual subscription; make checks payable to LSE. JE I21, I22, I28. KW Over-Education. Heterogeneous Graduates. Job Satisfaction.

AB The UK has been the theatre of a dramatic shift in the production of graduates; during the past decade the proportion of a cohort attending tertiary education has increased from less than 15% in 1985 to more than 33% 10 years later. However, doubts have been raised whether the demand for graduates has kept up with the supply. Furthermore, claims have been made that a large proportion of graduates are employed in "sub-graduate jobs", that is graduates are over-educated for the tasks required to do their job. It is suspected that widening the access to higher education has increased the heterogeneity of the skills of the new graduates entering the labor market. Hence, previous measures of over-education may have overestimated the true extent of the phenomenon, as some graduates are not endowed with the skills required to obtain a graduate job. After reviewing the literature on over-education, this paper proposes an alternative measure of over-education based on occupation and job satisfaction, more precisely, whether the graduate is satisfied with the match between her education and her occupation. Our findings indicate that over-educated graduates mostly lack the skills allowing them to compete for graduate jobs.

Chinn, Menzie D.

TI Productivity and the Euro-Dollar Exchange Rate Puzzle. AU Alquist, Ron; Chinn, Menzie D.

PD June 2002. TI Capital Account Liberalization,

Institutions and Financial Development: Cross Country Evidence. AU Chinn, Menzie D.; Ito, Hiro. AA Chinn: University of California, Santa Cruz and NBER. Ito: University of California, Santa Cruz. SR National Bureau of Economic Research Working Paper: 8967; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F36, F43, G28. KW Financial Development. Capital Controls. Financial Openness.

AB The empirical relationship between capital controls and the financial development of credit and equity markets is examined. We extend the literature on this subject along a number of dimensions. Specifically, we (1) investigate a substantially broader set of proxy measures of financial development; (2) create and utilize a new index based on the IMF measures of exchange restrictions that incorporates a measure of the intensity of capital controls; and (3) extend the previous literature by systematically examining the implications of institutional (legal) factors. The results suggest that the rate of financial development, as measured by private credit creation and stock market activity, is linked to the existence of capital controls. However, the strength of this relationship varies with the empirical measure used, and the level of development. These results also suggest that only in an environment characterized by a combination of a higher level of legal and institutional development will the link between financial openness and financial development be readily detectable. A disaggregated analysis indicates that in emerging markets the most important components of these legal factors are the levels of shareholder protection and of accounting standards.

PD August 2002. TI Current Account and Real Exchange Rate Dynamics in the G-7 Countries. AU Chinn, Menzie D.; Lee, Jaewoo. AA IMF. SR International Monetary Fund Working Paper: WP/02/130; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 14. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F31, F41. KW Real Exchange Rate. Current Account. Intertemporal Models. Permanent and Temporary Shocks.

AB The canonical predictions of intertemporal open-economy macro models are tested by a structural VAR analysis of Group of Seven countries. The analysis is distinguished from the previous literature in that it adopts minimal assumptions for identification. Consistent with a large set of theoretical models, permanent shocks have large long-term effects on the real exchange rate but relatively small effects on the current account; temporary shocks have large effects on the current account and exchange rate in the short run, but not on either variable in the long run. The signs of some impulse responses point toward models that differentiate tradables and nontradables.

Choi, Woon Gyu

PD August 2002. TI Liability Dollarization and the Bank Balance Sheet Channel. AU Choi, Woon Gyu; Cook, David H. AA Choi: IMF. Cook: Hong Kong University of Science and Technology. SR International Monetary Fund Working Paper: WP/02/141; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 21. PR \$15; prepayment

required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E52, F41. **KW** Bank Balance Sheet Channel. Foreign Currency Debt. Sticky Prices. Depreciation.

AB Banks in developing economies often face a mismatch in the currency denomination of their liabilities (foreign currency denominated debt) and assets (domestic currency loans to domestic borrowers). We study the effect of this mismatch on business cycles and monetary policy in a sticky-price, dynamic general equilibrium model of a small open economy. We find from the model analysis that a fixed exchange rate rule that stabilizes the balance sheets of banks offers greater stability than an interest rate rule that targets inflation in the sticky-price sector of the economy.

Christiano, Lawrence J.

TI Expectation Traps and Monetary Policy. **AU** Albanesi, Stefania; Chari, V. V.; Christiano, Lawrence J.

Chu, Michael

TI HMO Penetration, Ownership Status, and the Rise of Hospital Advertising. **AU** Barro, Jason R.; Chu, Michael.

Chung, Kim-Sau

PD June 2003. **TI** Foundations of Dominant Strategy Mechanisms. **AU** Chung, Kim-Sau; Ely, Jeffrey C. **AA** Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1372; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 25. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C72, D44. **KW** Rationalizability. Auctions. **AB** We study a model where an auctioneer knows the distribution of bidders' valuations but not their beliefs. The bidders' valuations may be correlated. Uncertainty over the bidder's beliefs has been held as an informal foundation for the use of dominant strategy mechanisms, as these mechanisms are robust to misspecification of bidders' beliefs and higher-order beliefs. We formally investigate the foundations of dominant strategy auctions by explicitly modeling the auctioneer's beliefs about the bidders' beliefs. We ask whether there is any such belief which rationalizes the use of dominant strategy mechanisms: i.e., the optimal auction for that belief is a mechanism in dominant strategies. We provide a sufficient condition for rationalizability and present a counterexample that shows that the use of a dominant strategy mechanism is not always rationalizable. We show by example that rationalizability may require that the common prior assumption is violated.

Claessens, Stijn

PD April 2002. **TI** Financial Development, Property Rights and Growth. **AU** Claessens, Stijn; Laevan, Luc. **AA** Claessens: University of Amsterdam and CEPR. Laevan: World Bank. **SR** CEPR Discussion Paper: 3295; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** K11, K12, O34. **KW** Economic Growth. Intangible Assets. Financial

Development. Property Rights.

AB This paper investigates how the legal framework not only affects the amount of external financing available, but also firms' resource allocation among different types of assets. Using a simple model, we show that in a weaker legal environment a firm will get less financing, and thus invest less, but also invest less in intangible assets. Empirically, these two effects appear to be equally important drivers of growth in sectoral value added for a large number of countries and using a number of robustness tests. Using individual firm data, we find further supporting evidence as weaker legal frameworks are associated with relatively more fixed assets, but less long-term financing for a given amount of fixed assets.

TI Will HIPC Matter? The Debt Game and Donor Behaviour in Africa. **AU** Birdsall, Nancy; Claessens, Stijn; Diwan, Ishac.

PD April 2002. **TI** Explaining the Migration of Stocks from Exchanges in Emerging Economies to International Centers. **AU** Claessens, Stijn; Klingebiel, Daniela; Schmukler, Sergio L. **AA** Claessens: University of Amsterdam and CEPR. Klingebiel and Schmukler: World Bank. **SR** CEPR Discussion Paper: 3301; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G15, G18. **KW** Stock Exchange Development. Emerging Economies. Cross-Listing. ADRs. GDRs.

AB We study the determinants of stock market development and the growing migration of capital raising, listing and trading activity to international exchanges. Economies with higher income per capita, sounder macro policies, more efficient legal systems with better shareholder protection, and more open financial markets have larger and more liquid markets. As such fundamentals improve, however, the degree of migration to international exchanges also increases. This leads to gains for corporations in the form of lower costs, better terms and more liquidly-traded shares. Fully-fledged local stock exchanges are thus becoming less necessary for many economies. Furthermore, migration can leave too little domestic activity to sustain a local exchange. Therefore, the functions and forms of stock exchanges in many economies need to be rethought.

Clarida, Richard

PD March 2002. **TI** The Out-of-Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond. **AU** Clarida, Richard; Sarno, Lucio; Taylor, Mark P.; Valente, Giorgio. **AA** Clarida: Columbia University and NBER. Sarno and Taylor: University of Warwick and CEPR. **SR** CEPR Discussion Paper: 3281; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F31, G15. **KW** Foreign Exchange. Term Structure. Forecasting. Non-Linearity. Markov Switching.

AB A large literature suggests that standard exchange rate models cannot outperform a random walk forecast and that the forward rate is not an optimal predictor of the spot rate. There is evidence, however, that the term structure of forward premia contains valuable information for forecasting future spot exchange rates and that exchange rate dynamics display non-

linearities. This paper proposes a term-structure forecasting model of exchange rates based on a regime-switching vector equilibrium correction model which is novel in this context. Our model significantly outperforms both a random walk and, to a lesser extent, a linear term-structure vector equilibrium correction model for four major dollar rates across a range of horizons.

PD April 2002. **TI** A Simple Framework for International Monetary Policy Analysis. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark. **AA** Clarida: Columbia University and NBER. Gali: Universitat Pompeu Fabra and NBER. Gertler: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 8870; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E52, E58, F41. **KW** International. Monetary Policy. Exchange Rates.

AB We study the international monetary policy design problem within an optimizing two-country sticky price model, where each country faces a short run tradeoff between output and inflation. The model is sufficiently tractable to solve analytically. We find that in the Nash equilibrium, the policy problem for each central bank is isomorphic to the one it would face if it were a closed economy. Gains from cooperation arise, however, that stem from the impact of foreign economic activity on the domestic marginal cost of production. While under Nash central banks need only adjust the interest rate in response to domestic inflation, under cooperation they should respond to foreign inflation as well. In either scenario, flexible exchange rates are desirable.

Clark, Robert L.

PD April 2002. **TI** Strengthening Employment-Based Pensions in Japan. **AU** Clark, Robert L.; Mitchell, Olivia S. **AA** Clark: North Carolina State University. Mitchell: University of Pennsylvania and NBER. **SR** National Bureau of Economic Research Working Paper: 8891; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D91, H31, J11, J14. **KW** Japanese Pension Market. Defined Contribution. Employment-Based Pensions.

AB We investigate how the Japanese pension market for funded employment-based pensions is changing and how it might be strengthened in order to better serve one of the most rapidly aging populations in the world. Public and private pensions in Japan are estimated to hold around US\$3 trillion, making that system the second largest globally after the United States. However, unfavorable economic developments have cut sharply into asset values, and the weak economy is undermining traditional lifetime employment contracts. Recent legislation permitting the establishment of defined contribution plans in Japan may provide new employer-sponsored retirement plan opportunities. We first describe the Japanese pension system at the end of the 20th century and provide an overview and evaluation of the changes in the pension arena emerging from the 2001 legislation. Next we show that important design questions remain to be answered if Japanese employment-based pensions are to be reformed and modernized. Finally we summarize lessons gleaned from recent changes in US pension plans.

Clements, Benedict J.

PD August 2002. **TI** Issues in Domestic Petroleum Pricing in Oil-Producing Countries. **AU** Clements, Benedict J.; Fletcher, Kevin T.; Gupta, Sanjeev; Inchauste, Gabriela. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/140; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 24. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D61, H20, H50, Q43, Q48. **KW** Petroleum. Subsidies. Domestic Prices. Fiscal Policy. Incidence.

AB This paper discusses issues relating to the domestic pricing of petroleum in oil-producing countries. It finds that in most major oil-exporting countries, government policies keep domestic prices below free-market levels, resulting in implicit subsidies that equaled 3.0 percent of GDP, on average, in 1999. Moreover, the paper argues, these petroleum subsidies are inefficient and inequitable -- entailing substantial opportunity costs in terms of forgone revenue or productive spending -- and also procyclical, complicating macroeconomic management. Nonetheless, the elimination of petroleum subsidies is often politically difficult, although countervailing measures and publicity campaigns can help engender support for reform.

TI Fiscal Consequences of Armed Conflict and Terrorism in Low- and Middle-Income Countries. **AU** Bhattacharya, Rina; Chakravarti, Shamit; Clements, Benedict J.; Gupta, Sanjeev.

TI Fiscal Consequences of Armed Conflict and Terrorism in Low- and Middle-Income Countries. **AU** Bhattacharya, Rina; Chakravarti, Shamit; Clements, Benedict J.; Gupta, Sanjeev.

Cochrane, John H.

PD March 2002. **TI** The Fed and Interest Rates: A High-Frequency Identification. **AU** Cochrane, John H.; Piazzesi, Monika. **AA** Cochrane: University of Chicago and NBER. Piazzesi: UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8839; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 8. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E43, E52. **KW** Fed Funds Target Rate. Bond Rate Determination.

AB We measure monetary policy shocks as changes in the Fed funds target rate that surprise bond markets in daily data. These shock series avoid the omitted variable, time-varying parameter, and orthogonalization problem of monthly VARs, and do not impose the expectations hypothesis. We find surprisingly large and persistent responses of bond yields to these shocks. 10 year rates rise as much as 8/10 of a percent to a one percent target shock. The usual view that monetary policy only temporarily raises long term rates and influences inflation would lead one to predict a negative long rate response.

Coeure, Benoit

TI The Survival of Intermediate Exchange Rate Regimes. **AU** Benassy-Quere, Agnes; Coeure, Benoit.

Coffey, Bentley

TI Reconsidering the Experimental Evidence for Quasi-Hyperbolic Discounting. **AU** Besharov, Gregory; Coffey, Bentley.

Coles, Melvyn G.

PD March 2002. **TI** A Test Between Unemployment Theories Using Matching Data. **AU** Coles, Melvyn G.; Petrongolo, Barbara. **AA** Coles: University of Essex. Petrongolo: London School of Economics. **SR** CEPR Discussion Paper: 3241; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E24, J41, J63, J64. **KW** Matching. Unemployment. Hypothesis Testing.

AB A new methodology is described which tests between various equilibrium theories of unemployment using matching data. The paper shows how to correct econometrically for temporal aggregation effects, where the econometrician's aim is to identify a matching process using data which is recorded monthly, and also shows how to identify different unemployment theories on the data. As implementing this test requires information on the inflow of new vacancies over time, this paper uses employment agency data for the UK over the period 1985-99. Although the standard random matching approach provides a reasonably good fit, the empirical evidence provides greater support for "stock-flow" matching. Estimates find that over this period, around 87% of newly laid-off workers are on the long-side of their markets and so match with the flow of new vacancies as those vacancies come onto the market. In particular, these workers' experience average durations of unemployment which exceed 6 months and their matching rates are highly correlated with the inflow of new vacancies. This job queue interpretation of the matching data has important implications for government policy on long term unemployment and optimal UI. It also suggests that previous estimates of the so-called matching function have been misspecified, which potentially explains the large variation in results obtained in that literature.

Collins, William J.

PD March 2002. **TI** Exploring the Racial Gap in Infant Mortality Rates, 1920-1970. **AU** Collins, William J.; Thomasson, Melissa A. **AA** Collins: Vanderbilt University and NBER. Thomasson: Miami University and NBER. **SR** National Bureau of Economic Research Working Paper: 8836; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I12, J15, N32. **KW** Infant Mortality. Racial Gap.

AB This paper examines the racial gap in infant mortality rates from 1920 to 1970. Using state-level panel data with information on income, urbanization, women's education, and physicians per capita, we can account for a large portion of the racial gap in infant mortality rates between 1920 and 1945, but a smaller portion thereafter. We re-examine the post-war period in light of trends in birth weight, smoking, air pollution, breast-feeding, insurance, and hospital births.

Combes, Pierre-Philippe

PD January 2003. **TI** Can Business and Social Networks Explain the Border Effect Puzzle? **AU** Combes, Pierre-Philippe; Lafourcade, Miren; Mayer, Thierry. **AA** Combes: CERAS-ENPC and Boston University. Lafourcade: University of Evry-Val-d'Essonne and CERAS-ENPC. Mayer: University of Paris XI, CEPII, and CEPR. **SR** CEPII Working Paper:

2003/02; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 35. **PR** no charge. **JE** F12, F15. **KW** Border Effect. Gravity Equation. Social Networks. Business Networks.

AB McCallum (1995) shows in an influential contribution that, even when controlling for the impact of bilateral distance and region size, borders sharply reduce trade volumes between countries. We use in this paper the data on bilateral trade flows between 94 French regions, for 10 industries and 2 years (1978 and 1993) to study the magnitude and variations over time of trade impediments, both distance-related and (administrative) border-related. We focus on assessing the role that business and social networks can play in shaping trade patterns and explaining the border effect puzzle. We show that more than 60% of these (puzzling) intra-national border effects can be explained by the composition of the local labor force in terms of birth place (social networks) and by inter-plants connections (business networks). In addition, controlling for these network effects reduces the impact of transport cost on trade flows by a comparable factor. Thus, business and social networks that help to reduce informational trade barriers are shown to be strong determinants of trade patterns and to explain a large part of the border puzzle.

Constantinides, George M.

TI Asset Pricing with Heterogeneous Consumers and Limited Participation: Empirical Evidence. **AU** Brav, Alon; Constantinides, George M.; Geczy, Christopher C.

PD March 2002. **TI** Rational Asset Prices. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8826; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D91, E21, G12. **KW** Equity Premium. Asset Pricing. Life Cycle Model.

AB The mean, co-variability, and predictability of the return of different classes of financial assets challenge the rational economic model for an explanation. The unconditional mean aggregate equity premium is almost seven percent per year and remains high after adjusting downwards the sample mean premium by introducing prior beliefs about the stationarity of the price-dividend ratio and the (non) forecastability of the long-term dividend growth and price-dividend ration. Recognition that idiosyncratic income shocks are uninsurable and concentrated in recessions contributes toward an explanation. Also, borrowing constraints over the investors' life cycle that shift the stock market risk to the saving, middle-aged consumers contribute toward an explanation.

PD April 2002. **TI** Stochastic Dominance Bounds on Derivative Prices in a Multiperiod Economy with Proportional Transaction Costs. **AU** Constantinides, George M.; Perrakis, Stylianos. **AA** Constantinides: University of Chicago and NBER. Perrakis: Concordia University. **SR** National Bureau of Economic Research Working Paper: 8867; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 41. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G12, G13. **KW** European Call. European Put. Bounds. Reservation Write Price.

AB By applying stochastic dominance arguments, upper bounds on the reservation write price of European calls and

puts and lower bounds on the reservation purchase price of these derivatives are derived in the presence of proportional transaction costs incurred in trading the underlying security. The primary contribution is the derivation of bounds when intermediate trading in the underlying security is allowed over the life of the option. A tight upper bound is derived on the reservation write price of a call and a tight lower bound is derived on the reservation purchase price of a put. These results jointly impose tight upper and lower bounds on the implied volatility.

PD April 2002. **TI** Junior Must Pay: Pricing the Implicit Put in Privatizing Social Security. **AU** Constantinides, George M.; Donaldson, John B.; Mehra, Rajnish. **AA** Constantinides: University of Chicago and NBER. Donaldson: Columbia University. Mehra: UCSB and NBER. **SR** National Bureau of Economic Research Working Paper: 8906; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D91, E60, G11, G13, H55. **KW** Privatization. Social Security. Put Options.

AB Proposals that portion of the Social Security Trust Fund assets be invested in equities entail the possibility that a severe decline in equity prices renders the Fund assets insufficient to provide the currently mandated level of benefits. In this event, existing taxpayers may be compelled to act as insurers of last resort. The cost to taxpayers of such an implicit commitment equals the value of a put option with payoff equal to the benefit's shortfall. We calibrate an OLG model that generates realistic equity premia and value the put. With 20 percent of the Fund assets invested in equities, the highest level currently under serious discussion, we value a put that guarantees the currently mandated level of benefits at one percent of GDP, or a temporary increase in Social Security taxation of at most 25 percent. We value a put that guarantees 90 percent of benefits at merely .03 percent of GDP. In contrast to earlier literature, our results account for the significant changes in the distribution of security returns resulting from Trust Fund purchases. We also explore the inter-generational welfare implications of the guarantee.

Cook, David H.

TI Liability Dollarization and the Bank Balance Sheet Channel. **AU** Choi, Woon Gyu; Cook, David H.

Cook, Philip J.

PD May 2002. **TI** The Effects of Gun Prevalence on Burglary: Deterrence vs Inducement. **AU** Cook, Philip J.; Ludwig, Jens. **AA** Cook: Duke University and NBER. Ludwig: The Brookings Institution. **SR** National Bureau of Economic Research Working Paper: 8926; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** K42. **KW** Gun Ownership. Burglary.

AB The proposition that widespread gun ownership serves as a deterrent to residential burglary is widely touted by advocates, but the evidence is weak, consisting of anecdotes, interviews with burglars, casual comparisons with other countries, and the like. A more systematic exploration requires data on local rates of gun ownership and of residential burglary, and such data have only recently become available. This paper exploits a new well-validated proxy for local gun-ownership

prevalence -- the proportion of suicides that involve firearms -- together with newly available geo-coded data from the National Crime Victimization Survey, to produce the first systematic estimates of the net effects of gun prevalence on residential burglary patterns. The importance of such empirical work stems in part from the fact that theoretical considerations do not provide much guidance in predicting the net effects of widespread gun ownership. Guns at home may pose a threat to burglars, but also serve as an inducement, since guns are particularly valuable loot. Other things equal, a gun-rich community provides more lucrative burglary opportunities than one where guns are more sparse. The new empirical results reported here provide no support for a net deterrent effect from widespread gun ownership.

Cooper, Russell W.

PD May 2002. **TI** Estimation and Identification of Structural Parameters in the Presence of Multiple Equilibria. **AA** Boston University and NBER. **SR** National Bureau of Economic Research Working Paper: 8941; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E10, E30. **KW** Structural Parameters. Multiple Equilibria.

AB This paper studies quantitative implications of model economies that exhibit multiple equilibria. The goal is to assess two interrelated issues. First, do economies with multiple equilibria have falsifiable predictions? Second, is identification possible in economies that exhibit multiple equilibria? Put differently, are these economies observationally equivalent to economies with unique equilibria? We raise these questions within a general framework and then study a series of examples to determine how the existing literature has addressed them.

Cordella, Tito

PD July 2002. **TI** Limits of Conditionality in Poverty Reduction Programs. **AU** Cordella, Tito; Dell'Ariccia, Giovanni. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/115; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 17. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D80, I30. **KW** Aid. Poverty Reduction. Conditionality. Asymmetric Information.

AB When donors and recipients have different preferences over budgetary allocations, conditionality helps the implementation of donor-financed poverty reduction programs. However, if donors cannot perfectly monitor all recipients' actions, conditionality entails an inefficient allocation of resources. Under such conditions, the optimal amount of conditionality varies (often not monotonically) with the recipients' degree of social commitment. Finally, if recipients' preferences are not observable, conditionality can be used to prevent recipients with a weak commitment to poverty reduction from obtaining aid funds. This may however lead to further distortions in terms of resource allocation and to phenomena of "aid rationing."

Coricelli, Fabrizio

TI Growth in Transition: What We Know, What We Don't and What We Should. **AU** Campos, Nauro F.; Coricelli,

Fabrizio.

Corielli, Francesco

PD March 2002. **TI** Factor Based Index Tracking. **AU** Corielli, Francesco; Marcellino, Massimiliano. **AA** Bocconi University. **SR** CEPR Discussion Paper: 3265; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C43, C53, G11. **KW** Index Tracing. Replica. Stock Index. Factor Models.

AB Index tracking requires building a portfolio of stocks (a replica) whose behavior is as close as possible to that of a given stock index. Typically, many fewer stocks should appear in the replica than in the index, and there should be no low frequency (persistent) components in the tracking error. Unfortunately, the latter property is not satisfied by many commonly used methods for index tracking. These are based on the in-sample minimization of a loss function, but do not take into account the dynamic properties of the index components. Instead, we represent the index components with a dynamic factor model, and develop a procedure that, in a first step, builds a replica that is driven by the same persistent factors as the index. In a second step, it is also possible to refine the replica so that it minimizes a loss function, as in the traditional approach. Both Monte Carlo simulations and an application to the EuroStoxx50 index provide substantial support for our approach.

Corsetti, Giancarlo

PD April 2002. **TI** Some Contagion, Some Interdependence: More Pitfalls in Tests of Financial Contagion. **AU** Corsetti, Giancarlo; Pericoli, Marcello; Sbracia, Massimo. **AA** Corsetti: Yale University, University of Rome III, and CEPR. Pericoli and Sbracia: Bank of Italy. **SR** CEPR Discussion Paper: 3310; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F32, F36, G15. **KW** Contagion. Financial Crisis. Factor Model. Correlation Analysis.

AB This paper develops a test of contagion in financial markets based on bivariate correlation analysis, which generalizes existing tests, and applies it to the international effects of the Hong Kong stock market crisis of October 1997. Contagion is defined as a structural break in the international transmission of financial shocks. For plausible values of the variance of country-specific shocks in Hong Kong, our test finds evidence of contagion for 5 countries out of a sample of 17. This is in sharp contrast with the findings of recent literature, according to which there is "no contagion, only interdependence". We show that this strong result in the literature is due to arbitrary and unrealistic restrictions on the variance of country-specific shocks.

Costa, Dora L.

PD March 2002. **TI** The Measure of Man and Older Age Mortality: Evidence from the Gould Sample. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8843; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00

per order for shipping outside U.S.). **JE** I12, N31. **KW** Body Size. Civil War Soldiers. Ischaemic Heart Disease. **AB** This paper documents differences in body size between white, black, and Indian mid-nineteenth century American men and investigates the socioeconomic and demographic determinants of frame size using a unique data set of Civil War soldiers. It finds that over time men have grown taller and heavier and have relatively less abdominal fat. Abdominal fat in young adulthood was an excellent predictor of older age mortality from ischaemic heart disease or stroke. Changes in frame size explain roughly three-fifths of the mortality decline among white men between 1915 and 1988 and predict even sharper declines in older age mortality between 1988 and 2022.

Coudert, Virginie

PD December 2002. **TI** Exchange Rate Regimes and Sustainable Parities for CEECs in the Run-Up to EMU Membership. **AU** Coudert, Virginie; Couharde, Cecile. **AA** Coudert: Bank of France, CEPII, and University of Paris XIII. Couharde: University of Paris XIII. **SR** CEPII Working Paper: 2002/15; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 33. **PR** no charge. **JE** F33, F41. **KW** Equilibrium Exchange Rates. EU Accession. Transition. Central Europe. Eastern Europe.

AB The real exchange rates of Central and Eastern European Countries (CEECs) have been appreciating for the last decade, especially when measured by consumer prices. We argue that the size of this appreciation is linked to the exchange rate regime with pegged currencies being more prone to this phenomenon in the long run. We show that this appreciation is not necessarily linked to overvaluation. First, it is largely reduced when using a proxy of tradable prices as a deflator, according to the "Balassa-Samuelson effect". Second, we use a large sample of emerging countries to calculate "normal" levels of real exchange rates taking into account the "Balassa effect" and show that CEECs do not suffer from systematic overvaluation according to this norm. We then calculate Fundamental Equilibrium Exchange Rates, using a model of the foreign trade of five CEECs (Czech Republic, Hungary, Poland, Slovak Republic and Slovenia) and their main partners based on NIGEM. We show that these CEEC currencies are only slightly misaligned.

Couharde, Cecile

TI Exchange Rate Regimes and Sustainable Parities for CEECs in the Run-Up to EMU Membership. **AU** Coudert, Virginie; Couharde, Cecile.

Courty, Pascal

TI Suspense. **AU** Chan, William M.; Courty, Pascal; Li, Hao.

Courty, Tarek

PD March 2002. **TI** Trade Openness and Investment Instability. **AU** Courty, Tarek; Razin, Assaf; Sadka, Efraim. **AA** Courty: Cornell University. Razin: Cornell University, Tel Aviv University, NBER, CESifo, and CEPR. Sadka: Tel Aviv University, NBER, and CESifo. **SR** CEPR Discussion Paper: 3259; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling.

JE F10, H10. **KW** Lumpy Adjustment Cost. Multiple Equilibrium. Boom-Bust Investment Cycles.

AB In the presence of lumpy adjustment costs of investment, globalization may have non-conventional effects on the level of investment and its cyclical behavior. Free trade may lead to a discrete "jump" in the level of investment, as it triggers discrete terms-of-trade changes which either appreciate or depreciate the setup cost of investment. As a result, the economy may alternate between "optimistic" and "pessimistic" expectations and self-validating boom and bust investment cycles. There could be substantial gains from globalization in the investment-boom equilibrium and meager, or negative, gains in the investment-bust equilibrium.

PD March 2002. **TI** Trade Openness and Investment Instability. **AU** Coury, Tarek; Razin, Assaf; Sadka, Efraim. **AA** Coury: Cornell University. Razin: Tel-Aviv University, Cornell University, and NBER. Sadka: Tel-Aviv University. **SR** National Bureau of Economic Research Working Paper: 8827; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E32, F41. **KW** Adjustment Costs. Investment Cycles. Trade Openness.

AB See the abstract for Coury, Tarek; Razin, Assaf; Sadka, Efraim. March 2002, "Trade Openness and Investment Instability." CEPR Discussion Paper: 3259; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

Cresti, Barbara

PD November 2002. **TI** Welfare Improving Barter in Imperfect Competition. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2002/71; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 30. **PR** \$5 per paper; \$100 per year. **JE** D42, L12. **KW** Barter. Imperfect Competition. Social Welfare.

AB This paper offers a rationale for the development of the barter industry in industrialized economies. It argues that, in the context of imperfect competition, barter represents a profitable and efficient system of exchange. Thanks to barter, even if already at the optimum, a monopolist can still reduce the production costs and thus increase profits. Moreover, by adopting a barter strategy, he also improves social welfare, as he raises total output and decreases market price. Social welfare improvement is maximized when the monopolist fully satisfies his barter requirements, for which the presence of a well-organized barter market is crucial.

Currie, Janet

PD March 2002. **TI** Medicaid Managed Care: Effects on Children's Medicaid Coverage and Utilization. **AU** Currie, Janet; Fahr, John. **AA** Currie: UCLA and NBER. Fahr: UCLA. **SR** National Bureau of Economic Research Working Paper: 8812; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I11, I38. **KW** Medicaid Enrollment. Children. Race. Health Care Utilization.

AB We use data from the National Health Interview Surveys to measure the effects of the growth of Medicaid managed care on children. We examine both the probability that individual children were Medicaid-covered and their utilization of care. We find that managed care penetration has significant effects on the composition of the Medicaid caseload. Poor white and Hispanic children are more likely to be enrolled in Medicaid where Medicaid managed care organizations are more prevalent, whereas black children are less likely to be enrolled. Also, toddlers are less likely to be enrolled than school age children. These lower enrollment rates are linked to increases in the numbers of black children and toddlers who go without any doctor visits in a year. Our results are consistent with cream-skimming by Medicaid managed care organizations along the lines of race and age.

Cusick, Philip A.

TI Glucksman Fellows Research Reports: 1) Quantifying the Impact of Option-Based Compensation on Earnings for the 50 Largest U.S. Technology Companies, 2) A Study on the Measurement and Prediction of the Indirect Costs of Bankruptcy, 3) Price Effects of Addition or Deletion from the Standard & Poor's 500 Index: Evidence of Increasing Market Efficiency, 4) A Study of Two-Step Spinoffs, 5) An Examination of Predictors of Long-term Equity Performance After Corporate Spinoffs in the 1990s, 6) An Examination of the Impact of Long-Term Growth Estimates. **AU** Silber, William L.; Butensky, Noah E.; Cays, Stephen E.; Cusick, Philip A.; Low, Audra L.; Ruta, Sebastian; Swope, Matthew.

TI Glucksman Fellows Research Reports: 1) Quantifying the Impact of Option-Based Compensation on Earnings for the 50 Largest U.S. Technology Companies, 2) A Study on the Measurement and Prediction of the Indirect Costs of Bankruptcy, 3) Price Effects of Addition or Deletion from the Standard & Poor's 500 Index: Evidence of Increasing Market Efficiency, 4) A Study of Two-Step Spinoffs, 5) An Examination of Predictors of Long-term Equity Performance After Corporate Spinoffs in the 1990s, 6) An Examination of the Impact of Long-Term Growth Estimates. **AU** Silber, William L.; Butensky, Noah E.; Cays, Stephen E.; Cusick, Philip A.; Low, Audra L.; Ruta, Sebastian; Swope, Matthew.

Cutler, David M.

PD February 2002. **TI** Health Care and the Public Sector. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8802; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 86. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H11, H51, I11, I12, I18. **KW** Government Intervention. Health Care. Health Insurance. Internal Costs of Smoking.

AB This paper summarizes the many aspects of public policy for health care. I first consider government policy affecting individual behaviors. Government intervention to change individual actions such as smoking and drinking is frequently justified on externality grounds. More important quantitatively are the internal costs of such activities to the consumer. I then turn to several choices governments make in the markets for medical care and health insurance. The first choice is between operating the medical system publicly or contracting for care from private providers. The make-or-buy decision is difficult in medical care because medical quality is not fully observable. Thus, private sector efficiency may come at the expense of

quality. A second choice is in the degree of cost sharing. Finally, governments face issues of competition and selection. Adverse selection is empirically very important. To date, public policies have not been able to offset it. Finally, I turn to the distribution aspects of medical care. Longstanding norms support at least basic medical care for everyone in society. However, the generosity of health programs for the poor runs up against the possibility of crowding out private insurance coverage. Analysis from Medicaid program expansion shows that crowding out does occur.

D'Addio, Anna Christina

PD September 2002. **TI** Duration Dependence and Time Varying Variables in Discrete Time Duration Models. **AU** D'Addio, Anna Christina; Honore, Bo E. **AA** D'Addio: University of Aarhus. Honore: Princeton University. **SR** University of Aarhus Department of Economics Working Paper: 2002/13; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. **PG** 50. **PR** no charge. **JE** C23, C25, C41, J64. **KW** Panel Data. Dynamic Discrete Choice. Unemployment. Duration Dependence.

AB This paper considers estimation of a dynamic discrete choice model with second order state dependence in the presence of strictly exogenous time-varying explanatory variables. We propose a new method for estimating such models, and a small Monte Carlo study suggests that the method performs well in practice. The method is used to test for duration dependence in labor market spells for French youth. The novelty in the application is that we are able to control for time-varying explanatory variables. In a discrete time duration model, duration dependence will result in second order state dependence, and the paper therefore also adds to the literature on estimation of duration models with unobserved heterogeneity.

PD September 2002. **TI** Labour Market Transitions of French Youth. **AU** D'Addio, Anna Christina; Rosholm, Michael. **AA** University of Aarhus. **SR** University of Aarhus Department of Economics Working Paper: 2002/14; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. **PG** 48. **PR** no charge. **JE** C41, J64. **KW** Event History Models. Left-Censoring. Unobserved Heterogeneity. Youth Unemployment. Semi-Markov Process. Hausman Test. Stationarity.

AB In this paper we analyze the movements of French young people between three states: employment, unemployment and non-participation, using data from the waves 1990-1992 of the French Labour Survey. Some of these event histories are left-censored. We therefore address the problem of initial conditions by invoking a stationarity assumption in the statistical framework of multi-states multi-spells duration models. We subsequently construct a Hausman test of the stationarity assumption. We allow for interdependence between duration variables and we use an adjusted likelihood ratio test in order to choose the best distribution for unobservables. We are particularly interested in identifying characteristics that are associated with less favorable event histories. The results show that higher educational attainments are associated with shorter unemployment durations and with longer durations when employed. Another important factor is nationality; indeed to be of French nationality is often associated with better outcomes in the labor market.

D'Aspremont, Claude

PD February 2003. **TI** Competition for Market Share or for Market Size: Oligopolistic Equilibria with Varying Competitive Toughness. **AU** D'Aspremont, Claude; Dos Santos-Ferreira, Rodolphe; Gerard-Varet, Louis-Andre. **AA** D'Aspremont: Universite Catholique de Louvain. Dos Santos-Ferreira: Universite Louis Pasteur and Institut Universitaire de France. Gerard-Varet: GREQAM. **SR** CORE Discussion Paper: 2003/10; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 22. **PR** \$5 per paper; \$100 per year. **JE** D43, L13. **KW** Oligopoly. Cournot Equilibria. Degree of Competitiveness.

AB We propose a comprehensive concept of oligopolistic equilibrium, allowing for a parametrized continuum of competition regimes, with each firm setting simultaneously both its price and its quantity and facing two constraints: one relative to its share of the market, the other relative to the size of the market. The type of solution (i.e., the competition regime) varies according to the values of the Lagrange multipliers associated with each of these two constraints. In the homogeneous case, the set of oligopolistic equilibria is shown to include the Cournot solution at one extreme, when competition is extremely weak, as well as the competitive equilibrium at the other extreme, when competition is fierce. The set of equilibria may be characterized as supply function equilibria, with firms' strategy spaces restricted to the set of non-decreasing supply functions, or, alternatively, as a selected subset of the outcomes obtained by conjectural variations of a particular type (the compensating ones). The proposed concept of oligopolistic equilibrium is also applicable to an industry supplying a group of differentiated products, the homogeneous product being the limit case corresponding to perfect substitutability.

Dahan, Momi

TI An Optimal Shape of Income Tax: Evidence from Zero Income Tax Countries -- Paraguay & Uruguay. **AU** Beresteanu, Arie; Dahan, Momi.

Dai, Qinglei

TI To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. **AU** Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C.

Darby, Michael R.

PD May 2002. **TI** Growing by Leaps and Inches: Creative Destruction, Real Cost Reduction, and Inching Up. **AU** Darby, Michael R.; Zucker, Lynne G. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8947; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L11, M13, O30. **KW** Cost Reduction. Growth Models. Technological Progress. Innovation.

AB Most firms achieve perfective progress, incrementally improving commodities or productivity. But technological progress is concentrated in a few firms achieving metamorphic progress: forming or transforming industries with technological

breakthroughs (e.g., biotechnology, lasers, semiconductors, nanotechnology). Unless congruent with incumbents' science and technology base, metamorphic progress promotes entry. Scientific breakthroughs embodied in discovering scientists, protected by natural excludability, and transferred by learning-by-doing-at the bench generally drive metamorphic progress. Embodied knowledge is rivalrous and leads to entry and industry dominance by star-scientist-linked firms. Incorporating this scientific-entrepreneurial process is essential to improving -- if not transforming -- endogenous growth models.

PD May 2002. **TI** Going Public When You Can in Biotechnology. **AU** Darby, Michael R.; Zucker, Lynne G. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8954; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G32, L21, L65, M13, O31. **KW** Biotechnology. Initial Public Offerings. Innovation.

AB Scientist-entrepreneurs prominent in biotech and other high-technology industries view going public not as a cost-effective source of capital but as a cross between selling a now-proven innovation and winning a lottery. Unlike most empirical IPO analyses confined to those firms that go public, we study substantially all the non-public biotech firms founded up through 1989. The probability that one of these firms goes public in any given year increases with the quality of the firm's science base (use of recombinant DNA technology, number of articles by star scientists as or with firm employees, number of biotech patents), the percentage of eligible firms going public the year the firm was founded as a strategy indicator, recent biotech returns as an indicator of a hot market, and whether or how many rounds of venture capital has been obtained. The same key factors increase the expected proceeds raised from IPOs, but the quality of the firm's science base plays a more dominant role. All firms going public try to look like the next Genentech, but only those with the strong science base necessary for success attract large investments.

Dardanoni, Valentino

PD 2000. **TI** Progressivity Comparisons. **AU** Dardanoni, Valentino; Lambert, Peter J. **AA** Università di Palermo and University of York. **SR** Institute for Fiscal Studies Working Paper: W00/18; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. **PG** 18. **PR** free from website; 3 pounds for hardcopies. **JE** D63, H22, H24. **KW** Income Tax. Progressivity. Income Distribution.

AB Analysts should correct for distributional differences before undertaking local progressivity comparisons between income tax or tax and benefit schedules. A transplant-and-compare procedure is advocated, involving 'importation' of the schedule from one regime into another, or from both into a reference scenario. The residual progression ordering over transplanted schedules then assures a global ordering of original regimes by Lorenz or Suits curves. The algorithm is advocated for use only when transplantation functions are isoelastic, and is illustrated for the Canadian, Israeli and UK tax and benefit systems.

Das, Sanjiv Ranjan

PD April 2002. **TI** Systemic Risk and International Portfolio Choice. **AU** Das, Sanjiv Ranjan; Uppal, Raman. **AA** Das: Harvard University. Uppal: London Business School and CEPR. **SR** CEPR Discussion Paper: 3305; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F31, G11, G15. **KW** Asset Allocation. Contagion. Emerging Markets. Skewness. Jump-Diffusion Processes.

AB Returns on international equities are characterized by jumps; moreover, these jumps tend to occur at the same time across countries leading to systemic risk. In this paper, we evaluate whether systemic risk reduces substantially the gains from international diversification. First, we develop a model of international equity returns using a multivariate system of jump-diffusion processes where the arrival of jumps is simultaneous across assets. Second, we determine an investor's optimal portfolio for this model of returns. Third, we show how one can estimate the model using the method of moments. Finally, we illustrate our portfolio optimization and estimation procedure by analyzing portfolio choice across a riskless asset and five international indices. Our main finding is that, while systemic risk affects the allocation of wealth between the riskless and risky assets, it has a small effect on the composition of the portfolio of only-risky assets, and reduces marginally the gains to a US investor from international diversification. These results are robust to a variety of assumptions.

Dauchy, Estelle

TI The Impact of Central Bank Intervention on Exchange-Rate Forecast Heterogeneity. **AU** Beine, Michel; Benassy-Quere, Agnes; Dauchy, Estelle; MacDonald, Ronald.

Dave, Dhaval

TI Substance Use and Suicidal Behaviors Among Young Adults. **AU** Chatterji, Pinka; Dave, Dhaval; Kaestner, Robert; Markowitz, Sara.

Davies, Ronald B.

TI Do Bilateral Tax Treaties Promote Foreign Direct Investment? **AU** Blonigen, Bruce A.; Davies, Ronald B.

TI Estimating the Knowledge-Capital Model of the Multinational Enterprise: Comment. **AU** Blonigen, Bruce A.; Davies, Ronald B.; Head, Keith.

de Blasio, Guido

PD July 2002. **TI** Labor Market Pooling. **AU** de Blasio, Guido; di Addario, Sabrina. **AA** de Blasio: Bank of Italy and IMF. di Addario: Bank of Italy. **SR** International Monetary Fund Working Paper: WP/02/121; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 17. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** J23, J31, J62, R12, R23. **KW** Agglomeration. Labor Market. Wages. Human Capital. Labor Mobility.

AB The paper provides an empirical investigation of labor market pooling. The analysis concentrates on Italian industrial districts and shows that there is scattered evidence of a widespread wage premium. In particular, there is no evidence

of district differentials for the returns to seniority while there is evidence of negative differentials for the returns to education. Moreover, dwelling in a district has no impact on the probability of being self-employed and only a minor impact on the likelihood of transiting from wage-and-salary to self-employment. Finally, there is no evidence of higher district worker mobility across jobs.

De Donder, Philippe

PD January 2003. TI Majority Support for Progressive Income Taxation with Corner Preferences. AU De Donder, Philippe; Hindriks, Jean. AA De Donder: Universite de Toulouse. Hindriks: Universite Catholique de Louvain and University of London. SR CORE Discussion Paper: 2003/02; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 14. PR \$5 per paper; \$100 per year. JE D72, H22. KW Majority Voting. Income Taxation. Tax Progressivity.

AB This paper studies voting over quadratic taxation when income is fixed and taxation is non distortionary. The set of feasible taxes is compact and self-interested voters have corner preferences. We first show that, if a majority winning tax policy exists, it involves maximum progressivity. We then give a necessary and sufficient condition on the income distribution for a majority winner to exist. This condition appears to be satisfied for a large class of distribution functions.

de Lucio, Juan Jose

TI Economic Integration and Regional Business Cycles: Evidence from the Iberian Regions. AU Barrios, Salvador; de Lucio, Juan Jose.

de Roon, Frans A.

PD December 1999. TI Currency Hedging for International Stock Portfolios: A General Approach. AU de Roon, Frans A.; Nijman, Theo E.; Werker, Bas J. M. AA de Roon: Erasmus University Rotterdam. Nijman and Werker: Tilburg University. SR Tilburg CentER Discussion Paper: 99123; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: center.uvt.nl. PG 22. PR no charge. JE G11, G31. KW Currency. Hedging. Portfolio Investment.

AB This paper tests whether hedging currency risk improves the performance of international stock portfolios. We use a generalized performance measure that allows for investor-dependencies such as different utility functions and the presence of nontraded risks. In addition we show that an auxiliary regression, similar to the Jensen regression, provides a wealth of information about the optimal portfolio holdings for investors for the non mean-variance case. This is analogous to the information provided by the Jensen regression about optimal portfolio holdings for the mean-variance case. Our empirical results show that static hedging with currency forwards does not lead to improvements in portfolio performance for a US investor that holds a stock portfolio from the G5 countries. On the other hand, hedges that are conditional on the current interest rate spread do lead to significant performance improvements. Also, when an investor has a substantial exogenous exposure to one of the currencies, currency hedging clearly improves his portfolio performance. While these results hold for both investors with power utility

and those with mean-variance utility functions, the optimal hedge ratios for these investors are different.

de Vries, Sven

TI Ascending Auctions and Linear Programming. AU Bikhchandani, Sushil; de Vries, Sven; Schummer, James; Vohra, Rakesh V.

PD April 2003. TI Polyhedral Properties of the K-Median Problem on a Tree. AU de Vries, Sven; Posner, Marc E.; Vohra, Rakesh V. AA de Vries: TU Munchen. Posner: Ohio State University. Vohra: Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1367; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 38. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C65, C69. KW Polyhedral Description. Valid Inequalities. Facets. Lifting.

AB The polyhedral structure of the K-median problem on a tree is examined. Even for very small connected graphs, we show that additional constraints are needed to describe the integer polytope. A complete description is given of those trees for which an optimal integer LP solution is guaranteed to exist. We present a new and simpler demonstration that an LP characterization of the two-median problem is complete. Also, we provide a simpler proof of the value of a tight worst case bound for the LP relaxation. A new class of valid inequalities is identified. These inequalities are lifted to define facets for the K-median problem on a general graph. Also, we provide polyhedral descriptions for several types of trees. As part of this work, we summarize most known results for the K-median problem on a tree.

Dearden, Lorraine

PD March 2000. TI Who Gains When Workers Train? Training and Corporate Productivity in a Panel of British Industries. AU Dearden, Lorraine; Reed, Howard; van Reenen, John. AA Dearden: IFS. Reed: IFS and University College London. van Reenen: CEPR, IFS, and University College London. SR Institute for Fiscal Studies Working Paper: W00/04; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 54. PR free from website; 3 pounds for hardcopies. JE C23, D24, J31. KW Productivity. Training. Wages. Panel Data.

AB There is a vast empirical literature on the effects of training on wages wherein wages are taken as an indirect measure of productivity. The existing literature has underestimated the full effects of training for two reasons. First, it has tended to treat training as exogenous whereas in reality firms may choose to re-allocate workers to training when demand (and therefore productivity) is low. Secondly, the literature has often ignored the higher profits firms reap from training. This paper is part of a smaller literature on the effects of training on direct measures of industrial productivity. We analyze a panel of British industries between 1983 and 1996 using a variety of panel data techniques (including system GMM) to argue that training significantly boosts productivity. The difference between the effect of training on wages and the impact it has on industrial productivity is economically large -

our estimates of the effects of training on wages are about half the size of the effects on industrial productivity.

PD November 2000. **TI** The Returns to Academic and Vocational Qualifications in Britain. **AU** Dearden, Lorraine; McIntosh, Steven; Myck, Michal; Vignoles, Anna. **AA** Dearden and Myck: IFS. McIntosh and Vignoles: CEP. **SR** CEE Discussion Paper: 04; Centre for Economic Performance, LSE, Houghton Street, London WC2A 2AE. **Contact:** cee@lse.ac.uk. **Website:** cee.lse.ac.uk. **PG** 45. **PR** 5 pounds single copies; 60 pounds annual subscription; make checks payable to LSE. **JE** I21, I22, I28, J31. **KW** Education. Private Returns. Social Returns.

AB The estimation of the return to a year of schooling, both for the individual and society more generally, has been the focus of considerable debate in the economics literature. Work based on for the UK typically suggests a private return to a year of schooling of between 6% and 9%. Given this well-defined and positive return to schooling, unless there are social returns over and above the private returns there is little argument for the taxpayer to subsidize individual study. The limited evidence for the UK that suggests that the social returns to education may be positive but vary by degree. Direct macroeconomic evidence that links growth to education is confounded by the unclear nature of the causal relationship between average schooling levels and measures such as GNP growth. The microeconomic studies that are available confirm this and show that many of the important findings linking education to growth are based on restrictive functional form assumptions.

Decreux, Yvan

TI MIRAGE, a Computable General Equilibrium Model for Trade Policy Analysis. **AU** Bchir, Mohamed Hedi; Decreux, Yvan; Guerin, Jean-Louis; Jean, Sebastien.

DeGraba, Patrick

PD September 2002. **TI** Efficient Inter-Carrier Compensation for Competing Networks When Customers Share the Value of a Call. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 251; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. **Contact Person:** troundtree@ftc.gov. **Website:** www.ftc.gov/be/econwork.htm. **PG** 27. **PR** no charge. **JE** L43, L51, L96. **KW** Interconnection. Access Rates. Bill-and-Keep.

AB With competition in telecommunications markets, networks must complete calls originated on competing networks. The payments for such "termination services" affect retail prices and therefore consumption of telecommunications. Regulators typically require the calling party's network to pay a termination fee to the called party's network equal to the terminating network's "incremental cost" of completing the call. I show that when both parties to a call benefit from it, they should bear the costs of the call in proportion to the value that they receive from the call. This implies that requiring two networks to exchange traffic at a single point on a bill and keep basis can generate efficient network utilization in cases where imposing all costs on the calling party's network will not. This occurs even with unbalanced traffic between the two networks. Thus, regulators may improve the efficiency of telecommunications markets by establishing inter-carrier compensation rules that cause the calling party and the called party to share the cost of a call.

PD February 2003. **TI** Volume Discounts, Loss Leaders, and Competition for More Profitable Customers. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 260; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. **Contact Person:** troundtree@ftc.gov. **Website:** www.ftc.gov/be/econwork.htm. **PG** 16. **PR** no charge. **JE** D43, L11, L13. **KW** Loss Leader. Multi-Product Pricing. Counter-Cyclical Pricing.

AB When some customers are more profitable to serve than others, one might expect sellers to compete more vigorously for the more profitable customers. One way sellers might do this is to sell goods that are purchased primarily by the most profitable customers using a lower mark-up than on other goods. This paper presents a model in which competing multi-product firms facing customers that purchase different quantities of goods set prices in this manner. This model suggests a theory of multi-product pricing in which the mark up on any particular product is inversely related to the average profitability of the customer that purchases the good. One interesting implication of this paper is that loss leader pricing might be viewed as a way for firms to compete more vigorously for more profitable customers. Such an explanation offers another characteristic of products that should be used as loss leaders. This explanation provides potentially testable implications about the types of goods that can (or ought to) be used as loss leaders and can explain why grocery stores sell turkeys as loss leaders at Thanksgiving and lower the price of eggs at Easter, but not flowers on Mother's Day, or candy on Valentines Day.

Dehez, Pierre

PD December 2002. **TI** Imperfect Competition a la Negishi, also with Fixed Costs. **AU** Dehez, Pierre; Dreze, Jacques H.; Suzuki, Takashi. **AA** Dehez and Dreze: Universite Catholique de Louvain. Suzuki: Meiji-Gakuin University. **SR** CORE Discussion Paper: 2002/78; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. **Website:** www.core.ucl.ac.be/services/DP.html. **PG** 24. **PR** \$5 per paper; \$100 per year. **JE** D43, D51, L13. **KW** Imperfect Competition. Fixed Costs. General Equilibrium. Perceived Demand. Pricing Rules.

AB The paper studies equilibria for economies with imperfect competition and non-convex technologies. Following Negishi, firms maximize profits under downward-sloping perceived demand functions. Negishi's assumptions, in particular the assumption of a single monopolistic competitor in each market, are relaxed. Existence of equilibria is obtained under otherwise standard assumptions for production sets defined in each firm by the union of a convex technology and a technology subject to fixed costs. In the light of a counterexample, it is assumed that fixed factors are distinct from variable factors. Technically, the proof rests on pricing rules.

Del Negro, Marco

TI The Rise in Comovement Across National Stock Markets: Market Integration or Global Bubble? **AU** Brooks, Robin J.; Del Negro, Marco.

Dell'Anno, Roberto

PD May 2003. **TI** Estimating the Shadow Economy in

Italy: A Structural Equation Approach. AA University of Salerno and University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2003/07; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 38. PR no charge. JE C39, H26, O17. KW Shadow Economy. Structural Equation Model. Tax Evasion. Mimic.

AB The aims of this paper are, firstly, to estimate the Italian shadow economy by means of a structural equation approach and, secondly, to verify the generality of the main criticisms about the reliability of the "MIMIC method" (or model approach) for this kind of analysis. We pay particular attention to the assumptions that must hold to use appropriately this technique (multivariate normality, independence between measurement and structural errors, unit root detection, etc.).

Dell'Ariccio, Giovanni

TI Limits of Conditionality in Poverty Reduction Programs. AU Cordella, Tito; Dell'Ariccio, Giovanni.

Demurger, Sylvie

PD April 2002. TI Geography, Economic Policy, and Regional Development in China. AU Demurger, Sylvie; Sachs, Jeffrey D.; Woo, Wing Thye; Bao, Shuming; Chang, Gene; Mellinger, Andrew. AA Demurger: CNRS and CERDI. Sachs: Harvard University and NBER. Woo: University of California, Davis. Bao: University of Michigan. Chang: University of Toledo. Mellinger: Harvard University. SR National Bureau of Economic Research Working Paper: 8897; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 37. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D30, O18, O53, P25, R11. KW Regional Development. Geography. Preferential Policies. AB Many studies of regional disparity in China have focused on the preferential policies received by the coastal provinces. We decomposed the location dummies in provincial growth regressions to obtain estimates of the effects of geography and policy on provincial growth rates in 1996-99. Because the so-called preferential policies are largely deregulation policies that have allowed coastal Chinese provinces to integrate into the international economy, it is far superior to reduce regional disparity by extending these deregulation policies to the interior provinces than by re-regulating the coastal provinces. Two additional inhibitions to income convergence are the household registration system, which makes the movement of the rural poor to prosperous areas illegal, and the monopoly state bank system that, because of its bureaucratic nature, disburses most of its funds to its large traditional customers, few of whom are located in the western provinces. Improving infrastructure to overcome geographic barriers is fundamental to increasing western growth, but increasing human capital formation (education and medical care) is also crucial because only it can come up with new better ideas to solve centuries-old problems like unbalanced growth.

Denny, Kevin J.

PD February 2000. TI New Methods for Comparing Literacy Across Populations: Insights from the Measurement of Poverty. AA University College Dublin and IFS. SR Institute for Fiscal Studies Working Paper: W00/07; Publications Department, IFS, 7 Ridgmount Street, London

WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 17.

PR free from website; 3 pounds for hardcopies. JE C82, I21. KW Literacy. Numeracy. Poverty. Education Policy.

AB This paper analyses levels of low literacy across twelve countries using the International Adult Literacy Survey. We go beyond existing work that only looks at the proportions below certain critical levels of literacy. Using methods developed for the measurement of poverty we calculate measures of literacy that are sensitive to the distribution of literacy within those defined as illiterate. This reveals a different pattern of the extent of literacy problems across countries and within some populations. These measures should be useful to policy makers who need to allocate resources to alleviate low literacy and numeracy.

PD April 2000. TI Education Policy Reform and the Return to Schooling from Instrumental Variables. AU Denny, Kevin J.; Harmon, Colm P. AA Denny: University College Dublin and IFS. Harmon: University College Dublin, University of Warwick, and CEPR. SR Institute for Fiscal Studies Working Paper: W00/06; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 12.

PR free from website; 3 pounds for hardcopies. JE I21, J24. KW Schooling. Educational Reform. Ireland.

AB This paper exploits an unusual policy reform that had the effect of reducing the direct cost of schooling in Ireland in the late 1960's. This gave rise to an increased level of schooling but with effects that vary substantially across family background. This interaction of educational reform and family background generates a set of instrumental variables that are used to estimate the return to schooling allowing for the endogeneity of schooling. Using a standard Mincer type model we find a large and well-determined rate of return of around 12% which is substantially higher than the OLS estimates of around 7%.

PD April 2000. TI The Impact of Education and Training on the Labour Market Experiences of Young Adults. AU Denny, Kevin J.; Harmon, Colm P. AA Denny: University College Dublin and IFS. Harmon: University College Dublin, University of Warwick, and CEPR. SR Institute for Fiscal Studies Working Paper: W00/08; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 15.

PR free from website; 3 pounds for hardcopies. JE J31, J64. KW Youth. Earnings. Education.

AB This paper uses pooled cross-section data on recent school drop outs in Ireland to model the determinants of labor market status and wages for young adults. Firstly we use a multinomial logit model to analyze whether individuals exit school to employment, unemployment, or higher education. Family background is an important predictor for participation in higher education reflecting the degree of rationing in the system. The level of educational attainment influences the probability of entering higher education or employment. The estimates for earnings functions show large differences across gender with males being rewarded significantly higher. The returns to training are positive though biased upwards by sample selection particularly for females.

PD April 2000. TI Functional Literacy, Educational

Attainment and Earnings -- Evidence from the International Adult Literacy Survey. AU Denny, Kevin J.; Harmon, Colm P.; Redmond, Sandra. AA Denny: University College Dublin and IFS. Harmon: University College Dublin, University of Warwick, and CEPR. Redmond: University College Dublin. SR Institute for Fiscal Studies Working Paper: W00/09; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 15. PR free from website; 3 pounds for hardcopies. JE J24, J31. KW Adult Literacy. Labour Earnings. Formal Education. AB In this paper a rich and innovative dataset, the International Adult Literacy Survey, is used to examine the impact of functional literacy on earnings. The IALS surveys 12 OECD countries and sub-regions via a consistent questionnaire and includes a number of tests of numeracy and literacy, as well as basic labor market information. This paper examines the effect of these skills on labor market earnings for the Republic of Ireland, Northern Ireland, and for Great Britain. The estimates suggest that while ability has a role in determining earnings, the dominant factor remains formal education. It is shown that, particularly for Great Britain, there is a positive interaction between the test score and education in determining earnings.

Desai, Mihir A.

PD April 2002. TI The Corporate Profit Base, Tax Sheltering Activity, and the Changing Nature of Employee Compensation. AA Harvard Business School and NBER. SR National Bureau of Economic Research Working Paper: 8866; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D33, G38, H25, H26. KW Tax Sheltering. Book Income. US Corporate Income Tax. AB This paper examines the evolution of the corporate profit base and the relationship between book income and tax income for U.S. corporations over last two decades. The paper demonstrates that this relationship has broken down over the 1990s and has broken down in a manner that is consistent with increased sheltering activity. The paper traces the growing discrepancy between book and tax income associated with differential treatments of depreciation, the reporting of foreign source income, and, in particular, the changing nature of employee compensation. For the largest public companies, proceeds from option exercises equaled 27 percent of operating cash flow from 1996 to 2000 and these deductions appear to be fully utilized thereby creating the largest distinction between book and tax income. While the differential treatment of these items has historically accounted fully for the discrepancy between book and tax income, the paper demonstrates that book and tax income have diverged markedly for reasons not associated with these items during the late 1990s.

Desai, Tanvi

PD November 2000. TI An Audit of the Data Needs of the DfEE Centres for the Economics of Education and the Wider Benefits of Learning. AU Desai, Tanvi; Montado, Estela; Vignoles, Anna. AA Desai and Montado: CEP. Vignoles: CEP and CEE. SR CEE Discussion Paper: 01; Centre for Economic Performance, LSE, Houghton Street, London WC2A 2AE. Contact: cee@lse.ac.uk. Website: cee.lse.ac.uk. PG 29. PR 5 pounds single copies; 60

pounds annual subscription; make checks payable to LSE. JE I21, I29. KW Data. Education. Learning.

AB The DfEE has established two new research centres, the Centres for the Economics of Education and the Wider Benefits of Learning, both examining the impact that education and learning have on people's lives. To be able to undertake such research, high quality data sets are needed that relate to education issues. This paper describes some of the key issues involved in obtaining such data. After outlining these general issues, the main body of this paper goes on to describe, in the light of these issues, existing data sets that should be useful in three areas of work: the production of education and skills, lifelong learning, and estimating rates of return.

Devereux, Michael B.

PD March 2002. TI Evaluating Tax Policy for Location Decisions. AU Devereux, Michael B.; Griffith, Rachel. AA Devereux: University of Warwick and CEPR. Griffith: IFS and University College London. SR CEPR Discussion Paper: 3247; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE H25, H32. KW Tax Policy. Investment. Location Choice. Tax Coordination.

AB We consider the impact of taxation when investors face a discrete choice between two or more mutually exclusive projects; in particular we consider the location choice of multinationals. Such choices depend on an effective average tax rate. We propose a precise measure of this rate, which is shown to be equal to a weighted average of an effective marginal tax rate and an adjusted statutory tax rate, where the weights depend on the profitability of the investment. Estimates of the distribution of this measure are presented and compared for domestic and international investment in the USA, France, Germany, and the UK. We analyze the impact of harmonizing corporate tax rates in Europe on incentives to locate in France, Germany and the UK.

PD April 2002. TI Exchange Rate Pass-Through, Exchange Rate Volatility, and Exchange Rate Disconnect. AU Devereux, Michael B.; Engel, Charles. AA Devereux: University of British Columbia and NBER. Engel: University of Wisconsin and NBER. SR National Bureau of Economic Research Working Paper: 8858; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F37, F41. KW Exchange Rate Volatility. Interest Rate Parity. Economic Fundamentals.

AB This paper explores the hypothesis that high volatility of real and nominal exchange rates may be due to the fact that local currency pricing eliminates the pass-through from changes in exchange rates to consumer prices. Exchange rates may be highly volatile because in a sense they have little effect on macroeconomic variables. The paper shows the ingredients necessary to construct such an explanation for exchange rate volatility. In addition to the presence of local currency pricing, we need a) incomplete international financial markets, b) a structure of international pricing and product distribution such that wealth effects of exchange rate changes are minimized, and c) stochastic deviations from uncovered interest rate parity. Together, it is shown that these elements can produce exchange rate volatility that is much higher than shocks to economic

fundamentals, and "disconnected" from the rest of the economy in the sense that the volatility of all other macroeconomic aggregates are of the same order as that of fundamentals.

di Addario, Sabrina

TI Labor Market Pooling. AU de Blasio, Guido; di Addario, Sabrina.

Diamantoudi, Effrosyni

PD May 2002. TI International Environmental Agreements -- The Role of Foresight. AU Diamantoudi, Effrosyni; Sartzetakis, Eftichios S. AA Diamantoudi: University of Aarhus. Sartzetakis: University of Macedonia and University College of Cariboo. SR University of Aarhus Department of Economics Working Paper: 2002/10; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 30. PR no charge. JE C79, H41, Q58. KW Environmental Agreements. Public Good Provision. Coalition Formation. Foresight.

AB We examine the formation of International Environmental Agreements (IEAs). We extend the existing literature by endogenizing the reaction of the IEA's members to a deviation by a member or a group of members. We assume that when a country contemplates exiting or joining an agreement, it takes into account the reactions of other countries ignited by its own actions. We identify conditions under which there always exists a unique set of farsighted stable IEAs. The new farsighted IEAs can be much larger than those some of the previous models supported but are not always Pareto efficient. We extend the analysis to allow for coordinated action, that is, groups of countries jointly exiting or entering the agreement and fully characterize the coalitionally farsighted stable IEAs.

Diamond, Douglas W.

PD May 2002. TI Liquidity Shortages and Banking Crises. AU Diamond, Douglas W.; Rajan, Raghuram G. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8937; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 44. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G21, G28. KW Liquidity. Banking Sector. Financial Crises. Solvency. Government Intervention.

AB Banks can fail either because they are insolvent or because an aggregate shortage of liquidity can render them insolvent. We show that bank failures can themselves cause liquidity shortages. The failure of some banks can then lead to a cascade of failures and a possible total meltdown of the system. Contagion here is not caused by contractual or informational links between banks but because bank failure could lead to a contraction in the common pool of liquidity. There is a possible role for government intervention. Unfortunately, liquidity problems and solvency problems interact, and can each cause the other. It is therefore hard to determine the root cause of a crisis from observable factors. The practical difficulty of determining the most appropriate intervention, as well as the costs of the wrong kind of intervention (such as infusing capital when the need is for liquidity) have to be traded off against the costs of a meltdown, which can be substantial. We propose a robust sequence of intervention.

Diamond, Peter

PD August 2002. TI Social Security Investment in Equities. AU Diamond, Peter; Geanakoplos, John. AA Diamond: MIT. Geanakoplos: Yale University. SR Yale Cowles Foundation Discussion Paper: 1314R; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 28. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE G11, H55. KW Social Security. Privatization. Diversification.

AB This paper explores the general equilibrium impact of social security portfolio diversification into private securities, either through the trust fund or private accounts. The analysis depends critically on heterogeneities in saving, production, assets, and taxes. Limited diversification weakly increases interest rates, reduces the expected return on short-term investment (and the equity premium), decreases safe investment, increases risky investment, and increases a suitably weighted social welfare function. However, the effects on aggregate investment, long-term capital values, and the utility of young savers hinges on assumptions about technology. Aggregate investment and long-term asset values can move in opposite directions.

Diebold, Francis X.

TI Micro Effects of Macro Announcements: Real-Time Price Discovery in Foreign Exchange. AU Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.; Vega, Clara.

Disney, Richard

PD April 2000. TI The Abolition of the Earnings Rule for UK Pensioners. AU Disney, Richard; Tanner, Sarah. AA Disney: University of Nottingham and IFS. Tanner: IFS. SR Institute for Fiscal Studies Working Paper: W00/13; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 20. PR free from website; 3 pounds for hardcopies. JE H31, J22. KW Pension. Work Incentive. Social Security.

AB The US has passed legislation to abolish its social security earnings test. A priori, it is not possible to predict the effect this will have on work incentives. Using data from the Family Expenditure Survey we show that the abolition of the earnings rule in the UK increased the number of hours worked by men. The lack of any evidence of a reduction in hours may be a consequence of those who previously earned more than the earnings threshold deferring pension receipt at an actuarially favorable rate. This is consistent with there being little evidence of a significant change in the number of deferrals after the earnings rule was abolished.

Diwan, Ishac

TI Will HIPC Matter? The Debt Game and Donor Behaviour in Africa. AU Birdsall, Nancy; Claessens, Stijn; Diwan, Ishac.

Djankov, Simeon

PD April 2002. TI Courts: the Lex Mundi Project. AU Djankov, Simeon; La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei. AA Djankov: World Bank. La Porta and Shleifer: Harvard University and NBER. Lopez-de-Silanes: Yale University and NBER. SR National Bureau of Economic Research Working Paper: 8890; Working Papers,

NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 38. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE K41, K42, O17. KW Eviction. Common Law. Procedural Formalism. Legal Transplantation.

AB In cooperation with Lex Mundi member law firms in 109 countries, we measure and describe the exact procedures used by litigants and courts to evict a tenant for non-payment of rent and to collect a bounced check. We use these data to construct an index of procedural formalism of dispute resolution for each country. We find that such formalism is systematically greater in civil than in common law countries. Moreover, procedural formalism is associated with higher expected duration of judicial proceedings, more corruption, less consistency, less honesty, less fairness in judicial decisions, and inferior access to justice. These results suggest that legal transplantation may have led to an inefficiently high level of procedural formalism, particularly in developing countries.

Donaldson, John B.

TI Junior Must Pay: Pricing the Implicit Put in Privatizing Social Security. AU Constantinides, George M.; Donaldson, John B.; Mehra, Rajnish.

Dore, Ousmane

PD June 2002. TI Experience with Budgetary Convergence in the WAEMU. AU Dore, Ousmane; Masson, Paul R. AA IMF. SR International Monetary Fund Working Paper: WP/02/108; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 20. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE B22, C12, C13, E62. KW Fiscal Policy. Convergence. Integration.

AB This paper reviews the experience of fiscal adjustment undertaken in the West African Economic and Monetary Union (WAEMU) countries since the entry into force of the 1994 treaty establishing the framework for a regional convergence of national fiscal policies. We propose a measure of the structural deficit that corrects for movements of both the business cycle and terms of trade. Though the fiscal deficit worsened in 1998-2001 in some countries because of terms of trade deterioration and unfavorable movements in the business cycle, convergence stalled even when corrected for these factors. Meeting fiscal deficit targets in the future will be facilitated by a favorable external environment but, in any case, will require a higher revenue ratio and downward pressure on government wages as shares of GDP.

Dos Santos-Ferreira, Rodolphe

TI Competition for Market Share or for Market Size: Oligopolistic Equilibria with Varying Competitive Toughness. AU D'Aspremont, Claude; Dos Santos-Ferreira, Rodolphe; Gerard-Varet, Louis-Andre.

TI Competition for Market Share or for Market Size: Oligopolistic Equilibria with Varying Competitive Toughness. AU D'Aspremont, Claude; Dos Santos-Ferreira, Rodolphe; Gerard-Varet, Louis-Andre.

Dow, James

PD April 2002. TI Active Agents, Passive Principals: Does High-Powered CEO Compensation Really Improve

Incentives? AU Dow, James; Raposo, Clara. AA Dow: London Business School and CEPR. Raposo: ISCTE. SR CEPR Discussion Paper: 3309; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D82, G32, G34, J33. KW Agency Theory. Executive Compensation. Free-Cash-Flow Theory. Strategic Complexity.

AB In this paper we use agency theory to study the active role of the CEO in the formulation of corporate strategy. We allow the agent (CEO) to play a role in defining the parameters of the agency problem, in an incomplete contracting model in which the agent can be rewarded based only on financial performance. Contracts can be renegotiated depending on the proposed strategy. We argue that CEOs will have an incentive to propose difficult, ambitious strategies for change. The principal (the shareholders) can mitigate this by pre-committing to pay high compensation regardless of the manager's chosen strategy, and will prefer to do so in times of change. In a less changeable environment, they will prefer to wait and see what strategy is chosen before setting compensation. In some circumstances, they will also prefer, if possible, to pre-commit never to pay high compensation.

Doyle, Brian M.

TI New Keynesian, Open-Economy Models and Their Implications for Monetary Policy. AU Bowman, David; Doyle, Brian M.

Dreze, Jacques H.

TI Imperfect Competition a la Negishi, also with Fixed Costs. AU Dehez, Pierre; Dreze, Jacques H.; Suzuki, Takashi.

Duarte, Jefferson

TI Nonparametric Option Pricing Under Shape Restrictions. AU Ait-Sahalia, Yacine; Duarte, Jefferson.

Dubay, Lisa

TI Medicaid Managed Care and Infant Health: A National Evaluation. AU Kaestner, Robert; Dubay, Lisa; Kenney, Genevieve.

Dubey, Pradeep

PD December 2002. TI Monetary Equilibrium with Missing Markets. AU Dubey, Pradeep; Geanakoplos, John. AA Dubey: SUNY. Geanakoplos: Yale University. SR Yale Cowles Foundation Discussion Paper: 1389; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 36. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D52, E41. KW Bank. Money. Monetary Equilibrium. Incomplete Markets. Inside Money. Outside Money. Liquidity Trap.

AB We consider a two-period model with missing assets and missing market links, in which money plays a central role and is linked to every instrument in the economy. If there are enough missing market links relative to the ratio of outside to inside money, then a monetary equilibrium (ME) exists and money has positive value. The nonexistence of General Equilibrium with Incomplete Asset Markets (GEI) shows up as a liquidity trap in terms of ME. In sharp contrast to GEI, the

ME are generally determinate not only in terms of real, but also financial, variables.

Dufo, Esther

TI How Much Should We Trust Differences-in-Differences Estimates? **AU** Bertrand, Marianne; Dufo, Esther; Mullainathan, Sendhil.

PD April 2002. **TI** The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment. **AU** Dufo, Esther; Saez, Emmanuel. **AA** Dufo: MIT and NBER. Saez: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8885; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D83, I22. **KW** Tax Deferred Account. Retirement Planning.

AB This paper analyzes a randomized experiment to shed light on the role of information and social interactions in employees' decisions to enroll in a Tax Deferred Account (TDA) retirement plan within a large university. The experiment encouraged a random sample of employees in a subset of departments to attend a benefits information fair organized by the university, by promising a monetary reward for attendance. The experiment more than tripled the attendance rate of these treated individuals (relative to controls), and doubled that of untreated individuals within departments where some individuals were treated. TDA enrollment 5 and 11 months after the fair was significantly higher in departments where some individuals were treated than in departments where nobody was treated. However, the effect on TDA enrollment is almost as large for individuals in treated departments who did not receive the encouragement as for those who did. We provide three interpretations, differential treatment effects, social network effects, and motivational reward effects, to account for these results.

Duncan, Alan

PD May 2000. **TI** A Recursive Algorithm to Generate Piecewise Linear Budget Constraints. **AU** Duncan, Alan; Stark, Graham. **AA** Duncan: University of Nottingham and IFS. Stark: IFS. **SR** Institute for Fiscal Studies Working Paper: W00/11; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. **PG** 19. **PR** free from website; 3 pounds for hardcopies. **JE** C65, H20. **KW** Microsimulation. Tax Rates. Recursive Algorithm.

AB This paper introduces a recursive algorithm with which to generate complete and accurate budget constraints using static microsimulation models. We describe the genetic algorithm, and discuss an extension by which reasons for any change in the marginal effective tax rate may be explained. We derive continuous expressions for average tax rate (ATR), average marginal tax rate (AMTR), replacement rate (RR) and marginal effective tax rate (METR) schedules, expressed solely in terms of the marginal wage rate and 'virtual' income. A practical application serves to highlight the usefulness of this algorithm in fiscal policy analysis at the micro level.

Durham, J. Benson

PD January 2003. **TI** Foreign Portfolio Investment, Foreign Bank Lending, and Economic Growth. **AA** Board of

Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 757; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 33. **PR** no charge. **JE** F36, F41, F43, O16, O19. **KW** Portfolio Investment. Economic Growth. Financial Development. Foreign Investment.

AB In contrast to the empirical literature's focus on foreign direct investment (FDI), this study examines the effects of foreign portfolio investment (FPI) and "other" foreign investment (OFI) on economic growth using data on 88 countries from 1977 through 2000. Most measures suggest that FPI has no effect, and some results indicate that OFI has a negative impact on growth that is somewhat mitigated by initial financial and/or legal development. However, these results are questionable due to possible simultaneity bias. The empirical analyses also examine whether non-FDI foreign investment affects growth indirectly. FPI does not correlate positively with macroeconomic volatility, but the results indicate that the negative indirect effect of OFI through macroeconomic volatility comprises a substantial portion of the gross negative effect of OFI on growth.

Edison, Hali J.

PD July 2002. **TI** Capital Account Liberalization and Economic Performance: Survey and Synthesis. **AU** Edison, Hali J.; Klein, Michael W.; Ricci, Luca A.; Slok, Torsten M. **AA** Edison, Ricci, and Slok: IMF. Klein: Tufts University. **SR** International Monetary Fund Working Paper: WP/02/120; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 34. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E66, O10, O40. **KW** Capital Account Liberalization. Capital Controls. Capital Flows. Financial Development. Growth.

AB This paper reviews and discusses issues involved in assessing the relationship between capital account liberalization and economic performance. First, it discusses the different measures of restrictions used in the literature. Second, it reviews the literature on the relationship between growth and capital account liberalization. Finally, it identifies and explains some of the differences in the results of the various studies and provides some support for a positive effect of capital account liberalization on growth, especially for developing countries.

PD August 2002. **TI** International Financial Integration and Economic Growth. **AU** Edison, Hali J.; Levine, Ross; Ricci, Luca A.; Slok, Torsten M. **AA** Edison and Ricci: IMF. Levine: University of Minnesota. Slok: Bank of America. **SR** International Monetary Fund Working Paper: WP/02/145; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 26. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F30, O16, O40. **KW** International Finance. Economic Growth. Foreign Direct Investment. Portfolio Investment. Developing Countries.

AB This paper uses new data and new econometric techniques to investigate the impact of international financial integration on economic growth and also to assess whether this relationship depends on the level of economic development.

financial development, legal system development, government corruption, and macroeconomic policies. Using a wide array of measures of international financial integration on 57 countries and an assortment of statistical methodologies, we are unable to reject the null hypothesis that international financial integration does not accelerate economic growth even when controlling for particular economic, financial, institutional, and policy characteristics.

Edwards, Alejandra Cox

TI Social Security Privatization Reform and Labor Markets: The Case of Chile. **AU** Edwards, Sebastian; Edwards, Alejandra Cox.

Edwards, Sebastian

PD May 2002. **TI** Social Security Privatization Reform and Labor Markets: The Case of Chile. **AU** Edwards, Sebastian; Edwards, Alejandra Cox. **AA** Edwards, S.: UCLA and NBER. Edwards, A.: California State University, Long Beach. **SR** National Bureau of Economic Research Working Paper: 8924; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H55, J30, P50. **KW** Social Security. Privatization. Chile. Labor Markets. Emerging Markets.

AB We analyze the way in which social security privatization reform affects labor market outcomes. We develop a model of the labor market where we assume that, as is the case in most emerging markets, a formal and an informal sector coexist side by side. According to our model, a social security reform that reduces the implicit tax on labor in the formal sector, will result in an increase in the wage rate in the informal sector and will have an undetermined effect on aggregate unemployment. Results from simulation exercises suggest that in the case of Chile the reforms resulted in an increase in informal sector wages of approximately 2.0%. These results also suggest that the reforms made a positive, but small, contribution to the reduction of Chile's aggregate unemployment.

PD May 2002. **TI** Debt Relief and Fiscal Sustainability. **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8939; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F30, F34, F35. **KW** Debt Relief. Fiscal Policy. Public Sector.

AB This paper analyzes the relationship between fiscal policy, aggregate public sector debt sustainability, and debt relief. This paper develops a methodology to compute the fiscal policy path that is compatible with aggregate debt sustainability in the post-HIPC era. The model explicitly considers the role of domestic debt, and quantifies the extent to which future debt sustainability depends on the availability of concessional loans at subsidized interest rates. The working of the model is illustrated for the case of Nicaragua, a country that in 2002 had one of the highest net present value of public external debt to GDP ratios.

Egoume-Bossogo, Philippe

PD September 2002. **TI** Trade and Integration in the Caribbean. **AU** Egoume-Bossogo, Philippe; Mendis, Chandima. **AA** IMF. **SR** International Monetary Fund

Working Paper: WP/02/148; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 23. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** F11, F13, F15. **KW** Trade. Integration. Caribbean. Gravity Model.

AB This paper analyzes trade in the Caribbean community (CARICOM) using a gravity model framework. The paper seeks to shed light on the dynamics of trade among CARICOM member countries, as well with the rest of the world over 1980-99. Overall, the results show that intra-CARICOM trade has increased, suggesting that further regional integration is desirable. At the same time, CARICOM's trade with the rest of the world has risen as well, fueled notably by the reduction of the arrangement's common external tariff and despite the negative impact of the declining preferential access to EU markets for banana. In contrast, WTO membership does not appear to have had a positive impact on trade. Overall, it appears that trade liberalization is consistent with greater CARICOM trade integration.

Ehrenberg, Ronald G.

TI Collective Bargaining and Staff Salaries in American Colleges and Universities. **AU** Klaff, Daniel B.; Ehrenberg, Ronald G.

PD June 2002. **TI** Studying Ourselves: The Academic Labor Market. **AA** Cornell University and NBER. **SR** National Bureau of Economic Research Working Paper: 8965; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I20, J40. **KW** Academics. Labor Market. Faculty Wages.

AB This paper addresses three academic labor market issues; the declining salaries of faculty employed at public colleges and universities relative to their private institution counterparts, the growing dispersion of average faculty salaries across academic institutions within both the public and private sectors, and the impacts of the growing importance and costs of science on the academic labor market and universities. The decline in the salaries of faculty in public institutions relative to their private sector counterparts is attributed primarily to private institutions' tuition levels rising by more in real terms than public institutions' tuition levels. The growing dispersion in average faculty salaries across institutions within each sector is attributed primarily to the growing dispersion of endowment per student levels across private institutions and the growing dispersion of state appropriations per student across public institutions. Finally, controlling for other factors, those universities whose real research expenditures per faculty from institutional funds are growing the most experience the greatest increase in their student/faculty ratio, other variables held constant.

Ellig, Jerry

TI How Many Bottles Make a Case Against Prohibition? Online Wine and Virginia's Direct Shipment Ban. **AU** Wiseman, Alan E.; Ellig, Jerry.

Elliott, Jennifer

PD July 2002. **TI** Demutualization of Securities Exchanges: A Regulatory Perspective. **AA** IMF. **SR** International Monetary Fund Working Paper:

WP/02/119; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 28. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE G28, K22. KW Securities Regulation. Stock Exchanges.

AB "Demutualization" is a term used to describe the transition of a securities exchange from a mutual association of exchange members operating on a not-for-profit basis to a limited liability, for-profit company accountable to shareholders. Demutualization in its many forms has become a widespread phenomenon -- one with increasing appeal in emerging market countries. Demutualization challenges the traditional approach to supervision of securities exchanges and raises issues regarding their role in the regulation and supervision of capital markets.

Ely, Jeffrey C.

PD May 2002. TI Bad Reputation. AU Ely, Jeffrey C.; Valimaki, Juuso. AA Ely: Northwestern University. Valimaki: University of Southampton. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1348; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 27. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, D82. KW Reputation. Private Information. Principal-Agent Model.

AB We present a model of reputation formation where a long-run agent faces a sequence of short-run principals. In contrast to the earlier literature, we show that private information on the payoffs of the long-run player decreases the payoffs of all players in the game. We show that the inefficiency in the model arises due to an informational externality between the short-run players by constructing an efficient equilibrium in the game between a long-run principal and a long-run agent.

PD October 2002. TI When is Reputation Bad? AU Ely, Jeffrey C.; Fudenberg, Drew; Levine, David. AA Ely: Northwestern University. Fudenberg: Harvard University. Levine: UCLA. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1358; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 53. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, C73. KW Reputation. Stackelberg Type.

AB In traditional reputation theory, reputation is good for the long-run player. In "Bad Reputation," Ely and Valimaki give an example in which reputation is unambiguously bad. This paper characterizes a more general class of games in which that insight holds, and presents some examples to illustrate when the bad reputation effect does and does not play a role. The key properties are that participation is optional for the short-run players, and that every action of the long-run player that makes the short-run players want to participate has a chance of being interpreted as a signal that the long-run player is "bad." We also broaden the set of commitment types, allowing many types, including the "Stackelberg type" used to prove positive results

on reputation. Although reputation need not be bad if the probability of the Stackelberg type is too high, the relative probability of the Stackelberg type can be high when all commitment types are unlikely.

TI Foundations of Dominant Strategy Mechanisms. AU Chung, Kim-Sau; Ely, Jeffrey C.

PD March 1996. TI Local Conventions. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1349; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 14. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, C73. KW Locational Model. Strategy Revision.

AB It is shown that player mobility has important consequences for the long-run equilibrium distribution in dynamic evolutionary models of strategy adjustment, when updating is prone to small probability perturbations, i.e. "mistakes" or "mutations." Ellison (1993) concluded that the effect on the matching process of localized "neighborhoods" was to strengthen the stability of risk-dominant outcomes, originally demonstrated by Kandori, Mailath, and Rob (1993) and Young (1993). I consider a model in which players can choose the neighborhoods to which they belong. When strategies and locations are updated simultaneously, only efficient strategies survive and risk-dominance plays no special role. The robustness of this conclusion is emphasized in a general locational model in which strategy revision opportunities are allowed to arrive at a faster rate than opportunities to change locations. The efficient strategy persists in all cases in which the locational structure is non-trivial. Moreover, even as revision rates become arbitrarily larger than mobility rates, the efficient strategy occurs with boundedly positive relative frequency. This demonstrates that the fixed location models of KMR, Young, and Ellison are not close approximations when players have any degree of mobility, however limited.

Engel, Charles

TI Exchange Rate Pass-Through, Exchange Rate Volatility, and Exchange Rate Disconnect. AU Devereux, Michael B.; Engel, Charles.

Engel, Eduardo

PD February 2002. TI Highway Franchising and Real Estate Values. AU Engel, Eduardo; Fischer, Ronald; Galetovic, Alexander. AA Engel: Yale University and NBER. Fischer and Galetovic: University of Chile. SR National Bureau of Economic Research Working Paper: 8803; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 18. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D44, H41, H42, H54, R42, R48. KW Highway Tolls. Auctions. Welfare.

AB It has become increasingly common to allocate highway franchises to the bidder that offers to charge the lowest toll. Often, building a highway increases the value of land held by a small group of developers, an effect that is more pronounced with lower tolls. We study the welfare implications of highway

franchises that benefit large developers, focusing on the incentives developers have to internalize the effect of the toll they bid on the value of their land. We study how participation by developers in the auction affects equilibrium tolls and welfare. We find that large developers bid more aggressively than construction companies that own no land. As long as land ownership is sufficiently concentrated, allowing developers in the auction leads to lower tolls and higher welfare. Moreover, collusion among developers is socially desirable. We also analyze the case when the franchise holder can charge lower tolls to those buying her land ("toll discrimination"). Relative to uniform tolls, discrimination decreases welfare when land is highly concentrated, but increases welfare otherwise. Finally, we consider the welfare implications of subsidies and bonuses for proposing new highway projects.

PD April 2002. **TI** Competition in or for the Field: Which is Better? **AU** Engel, Eduardo; Fischer, Ronald; Galetovic, Alexander. **AA** Engel: Yale University and NBER. Fischer and Galetovic: University of Chile. **SR** National Bureau of Economic Research Working Paper: 8869; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 14. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D44, L12, L92. **KW** Demsetz Auction. Procurement. Competition for the Field. Competition in the Field.

AB In many circumstances, a principal, who wants prices to be as low as possible, must contract with agents who would like to charge the monopoly price. This paper compares a Demsetz auction, which awards an exclusive contract to the agent bidding the lowest price (competition for the field) with having two agents provide the good under (imperfectly) competitive conditions (competition in the field). We obtain a simple sufficient condition showing unambiguously which option is best. The condition depends only on the shapes of the surplus function of the principal and the profit function of agents, and is independent of the particular duopoly game played *ex post*. We apply this condition to three canonical examples -- procurement, royalty contracts, and dealerships -- and find that whenever marginal revenue for the final good is decreasing in the quantity sold, a Demsetz auction is best. Moreover, a planner who wants to maximize social surplus also prefers a Demsetz auction.

Engelhardt, Gary V.

PD April 2002. **TI** Social Security and Elderly Living Arrangements. **AU** Engelhardt, Gary V.; Gruber, Jonathan; Perry, Cynthia D. **AA** Engelhardt: Syracuse University. Gruber: MIT and NBER. Perry: MIT. **SR** National Bureau of Economic Research Working Paper: 8911; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H31, H55, J14. **KW** Social Security. Benefits. Economics of Elderly.

AB One of the most important economic decisions facing the elderly, and their families, is whether to live independently. A number of previous studies suggest that widows are fairly responsive to Social Security benefits in deciding whether to live independently. But these previous studies have either generally relied on differences in benefits across families or cohorts, which are potentially correlated with other determinants of living arrangements, or have used data from the distant past. We propose a new approach that relies on the large

exogenous shifts in benefits generosity for cohorts born in the 1910-1921 period, and we study the impact of this change in living arrangements in the 1980s and 1990s. In this period, benefits rose quickly, due to double-indexing of the benefit formula, and then fell dramatically, as this double-indexing was corrected over a five-year period. Using these legislative changes in benefits, the living arrangements of widows are much more sensitive to Social Security income than implied by previous studies. Overall, our findings suggest that living arrangements are elastically demanded by non-married elderly, privacy is a normal good, and that reductions in benefits would significantly alter the living arrangements of the elderly.

Engsted, Tom

TI Long-Run Forecasting in Multicointegrated Systems. **AU** Siliverstovs, Boriss; Engsted, Tom; Haldrup, Niels.

Epstein, Gil S.

PD March 2002. **TI** Informational Cascades and Decision to Migrate. **AA** Bar-Ilan University and CEPR. **SR** CEPR Discussion Paper: 3287; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F22, J61. **KW** Migration. Informational Cascades. Herd Behavior. Xenophobia. Network-Externalities. **AB** We introduce the idea that informational cascades can explain the observed regularity that emigrants from the same locations also tend to choose the same foreign locations. Thus informational cascades generates herd behavior. Herd behavior is compared with the network externalities explanation of the same phenomenon. The relation between social tensions and herd behavior is observed when local populations are xenophobic.

Eraker, Bjorn

PD August 2001. **TI** Do Stock Prices and Volatility Jump? Reconciling Evidence from Spot and Option Prices. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/23; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 49. **PR** no charge. **JE** C11, C15, G12. **KW** Jump-Diffusion. Stochastic Volatility. Jump in Volatility. Affine Models. Markov Chain Monte Carlo.

AB This paper studies the empirical performance of jump-diffusion models that allow for stochastic volatility and correlated jumps affecting both prices and volatility. The results show that the models in question provide reasonable fit to both option prices and returns data in the in-sample estimation period. This contrasts with previous findings where stochastic volatility paths are found to be too smooth relative to the option implied dynamics. While the models perform well during the high volatility estimation period, they tend to overprice long dated contracts out-of-sample. This evidence points towards a too simplistic specification of the mean dynamics of volatility.

Eriksson, Rickard

TI Price Discrimination in Oligopoly: Evidence from Swedish Newspapers. **AU** Asplund, Marcus; Eriksson, Rickard; Strand, Niklas.

Eskeland, Gunnar A.

PD April 2002. **TI** Moving to Greener Pastures?

Multinationals and the Pollution Haven Hypothesis. AU Eskeland, Gunnar A.; Harrison, Ann E. AA Eskeland: World Bank. Harrison: University of California, Berkeley. SR National Bureau of Economic Research Working Paper: 8888; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F23, Q52, Q53, Q56. KW Pollution Haven Hypothesis. Multinationals.

AB This paper presents evidence on whether multinationals are flocking to developing country "pollution havens". Although we find some evidence that foreign investors locate in sectors with high levels of air pollution, the evidence is weak at best. We then examine whether foreign firms pollute less than their peers. We find that foreign plants are significantly more energy efficient and use cleaner types of energy. We conclude with an analysis of US outbound investment. Although the pattern of US foreign investment is skewed towards industries with high costs of pollution abatement, the results are not robust across specifications.

Eso, Peter

PD July 2002. TI Designing Optimal Benefit Rules for Flexible Retirement. AU Eso, Peter; Simonovits, Andras. AA Eso: Northwestern University. Simonovits: Hungarian Academy of Sciences, CEU, and Budapest University of Technology and Business. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1353; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 17. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE D82, D91, H55. KW Flexible Retirement. Asymmetric Information. Actuarial Fairness. Mechanism Design.

AB This paper applies the techniques of mechanism design to find an optimal nonlinear pension benefit rule for flexible old-age retirement. We assume that individuals have private information regarding their expected lifespans. The government's goal is to design a pension system (a payroll tax and a function relating benefits to employment length), which maximizes a social welfare function and satisfies a social budget constraint. Since individuals with different expected lifespans optimize their employment lengths conditional on the benefit function, the government must also take into account incentive constraints. We characterize the solution to this problem for various social welfare functions. Under utilitarianism, the solution is a completely inflexible system, where all individuals retire at the same age with the same (yearly) benefits; and, surprisingly, the first-best (complete information) aggregate welfare is attained. If the social welfare function is strictly concave, then individuals with shorter expected lifespans retire earlier with benefits lower than those in the first-best. In the optimal pension system, individuals with shorter expected lifespans subsidize those who expect to live longer. We also compute the optimal benefit rule for several specifications with CRRA utility functions and realistic parameter values, and discuss the numerical results.

PD October 2002. TI Bribing and Signalling in Second Price Auctions. AU Eso, Peter; Schummer, James. AA Northwestern University. SR Northwestern

University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1357; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 46. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, D44, D82. KW Second-Price Auction. Collusion. Bribing. Signaling.

AB We examine whether a two-bidder, second-price auction for a single good (with private, independent values) is immune to a simple form of collusion, where one bidder may bribe the other to commit to not participate in the auction (i.e., submit a bid of zero). First, we consider a situation in which only a bribe of a fixed size may be offered. There are precisely two equilibria in this extended game: a "bribing" and a "no-bribing" equilibrium. While the bribing equilibrium is naturally stable, the no-bribing equilibrium is shown to fail several standard refinements on out-of-equilibrium beliefs. Second, we consider the case in which bribes of any size may be offered. Robust equilibria in this situation involve low briber-types revealing themselves through the amount they offer, while high types "pool" by offering the same bribe. Only one such equilibrium involves a continuous offer strategy. Bribing equilibria in all cases lead to inefficiency.

PD December 2002. TI Optimal Information Disclosure in Auctions: The Handicap Auction. AU Eso, Peter; Szentes, Balazs. AA Eso: Northwestern University. Szentes: University of Chicago. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1361; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 23. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, D44, D82, D83. KW Optimal Auction. Private Values. Information Disclosure.

AB We analyze the situation where a monopolist is selling an indivisible good to risk neutral buyers who only have an initial estimate of their private valuations. The seller can release (but cannot observe) signals, which refine the buyers' estimates. We show that in the expected revenue maximizing mechanism, the seller allows the buyers to learn their valuations with the highest possible precision, and her expected revenue is the same as if she could observe the additional signals. We also show that this mechanism can be implemented by what we call a "handicap auction." In the first round of this auction, each buyer privately buys a price premium from a menu published by the seller (a smaller premium costs more), then the seller releases the additional signals. In the second round, the buyers play a second-price auction, where the winner pays the sum of his premium and the second highest non-negative bid.

PD April 2003. TI The One Who Controls the Information Appropriates Its Rent. AU Eso, Peter; Szentes, Balazs. AA Eso: Northwestern University. Szentes: University of Chicago. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1369; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 25. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make

check payable to Northwestern University. **JE** C72, D82, D83. **KW** Adverse Selection. Information Disclosure. Mechanism Design.

AB We analyze a Principal-Agent model where the Principal can influence the precision of the Agent's private information by releasing, without observing, additional signals that refine the Agent's initial private type-estimate. We derive the Principal's optimal contract, whose terms incorporate an information disclosure policy, and characterize its properties. We show that in the optimal contract, the Principal always releases the information that she controls. Moreover, we show that the Principal is able to implement the same allocation and obtain the same utility as if she could observe the realizations of the additional signals.

Estevadeordal, Antoni

PD March 2002. **TI** Testing Trade Theory in Ohlin's Time. **AU** Estevadeordal, Antoni; Taylor, Alan M. **AA** Estevadeordal: Inter-American Development Bank. Taylor: University of California, Davis and NBER. **SR** National Bureau of Economic Research Working Paper: 8842; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F11, N70. **KW** Heckscher-Ohlin-Vanek Model. Missing Trade. Leontief Paradox.

AB An empirical tradition in international trade seeks to establish whether the predictions of factor abundance theory match present-day data. In the analysis of goods trade and factor endowments, mildly encouraging results were found by Leamer et al. However, since the appearance of Leontief's paradox, the measured factor content of trade has always been found to be far smaller than its predicted magnitude in the Heckscher-Ohlin-Vanek framework, the so-called "missing trade" mystery. We wonder if this problem was there in the theory from the beginning. This seems like a fairer test of its creators' original enterprise. We apply contemporary tests to historical data on goods and factor trade from Ohlin's time. Our analysis is set in a very different context than contemporary studies -- an era with lower trade barriers, higher transport costs, a more skewed global distribution of the relevant factors (especially land), and comparably large productivity divergence. We find some support for the theory, but also encounter common problems. Our work thus complements the tests applied to today's data and informs our search for improved models of trade.

Estevao, Marcello

PD August 2002. **TI** Regional Labor Market Disparities in Belgium. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/134; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 12. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E24, J23, J60. **KW** Geography. Labor. Labor Market Dynamics. Divergences.

AB Regional labor market discrepancies have been widening in Belgium in the last two decades and are more evident within particular demographic groups. These developments can largely be accounted for by worse matching of people to jobs in the high-unemployment provinces. Using a structural VAR, it is also shown that labor market dynamics in Belgium produce a

strong attenuating effect on employment growth, in contrast to the United States where initial labor demand shocks are expanded in the long run. After the short run adjustment is over, there is less labor migration in Belgium than in the United States or Europe, corroborating the perception that Belgians move "too little."

PD September 2002. **TI** Wage Moderation in France. **AU** Estevao, Marcello; Nargis, Nigar. **AA** Estevao: IMF. Nargis: Cornell University. **SR** International Monetary Fund Working Paper: WP/02/151; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 24. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** D20, E20, J23. **KW** Employment. Wages. Bargaining. Structural Change. Labor Market.

AB Using household level data for France from 1990 to 2000, we estimate a relationship between wages and unemployment taking into account compositional, time and regional effects. We show that this relationship shifted outward during the 1990's most likely because of a structural change in worker' behavior, i.e. "wage moderation." The outward shift was particularly large between 1996 and 2000 and undoubtedly contributed strongly to the exceptional employment performance during that period.

Fabrizio, Stefania

TI Lithuania: History and Future of the Currency Board Arrangement. **AU** Alonso-Gamo, Patricia; Fabrizio, Stefania; Kramarenko, Vitali; Wang, Qing.

Fahr, John

TI Medicaid Managed Care: Effects on Children's Medicaid Coverage and Utilization. **AU** Currie, Janet; Fahr, John.

Fair, Ray C.

PD September 2002. **TI** Comparing the Predictive Information Content of College Football Rankings. **AU** Fair, Ray C.; Oster, John F. **AA** Fair: Yale University. Oster: Choate Rosemary Hall. **SR** Yale Cowles Foundation Discussion Paper: 1381; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 19. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C52. **KW** Football Rankings. Predictive Information.

AB The method in Fair and Shiller (1990) is used in this paper to compare the predictive information content of various college football ranking systems. The results show that a number of systems have useful independent information. Optimal weights for the systems are estimated, and the use of these weights produces a predictive system that is more accurate than any of the individual systems. The results also provide a fairly precise estimate of the size of the home field advantage.

PD September 2002. **TI** Risk Aversion and Stock Prices. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1382; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 18. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D12, D14, G12. **KW** Risk Aversion. Stock Prices.

AB This paper uses data on companies that have been in the S&P 500 index since 1957 to examine whether risk aversion has decreased since 1995. The evidence suggests that it has not. There is no evidence that more risky companies have had larger increases in their price-earnings since 1995 than less risky companies.

PD December 2002. **TI** Testing for a New Economy in the 1990s. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1388; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 26. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C52, E10. **KW** New Economy. Stability Tests.

AB This paper examines how much structural change there was in the U.S. economy in the last half of the 1990s. The results are consistent with the hypothesis that there was only one major structural change, namely the huge increase in stock prices relative to earnings. All other large changes can be explained by this change. There is no obvious reason for the large increase in stock prices relative to earnings. Increased productivity growth does not appear to be an answer since the data show that there was only a modest increase in long run productivity growth in the last half of the 1990s. Also, earnings growth and the share of earnings in the economy were not unusually large.

Falk, Armin

TI Contractual Incompleteness and the Nature of Market Interactions. **AU** Brown, Martin; Falk, Armin; Fehr, Ernst.

Fan, Hua

PD March 1999. **TI** Debt Valuation, Renegotiations, and Optimal Dividend Policy. **AU** Fan, Hua; Sundaresan, Suresh M. **AA** Columbia University. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/05; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 40. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** C72, G32. **KW** Bond covenants. Debtholders. Equityholders.

AB The valuation of debt and equity, reorganization boundaries and firm's optimal dividend policies are studied in a framework where we model strategic interactions between debtholders and equityholders in a game-theoretic setting which can accommodate varying bargaining powers to the two claimants. Two formulations of reorganization are presented: debt-equity swaps and strategic debt service resulting from negotiated debt service reductions. Bond covenants lead to more conservative dividend policies which benefit both claimants via lowered expected cost of liquidation. We derive optimal equity issuance and dividend policies. The debt capacity of the firm and the optimal capital structure are characterized.

Farmer, Roger E. A.

PD March 2002. **TI** A Two-Country Model of Endogenous Growth. **AU** Farmer, Roger E. A.; Lahiri, Amartya. **AA** Farmer: UCLA and CEPR. Lahiri: UCLA. **SR** CEPR Discussion Paper: 3245; Centre for Economic

Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F21, F41. **KW** Endogenous Growth. Open Economy.

AB In this paper we study the competitive equilibria of a two-country endogenous growth model in which the source of growth is the linearity of technology in reproducible inputs. We begin by showing that in a model with no externalities there is a unique equilibrium; however, there are multiple ways in which the social planner can allocate production plans across countries. We then introduce an externality to human capital and we show that the model has multiple equilibria that can be Pareto-ranked. In many of these equilibria there are perfectly foreseen discrete reallocations of capital from one country to another, accompanied by discrete jumps in growth rates.

PD March 2002. **TI** Economic Growth in an Interdependent World Economy. **AU** Farmer, Roger E. A.; Lahiri, Amartya. **AA** Farmer: UCLA and CEPR. Lahiri: UCLA. **SR** CEPR Discussion Paper: 3250; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F43, O16, O41. **KW** Endogenous Growth. Interdependent World Economy.

AB We outline six facts that should be explained by an international growth model: 1) Conditional convergence; 2) cross-country dispersion of growth rates; 3) cross-country dispersion of per capita income levels; 4) cross-country dispersion of savings rates; 5) within country correlation of savings and investment and 6) cross-country equality of real rates of interest. We argue that the neoclassical model performs poorly in several dimensions and we provide an alternative two-sector endogenous growth model based on the work of Lucas and Romer that can account for all of our stylized facts. Our model accounts for the observation that poor countries grow faster than rich ones (fact number 1) as a consequence of the transitional dynamics of the ratio of physical to human capital. We show that opening capital mobility across countries does not necessarily equate the physical to human capital ratios across countries despite the resultant equalization of factor prices.

Fatas, Antonio

PD March 2002. **TI** The Case for Restricting Fiscal Policy Discretion. **AU** Fatas, Antonio; Mihov, Ilian. **AA** Fatas: INSEAD and CEPR. Mihov: INSEAD. **SR** CEPR Discussion Paper: 3277; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E32, E62. **KW** Fiscal Policy. Business Cycle Volatility. Political Constraints. Economic Growth.

AB This paper studies how discretionary fiscal policy affects output volatility and the rate of economic growth. Using data on fifty-one countries we isolate five empirical regularities: (1) Governments that use fiscal policy often make their economies volatile; (2) The use of fiscal policy is explained to a large extent by the presence of political constraints and other political and institutional variables; (3) The volatility of output induced by discretionary fiscal policy lowers economic growth by 0.6 percentage points for every percentage point increase in

volatility; (4) There is evidence that the increase in volatility is in part due to electoral cycles; nevertheless, we do find that political constraints restrain fiscal policy beyond their impact on the traditional election-year volatility; (5) Rules-based fiscal policy identified by the degree of automatic stabilizers in the economy helps to stabilize business cycles. The evidence in the paper argues in favor of imposing institutional restrictions on governments as a way of reducing output volatility and increasing the rate of economic growth.

Feddersen, Tim

TI Deliberation and Voting Rules. AU Austen-Smith, David; Feddersen, Tim.

TI The Inferiority of Deliberation under Unanimity Rule. AU Austen-Smith, David; Feddersen, Tim.

Fehr, Ernst

TI Contractual Incompleteness and the Nature of Market Interactions. AU Brown, Martin; Falk, Armin; Fehr, Ernst.

Feldstein, Martin

PD March 2002. TI Economic and Financial Crises in Emerging Market Economies: Overview of Prevention and Management. AA NBER. SR National Bureau of Economic Research Working Paper: 8837; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F31, F32, F33, F34, F36, F41, O11. KW Currency Crises. Financial Crises. Emerging Markets. IMF. Financial Architecture.

AB This is the introductory chapter to an NBER conference volume that examined the lessons to be drawn from the financial and currency crises of the late 1990s. The first part of the paper deals with policies of the emerging market economies that affect the likelihood of crises, including exchange rate regimes, capital account convertibility, foreign exchange liabilities and reserves, domestic credit structure, and financial supervision. The paper then considers policies of industrial countries that affect the risk of crises in emerging market economies, including exchange rate instability, interest rates, banking supervision, trade policy, and the provision of a lender of last resort facility. The second half of the paper deals with the way that the crises were managed by the IMF and attempts to answer the following questions: (1) Have the crises been resolved? (2) Did the IMF stabilization policies resolve the crisis with as little economic pain as possible? (3) Did the agreed structural reforms actually occur? (4) How did the experience of the crisis countries affect the incentives of lenders, borrowers, and countries facing crises in the future? (5) Were the actions of the IMF politically legitimate? (6) What were the political consequences of the crises?.

Felli, Leonardo

TI Unforeseen Contingencies. AU Al-Najjar, Nabil I.; Anderlini, Luca; Felli, Leonardo.

TI Undescribable Contingencies. AU Al-Najjar, Nabil I.; Anderlini, Luca; Felli, Leonardo.

Femminis, Gianluca

PD April 2002. TI Currency Attacks with Multiple Equilibria and Imperfect Information: The Role of Wage-

Setters. AA Universita Cattolica del Sacro Cuore, Milano and CEPR. SR CEPR Discussion Paper: 3291; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE F31, F41. KW Currency Attacks. Fixed Exchange Rate. Multiple Equilibria. Asymmetric Information.

AB We consider a dynamic stochastic model of currency attacks, characterized by imperfect information about the fundamentals. Agents, who imperfectly know the state of the economy, not only decide whether to attack the peg, but also form expectations about the probability of future devaluation. The subjective devaluation probabilities influence inflation expectations which in turn affect the second period wage level and, hence, unemployment. In this way, first period expectations affect the second period fundamentals and hence the policymaker's ability to resist to an attack. We show that equilibrium expectations may be either "optimistic" or "pessimistic". Optimistic (pessimistic) expectations involve a currency attack equilibrium characterized by a low (high) probability of devaluation. This results from agents deciding upon next period's wages having observed whether or not the current period currency attack has been successful. This publicly available information is sufficient to allow for a coordination effect among agents.

Figuières, Charles

PD January 2003. TI On the Core of an Economy with Multilateral and Multidimensional Environmental Externalities. AU Figuières, Charles; Verdonck, Magali. AA Figuières: University of Bristol. Verdonck: Université Catholique de Louvain. SR CORE Discussion Paper: 2003/04; CORE/Stat Library, Center for Operations Research and Econometrics, Université Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 8. PR \$5 per paper; \$100 per year. JE D62, D74. KW International Pollution. Nash Equilibrium. Partial Agreement. International Transfers. ?-Core.

AB For simple economic models of transfrontier pollution, Chander and Tulkens (1995) and (1997) have offered a formula for transfers to sustain international cooperation on a voluntary basis and which deter coalitional free-riding under some reasonable assumptions about the behaviors of countries not in the coalition. Their scheme rests on the assumption that pollution is a scalar. Relaxing this assumption, interesting interactions among pollutants arise that call for a new formula. In this paper we extend Chander and Tulkens formula to this more realistic multidimensional context and thereby enhance the practical and theoretical relevance of their seminal analysis.

Finkelstein, Amy

PD May 2002. TI Minimum Standards and Insurance Regulation: Evidence from the Medigap Market. AA NBER. SR National Bureau of Economic Research Working Paper: 8917; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 37. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H51, I11, I18. KW Regulation. Insurance. Health. Adverse Selection. Minimum Standards.

AB This paper examines the consequences of imposing binding minimum standards on the market for voluntary private

health insurance for the elderly. Theoretically, the effect of these standards on insurance coverage and on welfare is ambiguous. This paper finds robust evidence of a substantial decline in insurance associated with the minimum standards. The central estimates suggest that the standards are associated with an 8 percentage point (25 percent) decrease in the proportion of the population with coverage in the affected market; this paper finds no evidence of substitution to other, unregulated sources of insurance coverage. Additional evidence suggests that the minimum standards are also associated with reduced coverage of non-mandated benefits among the insured. The empirical results are most consistent with a model of the effect of minimum standards on insurance markets with adverse selection, and suggest that adverse selection exacerbates the potential for unintended negative consequences of minimum standards. The final section of the paper considers the welfare implications of the changes in risk bearing associated with the minimum standards. The results suggest that the imposition of these standards was, even under relatively conservative assumptions, welfare reducing on net.

Fischer, Ronald

TI Highway Franchising and Real Estate Values. **AU** Engel, Eduardo; Fischer, Ronald; Galetovic, Alexander.

TI Competition in or for the Field: Which is Better? **AU** Engel, Eduardo; Fischer, Ronald; Galetovic, Alexander.

Fischer, Stanley

PD May 2002. **TI** Modern Hyper- and High Inflation. **AU** Fischer, Stanley; Sahay, Ratna; Vegh, Carlos A. **AA** Fischer: Citigroup and NBER. Sahay: IMF. Vegh: UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 8930; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 34. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E31, E63, F41. **KW** Hyperinflation. Seigniorage. Fiscal Balance. Stabilization.

AB Since 1947, hyperinflations (by Cagan's definition) in market economies have been rare. Much more common have been longer inflationary processes with inflation rates above 100 percent per annum. Based on a sample of 133 countries, and using the 100 percent threshold as the basis for a definition of very high inflation episodes, this paper examines the main characteristics of such inflations. Among other things, we find that (i) close to 20 percent of countries have experienced inflation above 100 percent per annum; (ii) higher inflation tends to be more unstable; (iii) in high inflation countries, the relationship between the fiscal balance and seigniorage is strong both in the short and long-run; (iv) inflation inertia decreases as average inflation rises; (v) high inflation is associated with poor macroeconomic performance; and (vi) stabilizations from high inflation that rely on the exchange rate as the nominal anchor are expansionary.

Fishback, Price V.

PD April 2002. **TI** The Welfare of Children During the Great Depression. **AU** Fishback, Price V.; Haines, Michael R.; Kantor, Shawn. **AA** Fishback and Kantor: University of Arizona and NBER. Haines: Colgate University and NBER. **SR** National Bureau of Economic Research Working Paper: 8902; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.

PG 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I38, J11, J13, N32. **KW** Great Depression. Welfare. Relief Programs. Mortality. Fertility.

AB This paper examines the impact of New Deal relief programs on demographic outcomes in major U.S. cities during the 1930s. A five-equation structural model is estimated that tests the effect of the relief spending on infant mortality, non-infant mortality, and fertility. For 111 cities for which data on relief spending during the 1930s were available, we collected annual data that matched the relief spending to the demographic variables, socioeconomic descriptions of the cities, and retail sales, which serve as a proxy for the level of economic activity. Relief spending directly lowered infant mortality rates to the degree that changes in relief spending can explain nearly one-third of the decline in infant mortality during the 1930s. Relief spending also raised general fertility rates. Our estimates suggest that the cost of saving an infant life during this period ranged from \$2 to 4.5 million dollars (measured in year 2000 dollars). This range is similar to that found in modern studies of the effect of Medicaid and is within the range of market values of human life.

PD April 2002. **TI** Can the New Deal's Three R's Be Rehabilitated? A Program-by-Program, County-by-County Analysis. **AU** Fishback, Price V.; Kantor, Shawn; Wallis, John Joseph. **AA** Fishback and Kantor: University of Arizona and NBER. Wallis: University of Maryland and NBER. **SR** National Bureau of Economic Research Working Paper: 8903; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D78, E62, H50, N42. **KW** Relief Programs. Politics. Elections.

AB We examine the importance of Roosevelt's "relief, recovery, and reform" motives to the distribution of New Deal funds across over 3,000 U.S. counties, program by program. The major relief programs most closely followed Roosevelt's three R's. Other programs were tilted more in favor of areas with higher incomes. For all programs spending for political advantage in upcoming elections was a significant factor. Roosevelt's successful reelections were based on developing specific programs for a broad range of constituents, delivering on his stated goals, but also spending more at the margin for political purposes.

Fisher, Robert C.

PD July 2002. **TI** "Steeling" House Votes at Low Prices for the Steel Import Quota Bill of 1999. **AU** Fisher, Robert C.; Gokcekus, Omer; Tower, Edward. **AA** Fisher: Rothschild, Inc. Gokcekus: North Carolina Central University. Tower: Duke University. **SR** Duke University Department of Economics Working Paper: 02/24; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 27. **PR** no charge. **JE** F13. **KW** Steel Quotas. Votes. Campaign Contributions.

AB Robert Crandall in the March 19, 1999 Wall Street Journal wrote, "On Wednesday the House passed one of the most blatantly protectionist pieces of legislation since the 1930s. Reacting to the anguished cries from the steel industry and its rapidly declining unionized workforce, the House voted to impose quotas on imported steel for three years." Crandall was referring to the "Bipartisan Steel Recovery Act" of 1999. We summarize and evaluate the congressional debate on the bill. Then we use logit analysis to explore whether campaign

contributions to Representatives by the steel industry (excluding steel unions), steel unions and the steel using automobile industry had any impact on voting patterns on the bill. We also check whether in-state and out-of state contributions from the steel industry affect voting behavior differentially.

Fisman, Raymond

PD May 2002. **TI** Trade Credit, Financial Intermediary Development and Industry Growth. **AU** Fisman, Raymond; Love, Inessa. **AA** Fisman: Columbia University and NBER. Love: World Bank. **SR** National Bureau of Economic Research Working Paper: 8960; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G15, G21. **KW** Financial Development. Economic Growth. Trade Credit. **AB** Recent work suggests that financial development is important for economic growth, since financial markets more effectively allocate capital to firms with high value projects. For firms in poorly developed financial markets, implicit borrowing in the form of trade credit may provide an alternative source of funds. We show that industries with higher dependence on trade credit financing exhibit higher rates of growth in countries with weaker financial institutions. Furthermore, consistent with barriers to trade credit access among young firms, we show that most of the effect that we report comes from growth in the size of pre-existing firms.

Fletcher, Kevin T.

TI Issues in Domestic Petroleum Pricing in Oil-Producing Countries. **AU** Clements, Benedict J.; Fletcher, Kevin T.; Gupta, Sanjeev; Inchauste, Gabriela.

Foellmi, Reto

PD April 2002. **TI** Structural Change and the Kaldor Facts of Economic Growth. **AU** Foellmi, Reto; Zweimueller, Josef. **AA** Universitat Zurich. **SR** CEPR Discussion Paper: 3300; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L16, O11, O31, O40. **KW** Demand Externalities. Kaldor Facts. Balanced Growth. Structural Change. Innovation. Multiple Equilibria.

AB We present a model in which two of the most important features of the long-run growth process are reconciled: the massive changes in the structure of production and employment; and the Kaldor facts of economic growth. We assume that households expand their consumption along a hierarchy of needs and firms continuously introduce new products. In equilibrium industries with expanding and declining employment shares co-exist, and each such industry goes (or has already gone) through a cycle of take-off, maturity, and stagnation. Nonetheless macroeconomic aggregates grow *pari passu* at a constant rate.

Foggea, Marie-Gabriel

PD September 2002. **TI** Le concept de cout d'usage Putty-Clay des biens durables (The Putty-Clay Concept of Durable Goods). **AU** Foggea, Marie-Gabriel; Villa, Pierre. **AA** Foggea: University of Paris XII. Villa: CEPII. **SR** CEPII Working Paper: 2002/09; CEPII, Publications, 9,

rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 34. **PR** no charge. **JE** E21, E22. **KW** Putty-Clay. Relative User Cost. Fungible and Durable Goods.

AB The paper defines the relative user cost of durable goods with respect to fungible goods as the relative price of those goods multiplied by an actualization rate that depends upon the life duration and the nominal interest rate minus the rate of growth of prices and quantities of the associated fungible goods. The life duration of durable goods depends on the growth rates of prices, technical progress, income, and on the time preference. This paper is written in French.

Fontagne, Lionel

TI Market Access Maps: A Bilateral and Disaggregated Measure of Market Access. **AU** Bouet, Antoine; Fontagne, Lionel; Mimouni, Mondher; Pichot, Xavier.

Fouquin, Michel

PD September 2002. **TI** Mondialisation et regionalisation: le cas des industries du textile et de l'habillement (Globalisation and Regionalisation: The Textile Clothing Case). **AU** Fouquin, Michel; Morand, Pascal; Avisse, Richard; Minvielle, Gildas; Dumont, Philippe. **AA** Fouquin and Avisse: CEPII. Morand and Minvielle: Fashion French Institute. Dumont: Linvosges Company. **SR** CEPII Working Paper: 2002/08; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 82. **PR** no charge. **JE** D58, F13, F14, F15, L68. **KW** Trade Policy. Textile. Clothing. General Equilibrium Model.

AB The dismantling of the Multi-Fibre Arrangement by 2005 and the accession to the WTO of China, the world's larger exporter of clothing, will deeply alter international competition in textile and clothing. A simulation of these two components of trade liberalization makes it possible to identify the broad scale of the shocks that are likely to affect production and world trade. The results show how Asian competition could well jeopardize the regionalization of trade, which has emerged around the United States and the European Union, favoring a system of differentiated protection. Is there room left for a regional system of production and distribution? This is the role of microeconomic investigations. These include estimates of comparative production costs and a market survey investigating the purchasing behavior of major retailers and brands. The conclusion is that there is room for middle and high range products. This paper is written in French.

Frame, W. Scott

TI The Diffusion of Financial Innovations: An Examination of the Adoption of Small Business Credit Scoring by Large Banking Organizations. **AU** Akhavan, Jalal; Frame, W. Scott; White, Lawrence J.

Francois, Joseph

PD April 2002. **TI** Commercial Policy Variability, Bindings and Market Access. **AU** Francois, Joseph; Martin, Will. **AA** Francois: Erasmus University Rotterdam, University of Adelaide, and CEPR. Martin: World Bank. **SR** CEPR Discussion Paper: 3294; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8

euros + postage and handling. **JE** F13, F17. **KW** Costs of Protection. Commercial Policy. Uncertainty. Market Access. WTO Tariff Bindings.

AB Protection unconstrained by rules often varies substantially over time. Rules-based disciplines, such as WTO tariff bindings and bindings on market access in services, constrain this variability. We examine the theoretical effects of such constraints on the expected cost of protection and offer a formalization of the concept of "market access", emphasizing both the first and second moments of the distribution of protection. As an illustration, we provide a stylized examination of Uruguay Round bindings on wheat.

Frankel, Jeffrey A.

PD March 2002. **TI** Global Transmission of Interest Rates: Monetary Independence and Currency Regime. **AU** Frankel, Jeffrey A.; Schmukler, Sergio L.; Serven, Luis. **AA** Frankel: Harvard University and NBER. Schmukler and Serven: World Bank. **SR** National Bureau of Economic Research Working Paper: 8828; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F31, F33, F36. **KW** Exchange Rate Regime. Interest Rates.

AB Using a large sample of developing and industrialized economies during 1970-1999, this paper explores whether the choice of exchange rate regime affects the sensitivity of local interest rates to international interest rates. In most cases, we cannot reject full transmission of international interest rates in the long run, even for countries with floating regimes. Only large industrial countries can benefit from an independent monetary policy. However, short-run effects differ across regimes. Dynamic estimates show that interest rates of countries with more flexible regimes adjust more slowly to changes in international rates.

Freeman, Richard B.

PD February 2002. **TI** Marketization of Production and the US-Europe Employment Gap. **AU** Freeman, Richard B.; Schettkat, Ronald. **AA** Freeman: NBER. Schettkat: Utrecht University. **SR** National Bureau of Economic Research Working Paper: 8797; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 16. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D12, D13, J22. **KW** Labour Supply. Women. US and Germany. Marketization.

AB Women work much more in the US than in Germany and most other EU economies. We find that the US-German employment gap is not strongly related to cross-country differences in the level of pay or social benefits. The difference in employment is due to the different marketization of activities between the two economies: German women work as many hours as US women when we consider time spent in household production as well as in market production. For instance, German women spend more time preparing meals while US women use take-out and restaurants more intensely. The organization of some social activities, such as schooling, and the dispersion of skills, as well as pay differences, affect the degree of marketization.

TI What Have Two Decades of British Economic Reform Delivered? **AU** Card, David; Freeman, Richard B.

Fudenberg, Drew

TI When is Reputation Bad? **AU** Ely, Jeffrey C.; Fudenberg, Drew; Levine, David.

Fuentes, Andres

PD September 2002. **TI** The Determinants of On-the-Job Search: An Empirical Exploration. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/156; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 19. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** J64. **KW** Matching Models. Job Search.

AB There was a surge in the number of employed people looking for another job in the United Kingdom in the 1980s. In this paper, we present a panel analysis of aggregate data and a cross-section analysis of individual data on on-the-job search in the United Kingdom. We find evidence that the availability of jobs and wage dispersion increase on- the-job search. The importance of these results is twofold. First, to the extent that on-the-job search responds to the tightness of the labor market, it can contribute to explaining the observed cyclical behavior of the unemployment outflow rate. Second, as shown in Fuentes (2002), to the extent that changes in on-the-job search can be explained by factors other than labor market tightness, such as wage dispersion, these shift the unemployment-vacancies relationship (the Beveridge curve) and therefore have a role to play in the determination of unemployment.

Fullerton, Don

PD March 2002. **TI** Tax Incidence. **AU** Fullerton, Don; Metcalf, Gilbert E. **AA** Fullerton: University of Texas and NBER. Metcalf: Tufts University and NBER. **SR** National Bureau of Economic Research Working Paper: 8829; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 64. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C68, H22. **KW** Tax Incidence. General Equilibrium Models.

AB This chapter reviews the concepts, methods, and results of studies that analyze the incidence of taxes. The purpose of such studies is to determine how the burden of a particular tax is allocated. The methods might involve simple partial equilibrium models, analytical general equilibrium models, or computable general equilibrium models. We review partial equilibrium models, where the burden of a tax is shown to depend on the elasticity of supply relative to the elasticity of demand. In particular, we consider partial equilibrium models with imperfect competition. Turning to a general equilibrium setting, we review the classic model of Harberger (1962) and illustrate its generality by applying it to a number of different contexts. We also use this model to demonstrate the practicality of analytical general equilibrium modeling through the use of log linearization techniques. We then turn to dynamic models to show how a tax on capital affects capital accumulation, future wage rates, and overall burdens. We also focus on relatively recent models that calculate the lifetime incidence of taxes, with both intratemporal and intertemporal redistribution. Finally, the chapter reviews the use of incidence methods and results in the policy process.

PD April 2002. **TI** Cap and Trade Policies in the Presence of Monopoly and Distortionary Taxation. **AU** Fullerton, Don;

Metcalfe, Gilbert E. AA Fullerton: University of Texas and NBER. Metcalfe: Tufts University and NBER. SR National Bureau of Economic Research Working Paper: 8901; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 22. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D42, H20, Q20. KW Monopoly. Taxes. Trade Policies. Environmental Policy.

AB We extend an analytical general equilibrium model of environmental policy with pre-existing labor tax distortions to include pre-existing monopoly power as well. We show that the existence of monopoly power has two offsetting effects on welfare. First, the environmental policy reduces monopoly profits, and the negative effect on income increases labor supply in a way that partially offsets the pre-existing labor supply distortion. Second, environmental policy raises prices, so interaction with the pre-existing monopoly distortion further exacerbates the labor supply distortion. This second effect is larger, for reasonable parameter values, so the existence of monopoly reduces the welfare gain (or increases the loss) from environmental restrictions.

Funke, Norbert

PD August 2002. TI The Speed of Adjustment and the Sequencing of Economic Reforms: Issues and Guidelines for Policymakers. AU Funke, Norbert; Nsouli, Saleh M.; Rached, Mounir R. AA IMF. SR International Monetary Fund Working Paper: WP/02/132; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 28. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE O10, P00. KW Adjustment. Reforms. Speed of Adjustment. Sequencing.

AB This paper reviews the issues involved in determining the appropriate speed of adjustment and the sequencing of economic reforms, focusing on considerations relevant to policymakers. It points out that the debate between the protagonists of a high-speed approach and those favoring a gradualist approach is based primarily on the weights given to adjustment costs, policy credibility, reform feasibility, and risk assessment. It underscores the importance of appropriate sequencing and the impact of sequencing on the speed of adjustment and reforms. The paper concludes by highlighting factors that policymakers should consider when selecting their approach toward speed and sequencing.

Gagales, Anastassios

PD September 2002. TI Growth in Switzerland: Can Better Performance Be Sustained? AA IMF. SR International Monetary Fund Working Paper: WP/02/153; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 24. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE O40, O52. KW Switzerland. Economic Growth.

AB Swiss growth performance in the past quarter century has been mediocre. The paper finds that conditional income convergence contributes significantly to slow growth and the poor performance of the domestically oriented sectors has been a drag on growth. However, slow growth is not inescapable. Faster growth would require raising total factor productivity

growth, which remains low by international standards, and the investment rate. Further progress in structural reform could sustain the underlying growth rate at about 2 percent in the next few years.

Galenson, David W.

PD March 2002. TI Was Jackson Pollock the Greatest Modern American Painter? A Quantitative Investigation. AA University of Chicago and NBER. SR National Bureau of Economic Research Working Paper: 8830; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 21. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D46, Z11. KW Jackson Pollock. Abstract American Art.

AB A survey of the illustrations in textbooks of modern art demonstrates that scholars do consider Jackson Pollock the most important modern American painter, but not by a wide margin over Jasper Johns and Andy Warhol, the leading artists of the following generation. The distribution of the illustrations furthermore reveals a sharp contrast in the careers of the major artists of these two generations: the Abstract Expressionists produced their most important contributions late in their careers, whereas their successors innovated early in theirs. This difference resulted from the differing approaches of the artists, for the Abstract Expressionists were experimental innovators, who developed new visual images by a process of trial and error, while the leading artists of the 1960s were conceptual innovators, whose work embodied new ideas.

Galetovic, Alexander

TI Highway Franchising and Real Estate Values. AU Engel, Eduardo; Fischer, Ronald; Galetovic, Alexander.

TI Competition in or for the Field: Which is Better? AU Engel, Eduardo; Fischer, Ronald; Galetovic, Alexander.

Gali, Jordi

PD March 2002. TI Markups, Gaps, and the Welfare Costs of Business Fluctuations. AU Gali, Jordi; Gertler, Mark; Lopez-Salido, J. David. AA Gali: Universitat Pompeu Fabra and NBER. Gertler: New York University and NBER. Lopez-Salido: Bank of Spain. SR National Bureau of Economic Research Working Paper: 8850; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 19. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E32, N12. KW Business Fluctuations. Efficiency. Postwar U. S. Recessions.

AB In this paper we present a simple, theory-based measure of the variations in aggregate economic efficiency associated with business fluctuations. We decompose this indicator, which we refer to as "the gap", into two constituent parts: a price markup and a wage markup, and show that the latter accounts for the bulk of the fluctuations in our gap measure. Finally, we derive a measure of the welfare costs of business cycles that is directly related to our gap variable, and which takes into account explicitly the existence of a varying aggregate inefficiency. When applied to postwar U.S. data, for plausible parametrizations, our measure suggests welfare losses of fluctuations that are of a higher order of magnitude than those derived by Lucas (1987). It also suggests that the major postwar recessions involved substantial efficiency costs.

TI A Simple Framework for International Monetary Policy Analysis. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark.

PD April 2002. **TI** Monetary Policy and Exchange Rate Volatility in a Small Open Economy. **AU** Gali, Jordi; Monacelli, Tommaso. **AA** Gali: Universitat Pompeu Fabra and NBER. Monacelli: Boston College. **SR** National Bureau of Economic Research Working Paper: 8905; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E52, F31, F41. **KW** Monetary Policy. Small Open Economies. Exchange Rates. Inflation.

AB We lay out a small open economy version of the Calvo sticky price model, and show how the equilibrium dynamics can be reduced to a tractable canonical system in domestic inflation and the output gap. We employ this framework to analyze the macroeconomic implications of three alternative monetary policy regimes for the small open economy: domestic inflation targeting, CPI targeting and an exchange rate peg. We show that a key difference among these regimes lies in the relative amount of exchange rate volatility that they entail. We also discuss a special case for which domestic inflation targeting constitutes the optimal policy, and where a simple second order approximation to the utility of the representative consumer can be derived and used to evaluate the welfare losses associated with suboptimal regimes.

Galli, Fausto

TI The Moments of Log-ACD Models. **AU** Bauwens, Luc; Galli, Fausto; Giot, Pierre.

Galor, Oded

PD February 2003. **TI** Land Inequality and the Origin of Divergence and Overtaking in the Growth Process: Theory and Evidence. **AU** Galor, Oded; Moav, Omer; Vollrath, Dietrich. **AA** Galor: Hebrew University and Brown University. Moav: Hebrew University. Vollrath: Brown University. **SR** Brown University, Department of Economics Working Paper: 2003/04; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. **PG** 44. **PR** no charge. **JE** O11, O40. **KW** Land Inequality. Development. Human Capital Accumulation. Growth.

AB This research suggests that the distribution of land within and across countries affects the nature of the transition from an agrarian to an industrial economy and generates diverging growth patterns across countries. Land abundance, which is beneficial in early stages of development, in later stages generates a hurdle for human capital accumulation and economic growth among countries in which land ownership is unequally distributed. The qualitative change in the role of land in the process of industrialization affects the transition to modern growth and causes changes in the ranking of countries in the world income distribution. The theory focuses on the economic incentives that lead landowners to resist growth enhancing educational expenditure. The basic premise of this research, regarding the negative effect of land inequality on public expenditure on education is supported empirically based on cross-state data from the High School Movement in the first half of the 20th century in the US.

Garmaise, Mark J.

PD April 2002. **TI** Informal Financial Networks: Theory

and Evidence. **AU** Garmaise, Mark J.; Moskowitz, Tobias J. **AA** Garmaise: University of Chicago. Moskowitz: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8874; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G21, G32. **KW** Informal Networks. Capital Markets. Real Estate Market. **AB** We develop a model of informal financial networks and present corroborating evidence by studying the role of professional property brokers in the U.S. commercial real estate market. Our model demonstrates how service intermediaries, who do not supply finance themselves, can facilitate their clients' access to finance via repeated informal relationships with lenders. Empirically, we find that, controlling for endogenous broker selection, hiring a broker strikingly increases the probability of obtaining a bank loan from 40 to 58 percent. Our results demonstrate that even in the U.S., with its well-developed capital markets, informal networks play an important role in controlling access to finance.

PD April 2002. **TI** Confronting Information Asymmetries: Evidence from Real Estate Markets. **AU** Garmaise, Mark J.; Moskowitz, Tobias J. **AA** Garmaise: University of Chicago. Moskowitz: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8877; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D82, D83. **KW** Real Estate Market. Asymmetric Information.

AB This paper studies the role of asymmetric information in commercial real estate markets in the U.S. We propose a novel and exogenous measure of information based on the quality of property tax assessments in different regions. Employing direct and indirect information variables, we find strong evidence that information considerations are significant in this market. We show that market participants resolve information asymmetries, by purchasing nearby properties, trading properties with long income histories, and avoiding transactions with informed professional brokers. The evidence that the choice of financing is used to address information concerns is mixed and weak.

Gary-Bobo, Robert

PD April 2002. **TI** A Structural Econometric Model of Price Discrimination in the Mortgage Lending Industry. **AU** Gary-Bobo, Robert; Larribeau, Sophie. **AA** Gary-Bobo: Universite de Cergy-Pontoise, CESifo and CEPR. Larribeau: Universite de Cergy-Pontoise. **SR** CEPR Discussion Paper: 3302; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G21, L12, L85. **KW** Mortgage Loans. Price Discrimination. Discriminating Monopoly.

AB We propose a model of discrimination in the market for mortgages. The model explains accepted loan applications and determines loan sizes and interest rates simultaneously. We propose competitive and discriminating monopoly versions of the model. Offered interest rates and loan sizes are functions of observable borrower characteristics. The competitive model rests on a marginal condition to which a zero-profit condition is added. The discriminating monopoly maximizes profits under a borrower participation constraint. Each version of the model

is a bivariate, non-linear model, and is estimated by maximum likelihood. The data is a sample of clients of a French network of mortgage lenders. We show the presence of "social discrimination" in the data, the loan conditions depending, not only on the borrower's wage and down payment, but on the borrower's occupational status. Abnormally high-risk premia in the competitive version of the model suggest the presence of market power. The discriminating monopoly model estimates show that the borrowers' price-elasticity of demand for housing varies with occupational status, and is inversely related to the lender's interest rate markups. This confirms that the lender exploits structural differences in the preferences to discriminate, as predicted by standard theories.

TI On Robust Constitution Design. **AU** Auriol, Emmanuelle; Gary-Bobo, Robert.

Gaulier, Guillaume

TI Regional Trade Integration in the Southern Africa. **AU** Chauvin, Sophie; Gaulier, Guillaume.

Gaynor, Martin

PD January 2003. **TI** Competition Among Hospitals. **AU** Gaynor, Martin; Vogt, William B. **AA** Gaynor: Carnegie Mellon University and NBER. Vogt: Carnegie Mellon University, NBER, and FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 253; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. **PG** 47. **PR** no charge. **JE** I11, I18, L89. **KW** Hospitals. Elasticity of Demand. Los Angeles. San Diego. San Luis Obispo.

AB Our objective is to determine the effect of ownership type (for-profit, not-for-profit, government) on firm conduct in hospital markets. Secondary objectives include estimating hospital demand systems useful for market definition and merger simulation. To this end, we estimate a structural model of short term demand and pricing in the hospital industry in California, and then use the estimates to simulate the effect of a merger. We allow the behavior of for-profit and not-for-profit firms to differ. We find that California hospitals in 1995 faced a downward-sloping demand for their products, with an average price elasticity of demand of -5.67. Not-for-profit hospitals face less elastic demand and act as if they have lower marginal costs. Their prices are lower but their markups are higher than those of for-profits. We simulate the effects of the 1997 merger of two hospital chains. In relatively unconcentrated markets such as Los Angeles and San Diego, the merger has virtually no effect on prices. However, in San Luis Obispo County, where the merger creates a near monopoly, prices rise by up to 58%, and the predicted price increase would not be substantially smaller were the chains not-for-profit.

Geanakoplos, John

TI Social Security Investment in Equities. **AU** Diamond, Peter; Geanakoplos, John.

PD August 2002. **TI** Demography and the Long-Run Predictability of the Stock Market. **AU** Geanakoplos, John; Magill, Michael; Quinzii, Martine. **AA** Geanakoplos: Yale University. Magill: University of Southern California. Quinzii: University of California, Davis. **SR** Yale Cowles Foundation Discussion Paper: 1380; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281.

Website: cowles.econ.yale.edu/. **PG** 32. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** E21, E32, E43, E44, G12, J11. **KW** Demography. Pricing Earnings Ratio. Returns. Efficient Markets. Baby-Boom. Savings.

AB Stock market price-earnings ratios should be influenced by demography. Since demography is predictable, stock returns should be as well. We provide a simple stochastic OLG model with a cyclical structure which generates cyclical P/E ratios. We calibrate the model to roughly fit the cyclical features of historical P/E ratios.

TI Monetary Equilibrium with Missing Markets. **AU** Dubey, Pradeep; Geanakoplos, John.

Geczy, Christopher C.

TI Asset Pricing with Heterogeneous Consumers and Limited Participation: Empirical Evidence. **AU** Brav, Alon; Constantinides, George M.; Geczy, Christopher C.

Genet, Julien

TI Evolutions démographiques et marché du travail: des liens complexes parfois contradictoires (Demographic Evolutions and Labour Market: Complex and Conflicting Links). **AU** Cadiou, Loic; Genet, Julien; Guerin, Jean-Louis.

Gerardi, Dino

PD May 2002. **TI** Unmediated Communication in Games with Complete and Incomplete Information. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1371; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 73. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D82. **KW** Communication. Correlated Equilibrium. Communication Equilibrium. Sequential Equilibrium. Mechanism Design. Revelation Principle.

AB In this paper we study the effects of adding unmediated communication to static, finite games of complete and incomplete information. We characterize $SU(G)$, the set of outcomes of a game G , that are induced by sequential equilibria of cheap talk extensions. A cheap talk extension of G is an extensive-form game in which players communicate before playing G . A reliable mediator is not available and players exchange private or public messages that do not affect directly their payoffs. We first show that if G is a game of complete information with five or more players and rational parameters, then $SU(G)$ coincides with the set of correlated equilibria of G . Next, we demonstrate that if G is a game of incomplete information with at least five players, rational parameters and full support (i.e., all profiles of types have positive probability), then $SU(G)$ is equal to the set of communication equilibria of G .

Gershenson, Dmitriy

TI Seductions of an Underdevelopment Trap: Systemic Impediments to Agricultural Reform in Russia. **AU** Amelina, Maria; Gershenson, Dmitriy.

Gertler, Mark

TI Markups, Gaps, and the Welfare Costs of Business Fluctuations. **AU** Gali, Jordi; Gertler, Mark; Lopez-Salido, J. David.

TI A Simple Framework for International Monetary Policy Analysis. **AU** Clarida, Richard; Gali, Jordi; Gertler, Mark.

Ghura, Dhaneshwar

PD July 2002. **TI** Is Growth Enough? Macroeconomic Policy and Poverty Reduction. **AU** Ghura, Dhaneshwar; Leite, Carlos A.; Tsangarides, Charalambos. **AA** Ghura and Leite: IMF. Tsangarides: George Washington University and IMF. **SR** International Monetary Fund Working Paper: WP/02/118; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 22. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C11, C33, E61, I32, O57. **KW** Economic Growth. Poverty Alleviation. Macroeconomic Policy. Bayesian Analysis.

AB The paper investigates the existence of "super pro-poor" policies -- that is, policies that directly influence the income of the poor after accounting for the effect of growth. It uses a dynamic panel estimator to capture both across- and within-country effects, and a Bayesian-type robustness check to account for model uncertainty. The findings confirm that growth raises the income of the poor, although this relationship is less than one-to-one. The analysis also identifies four super pro- poor conditions that are influenced by policy: inflation, government size, educational achievement, and financial development.

Gibbons, Robert

PD April 2002. **TI** Comparative Advantage, Learning, and Sectoral Wage Determination. **AU** Gibbons, Robert; Katz, Lawrence F.; Lemieux, Thomas; Parent, Daniel. **AA** Gibbons: MIT and NBER. Katz: Harvard University and NBER. Lemieux: University of British Columbia and NBER. Parent: McGill University. **SR** National Bureau of Economic Research Working Paper: 8889; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website:www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J24, J31. **KW** Skills. Sectoral Wages.

AB We develop a model in which a worker's skills determine the worker's current wage and sector. Both the market and the worker are initially uncertain about some of the worker's skills. Endogenous wage changes and sector mobility occur as labor-market participants learn about these unobserved skills. We show how the model can be estimated using non-linear instrumental-variables techniques. We then apply our methodology to study the wages and allocation of workers across occupations and across industries. For both occupations and industries, we find that high-wage sectors employ high-skill workers and offer high returns to workers' skills. Estimates of these sectoral wage differences that do not account for sector-specific returns are therefore misleading. We also suggest further applications of our theory and methodology.

Gibbs, Ryan

PD July 2002. **TI** Is Talk Cheap? Buying Congressional Testimony with Campaign Contributions. **AU** Gibbs, Ryan; Gokcekus, Omer; Tower, Edward. **AA** Gibbs and Tower: Duke University. Gokcekus: North Carolina Central University. **SR** Duke University Department of Economics Working Paper: 02/31; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 7. **PR** no

charge. **JE** F13. **KW** Congressional Testimony. Campaign Contributions. Congressional Record.

AB For the steel import quota bill of 1999, our answer to the question posed in the title is that each word in the Congressional Record costs \$39 in campaign contributions from the steel industry. Consequently, our answer is "Yes."

Gil, Ricard

TI Social Security and Democracy. **AU** Mulligan, Casey B.; Gil, Ricard; Sala-i-Martin, Xavier.

Giot, Pierre

TI The Moments of Log-ACD Models. **AU** Bauwens, Luc; Galli, Fausto; Giot, Pierre.

Girma, Sourafel

PD March 2002. **TI** Merger Activity and Executive Pay. **AU** Girma, Sourafel; Thompson, Steve; Wright, Peter. **AA** Girma and Thompson: University of Leicester. Wright: University of Nottingham and CEPR. **SR** CEPR Discussion Paper: 3255; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J20, J30. **KW** Mergers. Acquisition. Executive Pay.

AB This paper examines the impact of mergers and acquisitions on the remuneration of the CEOs in a large unbalanced panel of UK firms, over the period 1981-96. We find significant and substantial executive pay increases in excess of those generated by the growth in firm size consequent upon the merger. This is consistent with the view that mergers reveal information about the quality of management that is useful to the firm's remuneration committee. Executive pay is, however, nine times more sensitive to internal growth than to growth as a result of acquisition. Furthermore, there is some evidence that hostile transactions generate smaller pay effects than friendly deals, probably because they are followed, at some remove, by size-reducing divestments. When mergers are distinguished by their impact on shareholder wealth we find that CEOs engaging in "bad" (i.e. wealth-reducing) acquisitions experience significantly lower remuneration than their counterparts whose deals meet with market approval. This result suggests that shareholder-principals have at least some success in penalizing managers for unwarranted empire-building mergers.

Glaeser, Edward L.

PD March 2002. **TI** The Impact of Zoning on Housing Affordability. **AU** Glaeser, Edward L.; Gyourko, Joseph. **AA** Glaeser: Harvard University and NBER. Gyourko: University of Pennsylvania. **SR** National Bureau of Economic Research Working Paper: 8835; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L74, R31, R52. **KW** Housing Industry. Zoning Laws. Construction Costs.

AB Does America face an affordable housing crisis and, if so, why? This paper argues that in much of America the price of housing is quite close to the marginal, physical costs of new construction. The price of housing is significantly higher than construction costs only in a limited number of areas, such as California and some eastern cities. In those areas, we argue that

high prices have little to do with conventional models with a free market for land. Instead, our evidence suggests that zoning and other land use controls, play the dominant role in making housing expensive.

PD May 2002. **TI** The Governance of Not-For-Profit Firms. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8921; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 55. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G30, H40, L30. **KW** Not-for-Profit Firms. Competition. Governance Institutions.

AB Many factors including incentive-pay, powerful shareholders, and takeover threats push for-profits managers towards maximizing shareholder value. One of the most striking factors about non-profit firms is that they have no comparable governance institutions, and the only check on managers is boards that are themselves rarely responsible to anyone outside the firm. This essay discusses the implications of these weak governance institutions on non-profit behavior. A primary implication is that non-profits will often evolve into organizations that resemble workers' cooperatives. The primary check on this tendency is the need of the organizations to compete in outside markets. After presenting a model of non-profit behavior, this paper looks at four different sectors (hospitals, museums, universities and the church). All display significant signs of capture by elite workers, but all still perform their basic missions reasonably, probably because of market competition.

PD May 2002. **TI** The Curley Effect. **AU** Glaeser, Edward L.; Shleifer, Andrei. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8942; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D70, D72, H40. **KW** Elections. Redistribution. Voting Behavior. Politics. Inefficiency.

AB James Michael Curley, a four-time mayor of Boston, used wasteful redistribution to his poor Irish constituents and incendiary rhetoric to encourage richer citizens to emigrate from Boston, thereby shaping the electorate in his favor. Boston as a consequence stagnated, but Curley kept winning elections. We present a model of the Curley effect, in which inefficient redistributive policies are sought not by interest groups protecting their rents, but by incumbent politicians trying to shape the electorate through emigration of their opponents or reinforcement of class identities. The model sheds light on ethnic politics in the United States and abroad, as well as on class politics in many countries including Britain.

Glen, Jack

PD December 2000. **TI** Competition, Corporate Governance and Financing of Corporate Growth in Emerging Markets. **AU** Glen, Jack; Lee, Kevin; Singh, Ajit. **AA** Glen: IFC; Lee: University of Leicester; Singh: University of Cambridge. **SR** Cambridge Discussion Paper in Accounting and Finance: AF46; Publications Secretary, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 39. **PR** \$10.00/5 pounds/EUROS 8; make checks payable to University of

Cambridge. **JE** G32, G34, O16. **KW** Competition. Persistency of Profits. Emerging Markets. Corporate Governance.

AB The micro-economic behavior of economic agents in the crisis-affected Asian economies as well as the private sector's expanding role in developing countries in general have focused attention on issues of competition, corporate governance and finance. The paper explores the analytical links between these phenomena. It provides evidence on the dynamics of product market competition in seven emerging economies by time series analysis of persistence of corporate profitability during the 1980s and 90s. The surprising central finding is that the intensity of competition in emerging markets is no less than in advanced countries. The paper also briefly report on major change in the financing of corporate growth in India and considers its implications for the extant theories of law, finance, and corporate governance.

Glosten, Lawrence

TI The Microstructure of Stock Markets. **AU** Biais, Bruno; Glosten, Lawrence; Spatt, Chester S.

Gokcekus, Omer

TI "Steeling" House Votes at Low Prices for the Steel Import Quota Bill of 1999. **AU** Fisher, Robert C.; Gokcekus, Omer; Tower, Edward.

TI School Choice: Money, Race and Congressional Voting Behavior. **AU** Phillips, Joshua J.; Gokcekus, Omer; Tower, Edward.

TI Is Talk Cheap? Buying Congressional Testimony with Campaign Contributions. **AU** Gibbs, Ryan; Gokcekus, Omer; Tower, Edward.

PD January 2003. **TI** An Efficiency Enhancing Minimum Wage. **AU** Gokcekus, Omer; Tower, Edward. **AA** Gokcekus: North Carolina Central University. Tower: Duke University. **SR** Duke University Department of Economics Working Paper: 03/01; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 19. **PR** no charge. **JE** J31, J60. **KW** Minimum Wage. Employment. Economic Efficiency.

AB We consider an economy (e.g., Chile 1973-83 or modern Turkey) with a minimum wage sector and a free sector, and a tax on labor earnings. We ask "Can a slightly binding minimum wage simultaneously raise tax revenue, employment, and economic efficiency?" We answer "Yes, if the elasticity of demand for labor in the minimum-wage sector exceeds the elasticity of demand in the free sector." The logical key is that the minimum wage draws high reservation-wage workers into the labor force, who give up untaxed leisure in exchange for taxed work and thereby increase revenue, employment and efficiency.

PD May 2003. **TI** Sweetening the Pot: How American Sugar Buys Protection. **AU** Gokcekus, Omer; Knowles, Justin; Tower, Edward. **AA** Gokcekus: North Carolina Central University. Knowles: University of Pennsylvania. Tower: Duke University. **SR** Duke University Department of Economics Working Paper: 03/08; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 27. **PR** no charge. **JE** F13. **KW** Sugar Industry. Lobbying. Trade Protectionism.

AB We use Tobit analysis to explore the determinants of

campaign contributions from the sugar industry to Senators from 1989 to 2002. We find that the power and willingness of the Senators to protect influence the campaign contributions significantly: Membership on the Senate Agriculture, Nutrition and Forestry Committee attracts \$4,266 per two-year election cycle. The membership on the subcommittee that deals with sugar legislation is even more important than membership of the agriculture committee: membership on the Agricultural Production, Marketing, and Stabilization of Prices Subcommittee is worth an additional \$6,445. These results suggest the strength of the subcommittee in drafting specialized legislation and attracting interested members. Moreover, while the particular party affiliation does not make any difference, membership in the majority party is worth \$1,235. Finally, an impressionable freshman Senator from a sugar cane state receives \$8,366 more than a more senior senator from a non-sugar state.

Goldberg, Lawrence G.

TI The Effects of Dynamic Changes in Bank Competition on the Supply of Small Business Credit. AU Berger, Allen N.; Goldberg, Lawrence G.; White, Lawrence J.

Goldberg, Linda S.

TI Exchange Rate Pass-Through into Import Prices: A Macro or Micro Phenomenon? AU Campa, Jose Manuel; Goldberg, Linda S.

Goldin, Claudia

PD April 2002. TI The Rising (and then Declining) Significance of Gender. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8915; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE J16, J21, J71, N30. KW Gender. Wages. Discrimination.

AB In the past two decades gender pay differences have narrowed considerably and a declining significance of gender has pervaded the labor market in numerous ways. This paper contends that in the first several decades of the twentieth century there was a rising significance of gender. The emergence of gender distinctions accompanied several important changes in the economy including the rise of white-collar work for women and increases in women's educational attainment. Firms adopted policies not to hire women in particular occupations and to exclude men from other occupations. A model of discrimination is developed in which men oppose the hiring of women into certain positions. The assumptions of the model break down when women acquire known and verifiable credentials. The shift from the rising to the declining significance of gender may have involved such a change.

Gordon, Roger H.

PD April 2002. TI International Taxation. AU Gordon, Roger H.; Hines, James R., Jr.. AA Gordon: University of California, San Diego and NBER. Hines: University of Michigan Business School and NBER. SR National Bureau of Economic Research Working Paper: 8854; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 79. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.).

JE F23, F32, H21, H25, H87. KW Tax Policies. World Capital Markets. Tax Avoidance.

AB The integration of world capital markets carries important implications for the design and impact of tax policies. This paper evaluates research findings on international taxation, drawing attention to connections and inconsistencies between theoretical and empirical observations. Diamond and Mirrlees (1971) note that small open economies incur very high costs in attempting to tax the returns to local capital investment, since local factors bear the burden of such taxes in the form of productive inefficiencies. Richman (1963) argues that countries may simultaneously want to tax the worldwide capital income of domestic residents, implying that any taxes paid to foreign governments should be merely deductible from domestic taxable income. Governments do not adopt policies that are consistent with these forecasts. Individual and firm behavior also differs from that forecast by simple theories. Observed portfolios are not fully diversified worldwide. Foreign direct investment is common even when it faces tax penalties relative to other investment in host countries. While economic activity, and tax avoidance activity, is highly responsive to tax rates and tax structure, there are many aspects of tax-motivated behavior that are difficult to reconcile with simple microeconomic incentives. There are promising recent efforts to reconcile observations with theory.

Gorg, Holger

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

Gorton, Gary

PD May 2002. TI Financial Intermediation. AU Gorton, Gary; Winton, Andrew. AA Gorton: University of Pennsylvania and NBER. Winton: University of Minnesota. SR National Bureau of Economic Research Working Paper: 8928; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 102. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G18, G20. KW Financial Intermediation. Growth. Marketable Securities. Savings. Investment.

AB The savings/investment process in capitalist economies is organized around financial intermediation, making them a central institution of economic growth. Financial intermediaries are firms that borrow from consumer/savers and lend to companies that need resources for investment. In contrast, in capital markets, investors contract directly with firms, creating marketable securities. The prices of these securities are observable, while financial intermediaries are opaque. Why do financial intermediaries exist? What are their roles? Are they inherently unstable? Must the government regulate them? Why is financial intermediation so pervasive? How is it changing? In this paper we survey the last fifteen years of theoretical and empirical research on financial intermediation. We focus on the role of bank-like intermediaries in the savings-investment process. We also investigate the literature on bank instability and the role of the government.

Gowrisankaran, Gautam

PD May 2002. TI Network Externalities and Technology Adoption: Lessons from Electronic Payments. AU Gowrisankaran, Gautam; Stavins, Joanna.

AA Gowrisankaran: University of Minnesota, Federal Reserve Bank of San Francisco, and NBER. Stavins: Federal Reserve Bank of Boston. **SR** National Bureau of Economic Research Working Paper: 8943; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C33, C35, G21, L10. **KW** Technology. Network Externalities. Electronic Payments.

AB We seek to analyze the extent and sources of network externalities for the automated clearinghouse (ACH) electronic payments system using a quarterly panel data set on individual bank adoption and usage of ACH. We provide three methods to identify network externalities using this panel data. The first method identifies network externalities from the clustering of ACH adoption. The second method identifies them by examining whether banks in areas with higher market concentration or larger competitors are more likely to adopt ACH. The third method identifies them by examining whether the ACH adoption by small branches of large banks affects the adoption by local competitors. Using fixed effects and panel data these methods separately identify network externalities from technological advancement, peer-group effects, economies of scale and market power. We find evidence that the network externalities are moderately large.

Grada, Cormac O.

PD April 2002. **TI** Who Panics During Panics? **AU** Grada, Cormac O.; White, Eugene N. **AA** Grada: University College, Ireland. White: Rutgers University and NBER. **SR** National Bureau of Economic Research Working Paper: 8856; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 43. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G21, N21. **KW** Bank Runs. Banking Panics. Nineteenth Century. Contagion.

AB Using records of the bank accounts of individual depositors, this paper provides a detailed microeconomic analysis of two nineteenth century banking panics. The panics of 1854 and 1857 were not characterized by an immediate mass panic of depositors and had important time dimensions. We examine depositor behavior using a hazard model. Contagion was the key factor in 1854 but it was not strong enough to create more than a local panic. In contrast, the panic of 1857 began with runs by businessmen and banking sophisticates followed by less informed depositors. Uninformed contagion may have been present, but the evidence suggests that this panic was driven by informational shocks in the face of asymmetric information about the true condition of bank portfolios.

Gradstein, Mark

PD March 2002. **TI** Governance and Growth. **AA** Ben Gurion University of the Negev and CEPR. **SR** CEPR Discussion Paper: 3270; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D72, K11, O11, P14. **KW** Property Rights. Economic Growth.

AB Protection of property rights is widely recognized as being the state's responsibility. Furthermore, recent empirical

evidence suggests that it leads to higher investment levels and faster growth. Nevertheless, the extent of property rights protection differs significantly across countries. This paper endogenizes the emergence of property rights within a simple growth framework. Drawing on North (1990), we present a model where economic performance and enforcement of property rights may reinforce each other. Depending on initial conditions, the economy can converge to a high-income or a low-income steady state. The existing empirical evidence seems to offer a tentative support for this theory.

Graham, Bryan

TI Longevity and Life Cycle Savings. **AU** Bloom, David E.; Canning, David; Graham, Bryan.

Graham, Stuart J. H.

PD February 2002. **TI** Post-Issue Patent "Quality Control": A Comparative Study of US Patent Re-examinations and European Patent Oppositions. **AU** Graham, Stuart J. H.; Hall, Bronwyn H.; Harhoff, Dietmar; Mowery, David C. **AA** Graham: University of California, Berkeley. Hall and Mowery: University of California, Berkeley and NBER. Harhoff: Universitat Munchen and CEPR. **SR** National Bureau of Economic Research Working Paper: 8807; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** K11, K41. **KW** Patent Standards. USPTO vs. EPO. Patent Opposition.

AB We report the results of the first comparative study of the determinants and effects of patent oppositions in Europe and of re-examinations on corresponding patents issued in the United States. The analysis is based on dataset consisting of matched EPO and US patents. Our analysis focuses on two broad technology categories - biotechnology and pharmaceuticals, and semiconductors and computer software. Within these fields, we collect data on all EPO patents for which oppositions were filed at the EPO. We also construct a random sample of EPO patents with no opposition in these technologies. We match these EPO patents with the "equivalent" US patents covering the same invention in the United States. Using the matched sample of USPTO and EPO patents, we compare the determinants of opposition and of re-examination. Our results indicate that valuable patents are more likely to be challenged in both jurisdictions. But the rate of opposition at the EPO is more than thirty times higher than the rate of re-examination at the USPTO. Re-examination results in a cancellation of the patent right in only 12.2 percent of all cases.

Grawe, Nathan D.

PD May 2002. **TI** Economic Interpretations of Intergenerational Correlations. **AU** Grawe, Nathan D.; Mulligan, Casey B. **AA** Grawe: Carleton College. Mulligan: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8948; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 14. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D10, I22, J62. **KW** Intergenerational Correlations. Credit Constraints. Mobility. Progressive Policy.

AB Economic theory offers interpretations of intergenerational correlations that are different from the theories of other disciplines, and have important policy

implications. Our paper presents a subset of those theories, and shows how they are consistent with observed mobility patterns as they vary across countries, demographic groups, and economic status measure. The data may suggest that the economic approach overemphasizes credit constraints, although more work is needed to further develop some of the alternative economic models. We also show how, in the models, "progressive" policy may reduce mobility depending on how the policy is administered and how mobility is measured.

Griesinger, Harriet

TI The Policy Context and Infant and Toddler Care in the Welfare Reform Era. AU Witte, Ann Dryden; Queral, Magaly; Witt, Robert; Griesinger, Harriet.

Griffith, Rachel

TI Evaluating Tax Policy for Location Decisions. AU Devereux, Michael B.; Griffith, Rachel.

Grigorian, David A.

PD September 2002. TI Determinants of Commercial Bank Performance in Transition: An Application of Data Envelopment Analysis. AU Grigorian, David A.; Manole, Vlad. AA Grigorian: IMF. Manole: World Bank. SR International Monetary Fund Working Paper: WP/02/146; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 19. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE G21, G28, P23. KW Banking Sector Development. Economies in Transition.

AB Banking sectors in transition economies have experienced major transformations throughout the 1990s. While some countries have been successful in eliminating underlying distortions and restructuring their financial sectors, in some cases financial sectors remain underdeveloped and the rates of financial intermediation continue to be low. We estimate indicators of commercial bank efficiency by applying a version of Data Envelopment Analysis (DEA) to bank-level data from a wide range of transition countries. In addition to stressing the importance of some bank-specific variables, the censored Tobit analysis suggests that (1) foreign ownership with controlling power and enterprise restructuring enhances commercial bank efficiency; (2) the effects of prudential tightening on the efficiency of banks vary across different prudential norms; and (3) consolidation is likely to improve the efficiency of banking operations. Overall, the results confirm the usefulness of DEA for transition-related applications and shed some light on the question of the optimal architecture of a banking system.

Grossman, Herschel I.

TI A Theory of the Informal Sector. AU Azuma, Yoshiaki; Grossman, Herschel I.

Gruber, Jonathan

PD March 2002. TI Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature. AU Gruber, Jonathan; Madrian, Brigitte C. AA Gruber: MIT and NBER. Madrian: University of Chicago. SR National Bureau of Economic Research Working Paper: 8817; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org.

PG 35. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I11, I38, J22, J24, J32. KW Health Insurance. Labour Supply. Job Mobility. Welfare. Low Income Mothers.

AB This paper provides a critical review of the empirical literature on the relationship between health insurance, labor supply, and job mobility. We review over 50 papers on this topic, almost exclusively written in the last 10 years. We reach five conclusions. First, there is clear and unambiguous evidence that health insurance is a central determinant of retirement decisions. Second, the evidence indicates that health insurance is not a major determinant of the labor supply and welfare exit decisions of low income mothers. Third, there is compelling evidence that health insurance is an important factor in the labor supply decisions of secondary earners. Fourth, while there is some division in the literature, the most convincing evidence suggests that health insurance plays an important role in job mobility decisions. Finally, there is virtually no evidence in the literature on the welfare implications of these results. We present some rudimentary calculations which suggest the welfare costs of job lock are likely to be modest. Our general conclusion is that health insurance has important effects on both labor force participation and job choice, but that it is not clear whether or not these effects results in large losses of either welfare or efficiency.

PD April 2002. TI Do Cigarette Taxes Make Smokers Happier? AU Gruber, Jonathan; Mullainathan, Sendhil. AA MIT and NBER. SR National Bureau of Economic Research Working Paper: 8872; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D91, H21, I12. KW Rational Addiction. Time Inconsistency. Tobacco. Cigarette Taxes.

AB Existing empirical evidence on smoking is equally consistent with two models that have radically different welfare implications. Under the rational addiction model, cigarette taxes make time consistent smokers worse off. Under alternative time inconsistent models, smokers are made better off by taxes, as they provide a valuable self-control device. We therefore propose an alternative approach to assessing the welfare implications of policy interventions: examining directly the impact on subjective well-being. We do so by matching information on cigarette excise taxation to separate surveys from the U.S. and Canada that contain data on self-reported happiness. And we model the differential impact of excise taxes on those predicted to be likely to be smokers, relative to others, in order to control for omitted correlations between happiness and excise taxation. We find consistent evidence in both countries that excise taxes make predicted smokers happier. This evidence suggests that the time inconsistent model of smoking is more appropriate, and that as a result welfare is improved by higher cigarette taxes.

PD April 2002. TI Why Did Employee Health Insurance Contributions Rise? AU Gruber, Jonathan; McKnight, Robin. AA Gruber: MIT and NBER. McKnight: MIT. SR National Bureau of Economic Research Working Paper: 8878; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H24, H25, I11, I18, J31. KW Employee Contributions. Health Insurance. Medicaid eligibility.

AB We explore the causes of the dramatic rise in employee contributions to health insurance over the past two decades. In 1982, 44% of those who were covered by their employer-provided health insurance had their costs fully financed by their employer, but by 1998 this had fallen to 28%. We discuss the theory of why employers might shift premiums to their employees, and empirically model the role of six factors suggested by the theory. We find that large impacts came from falling tax rates, rising eligibility for insurance through the Medicaid system and through spouses, and deteriorating economic conditions (in the late 1980s and early 1990s). We also find much more modest impacts of increased managed care penetration and rising health care costs. Overall, this set of factors can explain about one-quarter of the rise in employee premiums over the 1982-1996 period.

TI Social Security and Elderly Living Arrangements. **AU** Engelhardt, Gary V.; Gruber, Jonathan; Perry, Cynthia D.

PD May 2002. **TI** Estimating Price Elasticities When There is Smuggling: The Sensitivity of Smoking to Price in Canada. **AU** Gruber, Jonathan; Sen, Anindya; Stabile, Mark. **AA** Gruber: MIT and NBER. Sen: University of Waterloo. Stabile: University of Toronto. **SR** National Bureau of Economic Research Working Paper: 8962; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H20, I12, I18. **KW** Price Elasticities. Smuggling. Tax Policies. Smoking.

AB A central parameter for evaluating tax policies is the price elasticity of demand for cigarettes. But in many countries this parameter is difficult to estimate reliably due to widespread smuggling, which significantly biases estimates using legal sales data. An excellent example is Canada, where widespread smuggling in the early 1990s, in response to large tax increases, biases upwards the response of legal cigarette sales to price. We surmount this problem through two approaches: excluding the provinces and years where smuggling was greatest; and using household level expenditure data on smoking, where there is a downward bias to estimated elasticities from smuggling. These two approaches yield a tightly estimated elasticity in the range of -0.45 to -0.47. We also show that the sensitivity of smoking to price is much larger among lower income Canadians. In the context of recent behavioral models of smoking, whereby higher taxes reduce unwanted smoking among price sensitive populations, this finding suggests that cigarette taxes may not be as regressive as previously suggested. Finally, we show that price increases on cigarettes do not increase, and may actually decrease, consumption of alcohol; as a result, smuggling of cigarettes may have raised consumption of alcohol as well.

Guell, Maia

PD March 2002. **TI** Fixed-Term Contracts and the Duration Distribution of Unemployment. **AA** Universitat Pompeu Fabra and CEPR. **SR** CEPR Discussion Paper: 3264; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C41, J63, J64. **KW** Cross-Sectional Data. Duration Model. Turnover.

AB In the mid-1980s, many European countries introduced fixed-term contracts. Since then their labor markets have

become more dynamic. This paper studies the implications of such reforms for the duration distribution of unemployment, with particular emphasis on the changes in the duration dependence. I estimate a parametric duration model using cross-sectional data drawn from the Spanish Labor Force Survey from 1980-94 to analyze the chances of leaving unemployment before and after the introduction of fixed-term contracts. I find that duration dependence has increased since such reform. Semi-parametric estimation of the model also shows that for long spells, the probability of leaving unemployment has decreased since such reform.

Guerin, Jean-Louis

TI Demographic Evolutions and Unemployment: An Analysis of French Labour Market with Workers Generations. **AU** Chateau, Jean; Guerin, Jean-Louis; Legros, Florence.

TI Evolutions démographiques et marché du travail: des liens complexes parfois contradictoires (Demographic Evolutions and Labour Market: Complex and Conflicting Links). **AU** Cadiou, Loic; Genet, Julien; Guerin, Jean-Louis.

TI MIRAGE, a Computable General Equilibrium Model for Trade Policy Analysis. **AU** Bchir, Mohamed Hedi; Decreux, Yvan; Guerin, Jean-Louis; Jean, Sebastien.

Guiso, Luigi

PD March 2002. **TI** Does Local Financial Development Matter? **AU** Guiso, Luigi; Sapienza, Paola; Zingales, Luigi. **AA** Guiso: Ente Luigi Einaudi, Roma and CEPR. Sapienza: Northwestern University and CEPR. Zingales: University of Chicago. **SR** CEPR Discussion Paper: 3307; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** K22, O16. **KW** Financial Development. Financial Integration. Entrepreneurship. Economic Development.

AB We study the effects of differences in local financial development within an integrated financial market. To do so, we construct a new indicator of financial development by estimating a regional effect on the probability that, *ceteris paribus*, a household is shut off from the credit market. By using this indicator we find that financial development enhances the probability an individual starts their own business, favors entry, increases competition, and promotes growth of firms. As predicted by theory, these effects are weaker for larger firms, which can more easily raise funds outside of the local area. Overall, the results suggest local financial development is an important determinant of the economic success of an area even in an environment where there are no frictions to capital movements.

PD May 2002. **TI** Does Local Financial Development Matter? **AU** Guiso, Luigi; Sapienza, Paola; Zingales, Luigi. **AA** Guiso: Ente Per Gli Studi Bancari, Italy. Sapienza: Northwestern University. Zingales: University of Chicago, NBER, and CEPR. **SR** National Bureau of Economic Research Working Paper: 8923; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G10, G20, O40, R11. **KW** Local Financial Development. Growth of Firms. Self-Employment.

AB See the abstract for Guiso, Luigi; Sapienza, Paola;

Zingales, Luigi. March 2002r, "Does Local Financial Development Matter?" CEPR Discussion Paper: 3307; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

Gupta, Sanjeev

TI Issues in Domestic Petroleum Pricing in Oil-Producing Countries. AU Clements, Benedict J.; Fletcher, Kevin T.; Gupta, Sanjeev; Inchauste, Gabriela.

TI Issues in Domestic Petroleum Pricing in Oil-Producing Countries. AU Clements, Benedict J.; Fletcher, Kevin T.; Gupta, Sanjeev; Inchauste, Gabriela.

Gyourko, Joseph

TI The Impact of Zoning on Housing Affordability. AU Glaeser, Edward L.; Gyourko, Joseph.

Haacker, Markus

TI It's Not What You Make, It's How You Use IT: Measuring the Welfare Benefits of the IT Revolution Across Countries. AU Bayoumi, Tamim; Haacker, Markus.

Haag, Matthew

PD October 2002. TI On the Size and Structure of Group Cooperation. AU Haag, Matthew; Lagunoff, Roger. AA Haag: University of Warwick. Lagunoff: Georgetown University. SR Wallis Institute of Political Economy Working Paper: 33; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. PG 20. PR 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. JE C71, C72, D62, D72, D74. KW Repeated Games. MAC Likelihood. Heterogeneous Agents. Discount Factors. Returns to Scale. Cooperation.

AB This paper examines characteristics of cooperative behavior in a repeated, n-person, continuous action generalization of a Prisoner's Dilemma game. When time preferences are heterogeneous and bounded away from one, how does group cooperation vary with the group's size and structure? For an arbitrary distribution of discount factors, we characterize the maximal average cooperation (MAC) likelihood of this game. The MAC likelihood is the highest average level of cooperation, over all stationary subgame perfect equilibrium paths, in the group. We show that the MAC likelihood is increasing in monotone shifts, and decreasing in mean preserving spreads, of the distribution of discount factors. This suggests that more heterogeneous groups are less cooperative. Finally, we show under certain conditions that the MAC likelihood exhibits increasing returns to scale when discounting is heterogeneous: larger groups are more cooperative than smaller ones. By contrast, when discounting is homogeneous, the MAC likelihood is invariant to group size.

Hafner, Christian

PD January 2003. TI Semiparametric Multivariate GARCH Models. AU Hafner, Christian; Rombouts, Jeroen. AA Hafner: Erasmus University Rotterdam. Rombouts: Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/03; CORE/Stat Library, Center for Operations

Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 13. PR \$5 per paper; \$100 per year. JE C14, C22. KW Multivariate GARCH Models. Semiparametric Methods. Efficient Estimation.

AB Estimation of multivariate GARCH models is usually carried out by quasi maximum likelihood (QMLE), for which recently consistency and asymptotic normality have been proven under quite general conditions. However, there are to date no results on the efficiency loss of QMLE if the true innovation distribution is not multivariate normal. We investigate this issue by suggesting a nonparametric estimation of the multivariate innovation distribution, based on consistent parameter estimates obtained by QMLE. We give conditions under which the semiparametric efficiency bound can be attained. A simulation experiment demonstrates the efficiency gain of our procedure compared with QMLE, and an application to a bivariate stock index series illustrates the results.

Haimanko, Ori

PD December 2002. TI On Efficiency and Sustainability in a Collective Decision-Making Problem with Heterogeneous Agents. AU Haimanko, Ori; Le Breton, Michel; Weber, Shlomo. AA Haimanko: Ben-Gurion University and University of New York. Le Breton: Universite de Toulouse, GREQAM, and IDEI. Weber: Southern Methodist University and Universite Catholique de Louvain. SR CORE Discussion Paper: 2002/72; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 39. PR \$5 per paper; \$100 per year. JE C71, D74, H41. KW Efficiency. Sustainability. Project-User Configuration. Partition. Core.

AB In this paper we examine a collective decision problem, where the set of heterogeneous individuals is partitioned into several groups, each choosing its own policy (e.g., location of a public project) from the given policy space. We first consider the notion of "efficient" partition that minimizes the total policy-related costs and aggregate personalized costs. We then examine "sustainable" partitions, in which the policy-related costs can be distributed in a way that no subgroup (belonging to the partition or not) has an incentive to break away from the rest and to set its own policy. Our main result is that, with a unidimensional policy space and single-peaked personalized costs, every efficient partition is sustainable. We further describe some important features of efficiency by characterizing the efficient distribution (and number) of policies chosen from the policy space when their cost is small. It turns out that efficiency is achieved when the distribution of policies follows the square root of the density of individuals' ideal choices.

Haines, Michael R.

TI The Welfare of Children During the Great Depression. AU Fishback, Price V.; Haines, Michael R.; Kantor, Shawn.

Haldrup, Niels

TI Long-Run Forecasting in Multicointegrated Systems. AU Siliverstovs, Boriss; Engsted, Tom; Haldrup, Niels.

Halka, Dominika

TI Systematic Liquidity. AU Huberman, Gur; Halka, Dominika.

Hall, Bronwyn H.

TI Post-Issue Patent "Quality Control": A Comparative Study of US Patent Re-examinations and European Patent Oppositions. AU Graham, Stuart J. H.; Hall, Bronwyn H.; Harhoff, Dietmar; Mowery, David C.

Hall, George

TI Middlemen versus Market Makers: A Theory of Competitive Exchange. AU Rust, John; Hall, George.

PD July 2002. TI Econometric Methods for Endogenously Sampled Time Series: The Case of Commodity Price Speculation in the Steel Market. AU Hall, George; Rust, John. AA Hall: Yale University. Rust: University of Maryland. SR Yale Cowles Foundation Discussion Paper: 1376; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 54. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C13, C15. KW Endogenous Sampling. Markov Processes. Maximum Likelihood. Simulation Estimation.

AB This paper studies the econometric problems associated with estimation of a stochastic process that is endogenously sampled. Our interest is to infer the law of motion of a discrete-time stochastic process (p_t) that is observed only at a subset of times (t_1, \dots, t_n) that depend on the outcome of a probabilistic sampling rule that depends on the history of the process as well as other observed covariates x_t . We focus on a particular example where p_t denotes the daily wholesale price of a standardized steel product. The endogenous sampling problem arises from the fact that the firm only records p_t on the days that it purchases steel. We derive a parametric partial information maximum likelihood (PIML) estimator that solves the endogenous sampling problem and efficiently estimates the unknown parameters of a Markov transition probability that determines the law of motion for the underlying (p_t) process. We also introduce an alternative consistent, less efficient, but computationally simpler simulated minimum distance (SMD) estimator that avoids high dimensional numerical integrations required by the PIML estimator.

Hall, Robert E.

PD March 2002. TI Industry Dynamics with Adjustment Costs. AA Stanford University and NBER. SR National Bureau of Economic Research Working Paper: 8849; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 35. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D92, E31, J23. KW Adjustment Costs. Demand Shifts.

AB Adjustment costs determine the dynamics of the response of an industry's output to a shift in demand. Absent any adjustment costs, an increase in demand not accompanied by any change in factor prices raises output, labor, capital, and materials in the same proportion. In the presence of adjustment costs, the elasticity of the response of factors with higher costs is less than one while the elasticity of those without adjustment costs exceeds one. I develop a model of industry dynamics to capture these properties and a related econometric framework to infer adjustment costs from the observed ratios of factor

responses to output responses. I find relatively precise evidence of moderate adjustment costs.

Hallward-Driemeier, Mary

PD April 2002. TI Exports and Manufacturing Productivity in East Asia: A Comparative Analysis with Firm-Level Data. AU Hallward-Driemeier, Mary; Iarossi, Giuseppe; Sokoloff, Kenneth L. AA Hallward-Driemeier and Iarossi: World Bank. Sokoloff: UCLA. SR National Bureau of Economic Research Working Paper: 8894; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 37. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F10, O14, O30, O40. KW Exports. Productivity. East Asia. Manufacturing Sector.

AB This paper uses new firm-level data from five East Asian countries to explore the patterns of manufacturing productivity across the region. One of the striking patterns that emerges is how the extent of openness and the competitiveness of markets affects the relative productivity of firms across the region. Firms with foreign ownership and firms that export are significantly more productive, and the productivity gap is larger the less developed is the local market. We exploit the rich set of firm characteristics available in the database to explore the sources of export firms' greater productivity. We argue that it is in aiming for export markets that firms make decisions that raise productivity. It is not simply that more-productive firms self-select into exporting; rather, firms that explicitly target export markets consistently make different decisions regarding investment, training, technology and the selection of inputs, and thus raise their productivity.

Hansen, Karsten T.

TI Removing the Veil of Ignorance in Assessing the Distributional Impacts of Social Policies. AU Carneiro, Pedro; Hansen, Karsten T.; Heckman, James J.

Hansen, Peter Reinhard

PD January 2003. TI Consistent Preordering with an Estimated Criterion Function, with an Application to the Evaluation and Comparison of Volatility Models. AU Hansen, Peter Reinhard; Lunde, Asger. AA Hansen: Brown University. Lunde: Aarhus University. SR Brown University, Department of Economics Working Paper: 2003/01; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. PG 26. PR no charge. JE C22, C52, C53. KW Consistent Preordering. Model Comparison. Model Selection. Volatility Models.

AB This paper explores problem that can arise when alternatives are compared using an estimated criterion function. We consider a general framework where stochastic sequences are ranked according to expected loss, using a parametric loss function. Besides the true preordering an empirical preordering and its asymptotic limit are of interest. We show that these preorderings are not equivalent in general and provide conditions that ensure the equivalence. We apply the framework to out-of-sample comparisons of ARCH-type models, where the need to substitute a proxy for the unobserved conditional variance, σ_t , $t=1, 2, \dots$ can induce an inconsistency in the ranking of models. The reason is that the measurement error of can distort the ranking -- even as the sample size increases. The practical relevance of our theoretical results is accentuated

by the empirical findings and a simulation study. In the context of volatility models, our results provide an additional argument for using intra-day data to approximate σ_t , such as realized volatility.

PD January 2003. **TI** Testing the Significance of Calendar Effects. **AU** Hansen, Peter Reinhard; Lunde, Asger. **AA** Hansen: Brown University. Lunde: Aarhus University. **SR** Brown University, Department of Economics Working Paper: 2002/03; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. **PG** 39. **PR** no charge. **JE** C12, C22, G14. **KW** Calendar Effects. Data Mining. Significance Test.

AB When evaluating the significance of calendar effects, such as those associated with Monday and January, it is necessary to control for all possible calendar effects to avoid spurious results. The downside of having to control for a large number of possible calendar effects is that it diminishes the power and makes it harder to detect real anomalies. This paper contributes to the discussion of calendar effects and their significance. We derive a test for calendar specific anomalies, which controls for the full space of possible calendar effects. This test achieves good power properties by exploiting a particular correlation structure, and its main advantage is that it is capable of producing data-mining robust significance. We apply the test to stock indices from Denmark, France, Germany, Hong Kong, Italy, Japan, Norway, Sweden, UK, and USA. Our findings are that calendar effects are significant in most series, and it is primarily end-of-the-year effects that exhibit the largest anomalies. In recent years it seems that the calendar effects have diminished except in small cap stock indices.

PD March 2003. **TI** Choosing the Best Volatility Models: The Model Confidence Set Approach. **AU** Hansen, Peter Reinhard; Lunde, Asger; Nason, James M. **AA** Hansen: Brown University. Lunde: Aarhus University. Nason: University of British Columbia and Federal Reserve Bank of Atlanta. **SR** Brown University, Department of Economics Working Paper: 2003/05; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. **PG** 31. **PR** no charge. **JE** C12, C19, C44, C52, C53. **KW** Forecasting. Model Selection. Multiple Comparison. Data Mining.

AB This paper applies the Model Confidence Set (MCS) procedure of Hansen, Lunde, and Nason (2003) to a set of volatility models. A MCS is analogous to confidence interval of a parameter in the sense that the former contains the best forecasting model with a certain probability. The key to the MCS is that it acknowledges the limitations of the information in the data. The empirical exercise is based on 55 volatility models and the MCS includes about a third of these when evaluated by mean square error, whereas the MCS contains only a VGARCH model when mean absolute deviation criterion is used. We conduct a simulation study which shows the MCS captures the superior models across a range of significance levels. When we benchmark the MCS relative to a Bonferroni bound, the latter delivers inferior performance.

PD April 2003. **TI** Asymptotic Tests of Composite Hypotheses. **AA** Brown University. **SR** Brown University, Department of Economics Working Paper: 2003/09; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website:

www.econ.brown.edu/working_papers. **PG** 30. **PR** no charge. **JE** C12, C30, C52. **KW** Composite Hypotheses. Similarity. Unbiased Tests. Multiple Comparisons.

AB Test statistics that are suitable for testing composite hypotheses are typically non-pivotal, and conservative bounds are commonly used to test composite hypotheses. In this paper, we propose a testing procedure for composite hypotheses that incorporates additional sample information. This avoids, as $n \rightarrow \infty$, the use of conservative bounds and leads to tests with better power than standard tests. The testing procedure satisfies a novel similarity condition that is relevant for asymptotic tests of composite hypotheses, and we show that this is a necessary condition for a test to be unbiased. The procedure is particularly useful for simultaneous testing of multiple inequalities, in particular when the number of inequalities is large. This is the situation for the multiple comparisons of forecasting models, and we show that the new testing procedure dominates the 'reality check' of White (2000) and avoids certain pitfalls.

Hanushek, Eric A.

PD February 2002. **TI** Publicly Provided Education. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 8799; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 95. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H41, H42, I21, I22, I28. **KW** Education Provision. Efficiency of Provision. Schooling Outcomes. Schooling Inputs.

AB Historically, most attention in public programs has been given to the resources devoted to the activity, and resources have been used to index both commitment and quality. Education differs from other areas of public expenditure because direct measures of outcomes are available, making it possible to consider results and, by implication, to consider the efficiency of provision. The basic evidence suggests that there are serious performance problems with government supply because purchased inputs to schools are not closely related to outcomes. This paper reviews that evidence as well as evaluates various controversial aspects including issues of causality, consumer behavior, and estimation approaches. Two detailed policy areas are discussed in terms of the evidence on performance: public versus private provision and the financing of schools.

PD May 2002. **TI** Efficiency and Equity in Schools Around the World. **AU** Hanushek, Eric A.; Luque, Javier A. **AA** Hanushek: Stanford University and NBER. Luque: Banco Central de Reserva del Peru. **SR** National Bureau of Economic Research Working Paper: 8949; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H40, I20, J24. **KW** Efficiency. Equity. Education. Human Capital.

AB Attention to the quality of human capital in different countries naturally leads to concerns about how school policies relate to student performance. The data from the Third International Mathematics and Science Study (TIMSS) provide a way of comparing performance in different schooling systems. The results of analyses of educational production functions within a range of developed and developing countries show general problems with the efficiency of resource usage

similar to those found previously in the United States. These effects do not appear to be dictated by variations related to income level of the country or level of resources in the schools. Neither do they appear to be determined by school policies that involve compensatory application of resources. The conventional view that school resources are relatively more important in poor countries also fails to be supported.

Harhoff, Dietmar

TI Post-Issue Patent "Quality Control": A Comparative Study of US Patent Re-examinations and European Patent Oppositions. **AU** Graham, Stuart J. H.; Hall, Bronwyn H.; Harhoff, Dietmar; Mowery, David C.

Harmon, Colm P.

TI Education Policy Reform and the Return to Schooling from Instrumental Variables. **AU** Denny, Kevin J.; Harmon, Colm P.

TI The Impact of Education and Training on the Labour Market Experiences of Young Adults. **AU** Denny, Kevin J.; Harmon, Colm P.

TI Functional Literacy, Educational Attainment and Earnings -- Evidence from the International Adult Literacy Survey. **AU** Denny, Kevin J.; Harmon, Colm P.; Redmond, Sandra.

Harney, Matthew

PD July 2002. **TI** Rational Pessimism: Predicting Equity Returns Using Tobin's q and Price/Earnings Ratios. **AU** Harney, Matthew; Tower, Edward. **AA** Harney: Salomon Smith Barney. Tower: Duke University. **SR** Duke University Department of Economics Working Paper: 02/29; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 19. **PR** no charge. **JE** G12. **KW** Tobin's q . Price Earnings Ratio. Returns. Equities.

AB In the spring of 2000, two books predicted a substantial fall in the S&P500 Index. Robert Shiller's "Irrational Exuberance" found that, historically, a high price earnings ratio, with real earnings averaged over 10 years, accurately predicts a low real rate of return from investing in the S&P500 Index. Smithers and Wright's "Valuing Wall Street" found that a high Tobin's q for the non-financial equities in the S&P500 does the same. We discover that q beats all variants of the PE ratio for predicting real rates of return over alternative horizons. We also formalize the feedback mechanisms considered in both books.

Harris, Trevor S.

PD December 1999. **TI** The Share Price Effects of Dividend Taxes and Tax Imputation Credits. **AU** Harris, Trevor S.; Hubbard, R. Glenn; Kemsley, Deen. **AA** Harris and Kemsley: Columbia University. Hubbard: Columbia University and NBER. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/00/02; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 34. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** G32, G38, H32. **KW** Dividend Taxes. Share Prices.

AB We examine the hypothesis that dividend taxes are

capitalized into share prices by focusing on investors' implicit valuations of retained earnings versus paid-in equity. Retained earnings are distributable as taxable dividends, whereas paid-in equity is distributable as a tax-free return of capital. Consistent with dividend tax capitalization, firm-level results for the United States indicate that accumulated retained earnings are valued less per unit than contributed capital. In addition, differences in dividend tax rates across U.S. tax regimes are associated with predictable differences in the magnitude of the implied tax discount for retained earnings, as are differences in dividend tax rates across Australia, Japan, France, Germany, and the United Kingdom.

Harrison, Ann E.

PD April 2002. **TI** Global Capital Flows and Financing Constraints. **AU** Harrison, Ann E.; Love, Inessa; McMillan, Margaret S. **AA** Harrison: University of California, Berkeley and NBER. Love: World Bank. McMillan: Tufts University. **SR** National Bureau of Economic Research Working Paper: 8887; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, F36. **KW** Foreign Direct Investment. Crowding Out. Global Capital Flows.

AB Firms often cite financing constraints as one of their primary obstacles to investment. Global capital flows, by bringing in scarce capital, may ease host-country firms' financing constraints. However, if incoming foreign investors borrow heavily from domestic banks, direct foreign investment (DFI) may exacerbate financing constraints by crowding host country firms out of domestic capital markets. Combining a unique cross-country firm-level panel with time-series data on restrictions on international transactions and capital flows, we find that different measures of global flows are associated with a reduction in firm-level financing constraints. First, we show that one type of capital inflow -- DFI -- is associated with a reduction in financing constraints. Second, we test whether restrictions on international transactions affect firms' financing constraints. Our results suggest that only one type of restriction -- those on capital account transactions -- negatively affect firms' financing constraints. We also show that multinational firms are not financially constrained and do not appear to be sensitive to the level of DFI. This implies that DFI eases financing constraints for non-multinational firms. Finally, we show that DFI only eases financing constraints in the non-G7 countries.

TI Moving to Greener Pastures? Multinationals and the Pollution Haven Hypothesis. **AU** Eskeland, Gunnar A.; Harrison, Ann E.

Harrison, Sharon G.

PD March 2002. **TI** Did Sunspot Forces Cause the Great Depression? **AU** Harrison, Sharon G.; Weder, Mark. **AA** Harrison: Columbia University. Weder: Humboldt University. **SR** CEPR Discussion Paper: 3267; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E32, N12. **KW** Great Depression. Sunspots. General Equilibrium.

AB We apply a dynamic general equilibrium model to the period of the Great Depression. In particular, we examine a modification of the real business cycle model in which the

possibility of indeterminacy of equilibria arises. In other words, agents' self-fulfilling expectations can serve as a primary impulse behind fluctuations. We find that the model, driven only by these measured sunspot shocks, can explain well the entire Depression era; that is, the decline from 1929-32, the subsequent slow recovery and the recession that occurred in 1937-38.

Hasan, Iftekhar

TI The Effects of Focus and Diversification on Bank Risk and Return: Evidence from Individual Bank Loan Portfolios. **AU** Acharya, Viral V.; Hasan, Iftekhar; Saunders, Anthony.

Hausmann, Ricardo

PD May 2002. **TI** Economic Development as Self-Discovery. **AU** Hausmann, Ricardo; Rodrik, Dani. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8952; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L10, O10. **KW** Economic Development. Investment. Laissez-Faire.

AB In the presence of uncertainty about what a country can be good at producing, there can be great social value to discovering costs of domestic activities because such discoveries can be easily imitated. We develop a general equilibrium framework for a small open economy to clarify the analytical and normative issues. We highlight two failures of the laissez-faire outcome: there is too little investment and entrepreneurship *ex ante*, and too much production diversification *ex post*. Optimal policy consists of counteracting these distortions: to encourage investments in the modern sector *ex ante*, but to rationalize production *ex post*. We provide some informal evidence on the building blocks of our model.

Head, Keith

PD January 2002. **TI** Illusory Border Effects: Distance Mismeasurement Inflates Estimates of Home Bias in Trade. **AU** Head, Keith; Mayer, Thierry. **AA** Head: University of British Columbia. Mayer: University of Paris I Pantheon-Sorbonne, CEPII, and CEPR. **SR** CEPII Working Paper: 2002/01; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 30. **PR** no charge. **JE** F02, F15. **KW** Border Effect. Gravity Equation. Distance Measurement.

AB The measured effect of national borders on trade seems too large to be explained by the apparently small border-related trade barriers. This puzzle was first presented by McCallum (1995) and has gone to spawn a large and growing literature on the so-called border effects. This paper argues that, because distances are always mismeasured in the existing literature, the border effects may have been mismeasured in a way that leads to a systematic overstatement. The paper focuses on developing a correct measure of distance that would be consistent for international as well as intra-national trade flows. It shows how using the existing methods for calculating distance leads to "illusory" border and adjacency effects. It applies the methods to data of interstate trade in the United States and of inter-member trade in the European Union. This new measure of distance reduces the estimated border effects but does not eliminate them. While the paper does not solve the border effect

puzzle, it shows a way to shrink it.

TI Estimating the Knowledge-Capital Model of the Multinational Enterprise: Comment. **AU** Blonigen, Bruce A.; Davies, Ronald B.; Head, Keith.

Heal, Geoffrey

TI Interdependent Security: The Case of Identical Agents. **AU** Kunreuther, Howard; Heal, Geoffrey.

PD January 1999. **TI** Valuing Ecosystem Services. **AA** Columbia University. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/98/12; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 9. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** Q21, Q26, Q31, Q32. **KW** Ecosystem Services. Valuation. Conservation.

AB I review some of the basic economic principles necessary for understanding some of the questions that arise in this area. I argue that even with the best possible data and scientific understanding, the sense in which economists can value nature's services is limited. I also argue that valuing these services is much less important than providing incentives for their conservation, and that valuation and providing incentives for conservation are quite different tasks. Valuation is neither necessary nor sufficient for conservation, whereas providing the right incentives is.

PD July 1999. **TI** Biodiversity as a Commodity. **AA** Columbia University. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/07; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 24. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** Q51, Q56, Q57. **KW** Biodiversity. Economic Commodity. Value.

AB What is the nature of biodiversity as an economic commodity and why does it matter? How would its conservation contribute economically to our well being? I consider three issues: Why is biodiversity important from an economic perspective? What kind of commodity is it? Does our usual economic mechanism, the market system, have the capacity to appreciate the economic value of biodiversity? I first characterize biodiversity from an economic perspective, and then consider the capacity of our main economic institutions to realize the value of biodiversity and ensure that it is treated in a way commensurate with its importance.

Heathcote, Jonathan

PD March 2002. **TI** Financial Globalization and Real Regionalization. **AU** Heathcote, Jonathan; Perri, Fabrizio. **AA** Heathcote: Duke University. Perri: New York University. **SR** CEPR Discussion Paper: 3268; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F36, F41. **KW** Business Cycles. International Transmission.

AB Over the period 1972-86, the correlations of GDP, employment and investment between the United States and an aggregate of Europe, Canada, and Japan were respectively 0.76, 0.66 and 0.63. For the period 1986 to 2000 the same correlations were much lower: 0.26, 0.03, and -0.07 (real regionalization). At the same time, US international asset trade has significantly increased. For example, between 1972-99, United States gross FDI and equity assets in the same group of countries rose from 4 to 23% of the US capital stock (financial globalization). We document that the correlation of real shocks between the US and the rest of the world has declined. We then present a model in which international financial market integration occurs endogenously in response to less correlated shocks. Financial integration further reduces international correlations in GDP and factor supplies. We find that both less correlated shocks and endogenous financial market development are needed to account for all the changes in the international business cycle.

Heckman, James J.

TI Removing the Veil of Ignorance in Assessing the Distributional Impacts of Social Policies. **AU** Carneiro, Pedro; Hansen, Karsten T.; Heckman, James J.

Hege, Ulrich

TI The Value of Benchmarking. **AU** Bergemann, Dirk; Hege, Ulrich.

Henry, Peter Blair

TI Capital Account Liberalization: Allocative Efficiency or Animal Spirits? **AU** Chari, Anusha; Henry, Peter Blair.

Hindriks, Jean

TI Majority Support for Progressive Income Taxation with Corner Preferences. **AU** De Donder, Philippe; Hindriks, Jean.

Hines, James R., Jr.

TI International Taxation. **AU** Gordon, Roger H.; Hines, James R., Jr..

PD April 2002. **TI** On the Timeliness of Tax Reform. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 8909; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H21, H25, K34. **KW** Tax Reform. Tax Avoidance. Government Policy.

AB This paper analyzes efficient reactions of policy makers to unanticipated tax avoidance. The strategy of many governments is to reform their tax laws and regulations to reduce the effectiveness of elaborate tax avoidance techniques as soon as they are identified. This tax reform process can successfully prevent the widespread use of new tax avoidance strategies, and in that way prevents erosion of the tax base. But it also encourages the rapid development of new tax avoidance techniques by innovators whose competitors are thereby unable to copy their methods -- as a consequence of which, there can be a great premium on being the first to develop and use a new tax avoidance method. An activist reform agenda may therefore divert greater resources into tax avoidance activity, and lead to a faster rate of tax base erosion, than would a less reactive

government strategy. Efficient government policy therefore often entails a slow and deliberate pace of tax reform in response to taxpayer innovation.

Hodrick, Robert

PD December 1999. **TI** Do We Need Multi-Country Models to Explain Exchange Rate and Interest Rate Dynamics? **AU** Hodrick, Robert; Vassalou, Maria. **AA** Hodrick: Columbia University and NBER. Vassalou: Columbia University and CEPR. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/00/01; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 16. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** F37, F41. **KW** Exchange Rates. Interest Rates. Multi-Country Models. Two-Country Models.

AB This paper examines characterizations of exchange rate and short-term interest rate dynamics, based on the implications of multi-country versions of the Cox, Ingersoll, and Ross (1985) class of term structure models. The countries considered are the US, Germany, Japan, and the UK. Our tests reveal that multi-country models are, in some cases, better able to explain the dynamics of exchange rates and interest rates than two-country and single-country models respectively. This is particularly true for the Japanese interest rate as well as the rate of appreciation of the Deutsche mark relative to the US dollar. Our inference is conducted using the small-sample distributions of test statistics, in addition to their asymptotic distributions.

Holden, Steinar

PD April 2002. **TI** The Costs of Price Stability -- Downward Nominal Wage Rigidity in Europe. **AA** University of Oslo. **SR** National Bureau of Economic Research Working Paper: 8865; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E31, E52, J64, K31. **KW** Inflation. Unemployment. Europe.

AB In most European countries, the prevailing terms of employment, including the nominal wage, can only be changed by mutual consent. I show that this feature implies that workers have a strategic advantage in the wage negotiations when they try to prevent a cut in nominal wages. If inflation is so low that some nominal wages have to be cut, the strategic advantage of the workers' induces higher unemployment in equilibrium. The upshot is a long run tradeoff between inflation and unemployment for low levels of inflation. The prediction that low inflation involves higher unemployment in Europe but not in the US, is consistent with previous empirical findings.

Honore, Bo E.

TI Duration Dependence and Time Varying Variables in Discrete Time Duration Models. **AU** D'Addio, Anna Christina; Honore, Bo E.

Horvath, Lajos

PD February 2003. **TI** Bootstrap Misspecification tests for ARCH Based on the Empirical Process of Squared Residuals. **AU** Horvath, Lajos; Kokoszka, Piotr; Teysiere,

Gilles. AA Horvath: University of Utah. Kokoszka: Utah State University. Teyssiere: National Bank of Greece, GREQAM, and Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/09; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 11. PR \$5 per paper; \$100 per year. JE C12, C22. KW ARCH Models. Empirical Process. Goodness-of-Fit Tests. Size-Power Curves. Smooth Bootstrap. Squared Residuals.

AB We propose and study by means of simulations and graphical tools a class of goodness-of-fit tests for ARCH models. The tests are based on the empirical distribution function of squared residuals and smooth (parametric) bootstrap. We examine empirical size and power by means of a simulation study. While the tests have overall correct size, their power strongly depends on the type of alternative and is particularly high when the assumption of Gaussian innovations is violated. As an example, the tests are applied to returns on Foreign Exchange rates.

Hosken, Daniel

PD April 2002. TI Demand System Estimation and its Application to Horizontal Merger Analysis. AU Hosken, Daniel; O'Brien, Daniel P.; Scheffman, David; Vita, Michael. AA FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 246; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 28. PR no charge. JE L13, L23, L49. KW Horizontal Mergers. Demand Elasticities. Manufacturer Merger.

AB The past decade has witnessed remarkable developments in the quantitative analysis of horizontal mergers. Increases in computing power and the quantity and quality of data available have substantially reduced the costs of estimating demand systems using econometric methods. Good estimates of retail demand elasticities can make an important contribution to assessing the potential effects of a manufacturer merger on consumer prices. While estimates of demand relationships can make substantial contributions to merger analysis, it is much like every other area of empirical economics, in that practitioners invariably are forced to confront and resolve a series of difficult econometric and conceptual issues. The purpose of this paper is to identify a number of these issues that we believe researchers and practitioners should address with the ultimate goal of improving the quality of antitrust analysis.

Hoxby, Caroline M.

PD April 2002. TI The Cost of Accountability. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8855; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 15. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H72, I21, I22, I28. KW School Accountability. Costs of Accountability.

AB Discussions of school accountability focus on two issues: poor test administration and the expense of accountability. Up to this point, researchers have focused on test quality and simply assumed that the programs are expensive enough to crowd out other policies, such as class size reduction or higher

teacher salaries. Researchers have also assumed that it is so expensive to have a good accountability program that only poor accountability systems will be affordable. In this paper, I present the facts about how much accountability costs. The facts are easy to obtain because costs show up both as expenditures on government budgets and as revenues on companies' (mainly test makers') accounts. Moreover, it turns out that worrying about measurement error in the cost data is pointless. The costs of accountability programs are so tiny that even the most generous accounting could not make them even appear large, relative to the cost of other education programs. The most expensive programs in the United States generally costless than one quarter of one percent of per pupil spending, and most of these are only as costly as they are because a state is in the "expensive" and temporary phase of developing its own comprehensive tests.

PD April 2002. TI School Choice and School Productivity or Could School Choice Be a Tide that Lifts All Boats? AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8873; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 51. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H42, I21, I22. KW Public Schools. Charter Schools. School Productivity.

AB A school that is more productive is one that produces higher achievement in its pupils for each dollar it spends. In this paper, I comprehensively review how school choice might affect productivity. I begin by describing the importance of school productivity, then explain the economic logic that suggests that choice will affect productivity, and finish by presenting much of the available evidence on school choice and school productivity. The most intriguing evidence comes from three important, recent choice reforms: vouchers in Milwaukee, charter schools in Michigan, and charter schools in Arizona. I show that public school students' achievement rose significantly and rapidly in response to competition, under each of the three reforms. Public school spending was unaffected, so the productivity of public schools rose, dramatically in the case in Milwaukee.

Hubbard, R. Glenn

TI The Share Price Effects of Dividend Taxes and Tax Imputation Credits. AU Harris, Trevor S.; Hubbard, R. Glenn; Kemsley, Deen.

Huberman, Gur

PD March 1999. TI Speculating on a Cure for Cancer: A Non-Event that Made Stock Prices Soar. AU Huberman, Gur; Regev, Tomer. AA Columbia University. SR Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/06; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. PG 26. PR \$5.00

academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. JE G12, G14. KW Underreaction. Biotech Stocks. Informational Efficiency.

AB A front page Sunday New York Times article on a potential development of new drugs to cure cancer caused the price of Entremed (ENMD) stock to rise from 12.063 at the

Friday close, to open at 85 and close near 52 on Monday. The stock price closed above 30 in the two weeks following the Times article. The market's enthusiasm lifted the prices of other biotechnology stocks. Although the market seems to have reacted to genuine news featured in the Times piece, the article in fact contained no new news: the potential breakthrough in cancer research had been published in Nature, and in various popular newspapers (including the Times) more than five months earlier. ENMD stock price change was much milder then. Market reaction was also relatively subdued seven months later, when the Wall Street Journal reported prominently that other laboratories had failed to replicate the results reported in Nature. No contagion to other biotech firms seems to have taken place on these two occasions. These extreme events offer a clean and call into question the role of expectations in the standard finance paradigm, which argues that a security price is the present value of expected future cash flows.

PD June 1999. **TI** Systematic Liquidity. **AU** Huberman, Gur; Halka, Dominika. **AA** Columbia University. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/09; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. **Website:** www.columbia.edu/cu/business/wp/. **PG** 12. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** G12, G19. **KW** Liquidity. Time-varying. Systematic Component.

AB Most of the market microstructure literature has focused on the liquidity of individual securities, whereas most of the asset pricing literature has focused on the association between systematic risk and return. We document the presence of a systematic, time-varying component of liquidity. At the moment, neither the inventory-based, nor the asymmetric information-based approach to liquidity explains the systematic, time-varying component of liquidity.

Huizinga, Harry

PD March 2003. **TI** Deposit Insurance and International Bank Deposits. **AU** Huizinga, Harry; Nicodeme, Gaetan. **AA** Huizinga: CentER, Tilburg University, European Commission, and CEPR. Nicodeme: European Commission. **SR** CEPR Discussion Paper: 3244; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** F34, G18. **KW** Deposit Insurance. International Deposits.

AB This paper examines how international depositors respond to national deposit insurance policies. Countries with explicit deposit insurance are found to be relatively attractive to international non-bank depositors. Schemes characterized by co-insurance, a private administration, and a low deposit insurance premium appear to be particularly favored by these depositors. The sensitivity of non-bank deposits to deposit insurance policies opens up the possibility of international regulatory competition in this area. The EU directive on deposit insurance imposes minimum standards on national deposit insurance policies. This directive, however, is silent on several important features of deposit insurance such as the level of the deposit insurance premium. Hence, it may not preclude regulatory competition in Europe.

Iarossi, Giuseppe

TI Exports and Manufacturing Productivity in East Asia: A Comparative Analysis with Firm-Level Data. **AU** Hallward-Driemeier, Mary; Iarossi, Giuseppe; Sokoloff, Kenneth L.

Ichimura, Hidehiko

PD January 2000. **TI** Direct Estimation of Policy Impacts. **AU** Ichimura, Hidehiko; Taber, Christopher. **AA** Ichimura: University College London and IFS. Taber: Northwestern University. **SR** Institute for Fiscal Studies Working Paper: W00/05; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. **Contact:** mailbox@ifs.org.uk. **Website:** www.ifs.org.uk/workingpapers/index.shtml.

PG 33. **PR** free from website; 3 pounds for hardcopies. **JE** C14, I28. **KW** Regime Switching. Policy Impacts. Semiparametric. Nonparametric.

AB This paper specifies a general set of conditions under which the impacts of a policy can be identified using data generated under a different policy regime. We show that some of the policy impacts can be identified under relatively weak conditions on the data and structure of a model. Based on the identification result we develop estimators of policy impacts. We discuss a nonparametric method to implement the estimation but also discuss semiparametric methods in order to reduce the conditioning dimension. We then provide an empirical example of the impact of tuition subsidies using the ideas. While the framework used in this paper is fairly narrow, we believe this approach can be applied to a broad set of problems.

Inderst, Roman

PD April 2002. **TI** Distributional Conflict in Organisations. **AU** Inderst, Roman; Mueller, Holger M.; Wameryd, Karl. **AA** Inderst: London School of Economics and CEPR. Mueller: New York University and CEPR. Wameryd: Stockholm School of Economics. **SR** CEPR Discussion Paper: 3315; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C72, D74, G31, G34. **KW** Hierarchy. Conflict. Influence Activities. U-Form versus M-Form.

AB Hierarchy can function as an instrument to channel influence activities or power struggles in organizations. Contrary to what has frequently been argued, we show that multi-divisional organizations may involve lower influence costs than single-tier organizations, even though they offer more scope for organizational conflict and have more executives that can be influenced. These benefits derive from two effects. First, part of the conflict in multi-divisional organizations takes place on the division level, where a small number of agents fight over only a fraction of the overall prize. Second, by grouping agents into common divisions, multi-divisional organizations create free-rider problems in rent seeking. We apply our framework to divestitures and the transition from the U- to the M-form by US corporations in the 1920s.

Ireland, Peter N.

PD March 2002. **TI** Implementing the Friedman Rule. **AA** Boston College and NBER. **SR** National Bureau of Economic Research Working Paper: 8821; Working Papers,

NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E51, E52. KW Friedman Rule. Cash-in-Advance.

AB In cash-in-advance models, necessary and sufficient conditions for the existence of an equilibrium with zero nominal interest rates and Pareto optimal allocations place restrictions mainly on the very long-run, or asymptotic, behavior of the money supply. When these asymptotic conditions are satisfied, they leave the central bank with a great deal of flexibility to manage the money supply over any finite horizon. But what happens when these asymptotic conditions fail to hold? This paper shows that the central bank can still implement the Friedman rule if its actions are appropriately constrained in the short run.

Irmen, Andreas

PD March 2002. **TI** National Minimum Wages, Capital Mobility and Global Economic Growth. **AU** Irmen, Andreas; Wigger, Berthold. **AA** Irmen: Harvard University, Universitat Mannheim, and CEPR. Wigger: Universitat Mannheim and CESifo. **SR** CEPR Discussion Paper: 3286; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E24, F21, O41. **KW** Minimum Wages. Technical Change. Unemployment. Capital Mobility.

AB How do national minimum wages affect global economic growth? We address this question in a two-country endogenous growth model with capital mobility that emphasizes a link between wages, savings, and growth. We identify the conditions on technology and national preferences that determine whether national minimum wages are a stimulus or an obstacle to growth. Technology matters because it determines the functional distribution of global income as well as output effects associated with the emergence of national unemployment due to minimum wages. Interestingly, differences in national savings propensities do not only affect the strength of the growth effect associated with minimum wages but may even determine its direction.

Ito, Hiro

TI Capital Account Liberalization, Institutions and Financial Development: Cross Country Evidence. **AU** Chinn, Menzie D.; Ito, Hiro.

Ito, Takatoshi

PD April 2002. **TI** Is Foreign Exchange Intervention Effective? The Japanese Experiences in the 1990s. **AA** University of Tokyo and NBER. **SR** National Bureau of Economic Research Working Paper: 8914; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E58, F31, G15. **KW** Foreign Exchange. Japan. Interventions.

AB This paper examines Japanese foreign exchange interventions from April 1991 to March 2001 based on newly disclosed official data. All the yen-selling (dollar-purchasing) interventions were carried out when the yen/dollar rate was below 125, while all the yen-purchasing (dollar-selling) interventions were carried out when the yen/dollar was above

125. The Japanese monetary authorities, by buying the dollar low and selling it high, have produced large profits, in terms of realized capital gains, unrealized capital gains, and carrying (interest rate differential) profits, from interventions during the ten years. Profits amounted to 9 trillion yen (2% of GDP) in 10 years. Interventions are found to be effective in the second half of the 1990s, when daily yen/dollar exchange rate changes were regressed on various factors including interventions. The US interventions in the 1990s were always accompanied by the Japanese interventions. The joint interventions were found to be 20-50 times more effective than the Japanese unilateral interventions. Japanese interventions were found to be prompted by rapid changes in the yen/dollar rate and the deviation from the long-run mean (say, 125 yen). The interventions in the second half were less predictable than the first half.

Ivaschenko, Iryna V.

TI Asian Flu or Wall Street Virus? Price and Volatility Spillovers of the Tech and Non-Tech Sectors in the United States and Asia. **AU** Chan-Lau, Jorge A.; Ivaschenko, Iryna V.

Jack, William

PD June 2003. **TI** Dynamic Enfranchisement. **AU** Jack, William; Lagunoff, Roger. **AA** Georgetown University. **SR** Wallis Institute of Political Economy Working Paper: 36; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. **PG** 36. **PR** 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. **JE** C73, D72, D78. **KW** Dynamic Games. Voter Enfranchisement. Franchise Extension. Median Voter.

AB Why would a political elite voluntarily dilute its political power by extending the franchise? This paper develops a dynamic recursive framework for studying voter enfranchisement. Each period, private decisions of citizens co-mingle with government policies to act upon a state variable such as capital stock, a public good, or the likelihood of an insurrection. Policies are determined by the median voter such that the enfranchised group can choose, through its median voter, to expand the set of citizens with voting rights. In this way, each period's median voter can effectively delegate decision authority to a new median in the next period. Our main result shows that extensions of the franchise occur in a given period if and only if the private decisions of the citizenry have a net positive spillover to the dynamic payoff of the current median voter. Since the class of games we study can accommodate a number of proposed explanations for franchise extension, the result suggests a common causal mechanism in each of these seemingly different explanations. We describe a number of parametric environments that correspond to the various explanations, and show how the mechanism works in each.

Jacob, Brian A.

PD April 2002. **TI** The Impact of Teacher Training on Student Achievement: Quasi-Experimental Evidence from School Reform Efforts in Chicago. **AU** Jacob, Brian A.; Lefgren, Lars. **AA** Jacob: Harvard University and NBER. Lefgren: Brigham Young University. **SR** National Bureau of

Economic Research Working Paper: 8916; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 24. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I21, I28, J24. KW Education. Teacher Training. School Reform Efforts. In-Service Training.

AB While there is a substantial literature on the relationship between general teacher characteristics and student learning, school districts and states often rely on in-service teacher training as a part of school reform efforts. Recent school reform efforts in Chicago provide an opportunity to examine in-service training using a quasi-experimental research design. In this paper, we use a regression discontinuity strategy to estimate the effect of teacher training on the math and reading performance of elementary students. We find that marginal increases in-service training have no statistically or academically significant effect on either reading or math achievement, suggesting that modest investments in staff development may not be sufficient to increase the achievement of elementary school children in high poverty schools.

PD May 2002. TI Remedial Education and Student Achievement: A Regression-Discontinuity Analysis. AU Jacob, Brian A.; Lefgren, Lars. AA Harvard University and NBER. Lefgren: Brigham Young University. SR National Bureau of Economic Research Working Paper: 8918; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I21, I28, J24. KW Education. Remedial Programs. Selection Bias. School Reform Efforts.

AB As standards and accountability have become an increasingly prominent feature of the educational landscape, educators have relied more on remedial programs such as summer school and grade retention to help low-achieving students meet minimum academic standards. Yet the evidence on the effectiveness of such programs is mixed, and prior research suffers from selection bias. However, recent school reform efforts in Chicago provide an opportunity to examine the causal impact of these remedial education programs. In 1996, the Chicago Public Schools instituted an accountability policy that tied summer school and promotional decisions to performance on standardized tests, which resulted in a highly non-linear relationship between current achievement and the probability of attending summer school or being retained. Using a regression discontinuity design, we find that the net effect of these programs was to substantially increase academic achievement among third graders, but not sixth graders. In addition, contrary to conventional wisdom and prior research, we find that retention increases achievement for third grade students and has little effect on math achievement for sixth grade students.

PD June 2002. TI Where the Boys Aren't: Non-Cognitive Skills, Returns to School and the Gender Gap in Higher Education. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8964; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 18. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I20, J16, J18. KW Gender. Returns to School. Non-Cognitive Skills. Education.

AB Nearly 60 percent of college students today are women. Using longitudinal data on a nationally representative cohort of eighth grade students in 1988, this paper examines two

potential explanations for the differential attendance rates of men and women -- returns to schooling and non-cognitive skills. The attendance gap is roughly five percentage points for all high school graduates. Conditional on attendance, however, there are few differences in type of college, enrollment status or selectivity of institution. The majority of the attendance gap can be explained by differences in the characteristics of men and women, despite some gender differences in the determinants of college attendance. This paper finds that higher non-cognitive skills and college premiums among women account for nearly 90 percent of the gender gap in higher education. Interestingly, non-cognitive factors continue to influence college enrollment after controlling for high school achievement.

PD June 2002. TI Accountability, Incentives and Behavior: The Impact of High-Stakes Testing in the Chicago Public Schools. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8968; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 42. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I20, I28, J24. KW Education. Public Schools. Accountability Policy.

AB The recent federal education bill, No Child Left Behind, requires states to test students in grades three to eight each year, and to judge school performance on the basis of these test scores. While intended to maximize student learning, there is little empirical evidence about the effectiveness of such policies. This study examines the impact of an accountability policy implemented in the Chicago Public Schools in 1996-97. Using a panel of student-level, administrative data, this paper finds that math and reading achievement increased sharply following the introduction of the accountability policy, in comparison to both prior achievement trends in the district and to changes experienced by other large, urban districts in the mid-west. This paper demonstrates that these gains were driven largely by increases in test-specific skills and student effort, and did not lead to comparable gains on a state-administered, low-stakes exam. This paper also finds that teachers responded strategically to the incentives along a variety of dimensions -- by increasing special education placements, preemptively retaining students and substituting away from low-stakes subjects like science and social studies.

Jacobs, Davina Frederika

PD June 2002. TI Suggestions for Alternative Measures of Budget Balance for South Africa. AA IMF. SR International Monetary Fund Working Paper: WP/02/110; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 17. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E62, H62. KW Budget Deficit. Fiscal Indicators. Fiscal Stance.

AB The following hypothesis was set and tested by this study: is the conventional budget balance, as generally accepted and used, still relevant for South Africa? The paper found that several possible alternatives are available but each must be viewed from the standpoint of their applicability to the South African context. Several were not suitable for South Africa -- only because of a serious lack of available data needed to make them operational. The paper also highlights the need for reforms in government financial information in South

Africa.

Jagannathan, Ravi

PD May 2002. TI Risk Reduction in Large Portfolios: Why Imposing the Wrong Constraints Helps. AU Jagannathan, Ravi; Ma, Tongshu. AA Jagannathan: Northwestern University and NBER. Ma: University of Utah. SR National Bureau of Economic Research Working Paper: 8922; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 30. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE C49, G11, G12. KW Risk Reduction. Portfolio Selection. Mean-Variance Portfolios. Covariance Matrices.

AB Mean-variance efficient portfolios constructed using sample moments often involve taking extreme long and short positions. Hence practitioners often impose portfolio weight constraints when constructing efficient portfolios. Green and Hollifield (1992) argue that the presence of a single dominant factor in the covariance matrix of returns is why we observe extreme positive and negative weights. If this were the case then imposing the weight constraint should hurt whereas the empirical evidence is often to the contrary. We reconcile this apparent contradiction. We show that constraining portfolio weights to be nonnegative is equivalent to using the sample covariance matrix after reducing its large elements and then form the optimal portfolio without any restrictions on portfolio weights. This shrinkage helps reduce the risk in estimated optimal portfolios even when they have negative weights in the population. Surprisingly, we also find that once the non-negativity constraint is imposed, minimum variance portfolios constructed using the monthly sample covariance matrix perform as well as those constructed using covariance matrices estimated using factor models, shrinkage estimators, and daily data. When minimizing tracking error is the criterion, using daily data instead of monthly data helps. However, the sample covariance matrix without any correction for microstructure effects performs the best.

Jayachandran, Seema

TI Odious Debt. AU Kremer, Michael; Jayachandran, Seema.

Jean, Sebastien

TI MIRAGE, a Computable General Equilibrium Model for Trade Policy Analysis. AU Bchir, Mohamed Hedi; Decreux, Yvan; Guerin, Jean-Louis; Jean, Sebastien.

Jeanne, Olivier

TI Boom-Busts in Asset Prices, Economic Instability, and Monetary Policy. AU Bordo, Michael D.; Jeanne, Olivier.

Jensen, Christian

PD April 2002. TI The Non-Optimality of Proposed Monetary Policy Rules Under Timeless-Perspective Commitment. AU Jensen, Christian; McCallum, Bennett T. AA Jensen: Carnegie Mellon University. McCallum: Carnegie Mellon University and NBER. SR National Bureau of Economic Research Working Paper: 8882; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 6. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E31, E52, E58. KW Discretionary Monetary Policy.

Policy Rule. Cost-Push Inflation.

AB Several recent papers have usefully emphasized the inefficiency that arises from discretionary monetary policymaking, relative to optimal policy from a "timeless perspective," in macroeconomic models with forward-looking private behavior. The inefficiency in question is in terms of average outcomes of the conditional expectation of a policy objective that reflects the discounted present value of current and future period losses (which involve squared deviations of inflation and output from specified target levels). In the literature, most of the analysis has been conducted in an optimizing model that features a Calvo-Rotemberg price adjustment equation that includes a "cost-push" shock term. This literature suggests that policy, which keeps inflation equal to a negative multiple of the change in the output gap, is optimal with respect to the criterion mentioned above -- the unconditional expectation of the policymaker's objective function. Results reported here show, however, that this is not the case -- that an alternative policy rule, suggested by the approach of "policy design" rather than by "optimal control," delivers superior results.

Jin, Sainan

PD May 2002. TI The KPSS Test with Seasonal Dummies. AU Jin, Sainan; Phillips, Peter C. B. AA Jin: Yale University. Phillips: Yale University, University of Auckland, and University of York. SR Yale Cowles Foundation Discussion Paper: 1373; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 6. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C13, C32. KW KPSS Test. Seasonal Dummies. Stationarity Test. Unit Root.

AB It is shown that the KPSS test for stationarity may be applied without change to regressions with seasonal dummies. In particular, the limit distribution of the KPSS statistic is the same under both the null and alternative hypotheses whether or not seasonal dummies are used.

Johnson, Simon

PD March 2002. TI Property Rights and Finance. AU Johnson, Simon; McMillan, John; Woodruff, Christopher. AA Johnson: MIT and NBER. McMillan: Stanford. Woodruff: University of California, San Diego. SR National Bureau of Economic Research Working Paper: 8852; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 34. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D23, P23. KW Property Rights. Access to External Finance. Entrepreneurs. Post-communist Countries.

AB Which is the tighter constraint on private sector investment: weak property rights or limited access to external finance? From a survey of new firms in post-communist countries, we find that weak property rights discourage firms from reinvesting their profits, even when bank loans are available. Where property rights are relatively strong, firms reinvest their profits; where they are relatively weak, entrepreneurs do not want to invest from retained earnings.

Jones, Charles M.

PD March 1999. TI Execution Costs of Institutional Equity Orders. AU Jones, Charles M.; Lipson, Marc L. AA Jones: Columbia University. Lipson: University of

Georgia. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/01; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 19. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** G19, G20, G23. **KW** Execution Costs. Momentum Traders.

AB We compare institutional execution costs across the major U.S. exchanges using a sample of institutional equity orders in firms that switch exchanges. Execution costs including commissions are essentially indistinguishable across these exchanges. We also find the fraction of trading volume from momentum traders is greater on the NYSE than either the Nasdaq or AMEX and that orders are more likely to be worked by an institution's Wading desk on the NYSE than on the Nasdaq. These results suggest that institutions actively manage execution strategies, taking into account characteristics of the markets in which they trade.

PD April 1999. **TI** Sixteenths: Direct Evidence on Institutional Execution Costs. **AU** Jones, Charles M.; Lipson, Marc L. **AA** Jones: Columbia University. Lipson: University of Georgia and New York Stock Exchange. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/03; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 25. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** G12, G19, G20, G23. **KW** Tick Size. Nasdaq and NYSE. Execution Costs. Trading Costs.

AB In June 1997, the Nasdaq and the New York Stock Exchange (NYSE) each lowered its minimum price increment on most stocks from eighths to sixteenths. Like other researchers investigating similar events, we find that quoted spreads and effective spreads decline in both markets with the introduction of sixteenths. However, spreads do not necessarily measure the cost of trading, particularly for market participants who execute larger orders over time. We use a sample of institutional trades provided by the Plexus Group to directly measure the effect of the tick size reduction on execution costs. For these institutions, average execution costs actually increase post- sixteenths. More importantly, we find strong evidence that the costs of trading increase substantially for traders that demand liquidity. Specifically, while the cost of executing small orders declines, the cost of executing large orders increases and the average execution costs for momentum traders increases. We also find that the cost of executing orders that are not worked by the trading desk increases, and there is an increase in the proportion of orders that are worked. These findings emphasize that spreads are not a sufficient statistic for measuring market quality; they also suggest that smaller price increments reduce market liquidity.

PD June 1999. **TI** Price Impacts and Quote Adjustment on the Nasdaq and NYSE/AMEX. **AU** Jones, Charles M.; Lipson, Marc L. **AA** Jones: Columbia University. Lipson: University of Georgia and New York Stock Exchange. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/08; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website:

www.columbia.edu/cu/business/wp/. **PG** 20. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** G12, G14. **KW** Price Impact. Quote Adjustment. **AB** We compare the price impact of trades across market structures by examining firms that switch exchanges. When firms are listed on the Nasdaq, quoted prices adjust quite slowly to the information contained in order flow. On average, it takes about 5 minutes (or about 6 transactions) for half of the eventual price impact to be incorporated into quotes. In contrast, quotes in NYSE and AMEX firms adjust much more quickly, with half-lives around one transaction. This has important implications for measures of adverse selection or information content. Price impacts are likely to be severely downward biased (particularly on the Nasdaq) if they are estimated using only the immediate quote response. For example, using immediate price impacts (e.g., the change in quotes prior to the next trade), Nasdaq price impacts are far smaller than NYSE price impacts. Using cumulative price impacts four hours later, the conclusions are different: price impacts average about 20 bps on both exchanges. Quote adjustment is too slow to be explained solely by the Madhavan, Richardson, and Roomans (1997) model. For this reason, we model midpoint adjustment using both a VAR and a partial adjustment model. We also discuss possible explanations for this phenomenon.

Jousten, Alain

PD July 2002. **TI** Pensions and Savings in a Monetary Union: An Analysis of Capital Flows. **AU** Jousten, Alain; Legros, Florence. **AA** Jousten: University of Liege, CEPR, and IZA. Legros: CEPII. **SR** CEPII Working Paper: 2002/06; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 22. **PR** no charge. **JE** E62, G23, H55. **KW** Pay-as-You-Go. Pension Funds. Demographic Shock. Savings. Capital Flows.

AB The paper analyzes the economic impact of a simultaneous aging shock in two countries. The countries are identical in all respects except for the financing scheme of their public pension system. While one relies on capitalization, the other one relies on a pay-as-you-go scheme. It shows that the two countries react very differently to the demographic shock and its financial implications. Further, it finds that the presence or the absence of capital mobility considerably affects the results, both in terms of the size of the burden as well as in terms of international capital allocation.

Jung, Jeeman

PD October 2002. **TI** One Simple Test of Samuelson's Dictum for the Stock Market. **AU** Jung, Jeeman; Shiller, Robert J. **AA** Jung: Sangmyung University. Shiller: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1386; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 18. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** G14, G19. **KW** Market Efficiency. Random Walk. Dividend Yield. Dividend Price Ratio. Present Value. Excess Volatility. Gordon Model.

AB Samuelson (1998) offered the dictum that the stock market is "micro efficient" but "macro inefficient." That is, the efficient markets hypothesis works much better for individual

stocks than it does for the aggregate stock market. In this paper, we present one simple test, based both on regressions and on a simple scatter diagram that vividly illustrates that there is some truth to Samuelson's dictum. The data comprise all U.S. firms on the CRSP tape that have survived since 1926.

Kadareja, Arjan

PD December 2001. **TI** The Fiscal Stabilization Policy under EMU -- An Empirical Assessment. **AA** CEPII. **SR** CEPII Working Paper: 2001/20; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 32. **PR** no charge. **JE** C15, C51, E63. **KW** EMU. SGP. Fiscal Policy. Stochastic Simulations. Stabilization Policy.

AB The paper addresses issues linked to the launch of the European Monetary Union and the macroeconomic stability implications for three members (France, Germany and Italy) and one possible future member (the United Kingdom). The investigation is conducted via stochastic simulations using a Taylor G7 multi-country rational expectations structural model, estimated for the period 1980-1996, including Switzerland instead of Canada. The macroeconomic stability outcomes are compared under two exchange rate regimes: the EMU and a hypothetical purely flexible regime. The national fiscal stabilization policy is evidenced to be a useful tool under the EMU for the achievement of similar levels of stability to those of the flexible regime, with Germany and the United Kingdom being exceptions for opposite reasons. Germany may benefit from greater stability of consumer prices by being an EMU member whereas the United Kingdom may lose insofar as the stability of the GDP deflator is concerned.

Kaempfer, William H.

PD June 2002. **TI** Trade Protectionism. **AU** Kaempfer, William H.; Tower, Edward; Willett, Thomas D. **AA** Kaempfer: University of Colorado at Boulder. Tower: Duke University. Willett: Claremont Graduate University and Claremont McKenna College. **SR** Duke University Department of Economics Working Paper: 02/20; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 20. **PR** no charge. **JE** F13. **KW** Tariffs. Quotas. Antidumping. Protectionism.

AB This paper is a short, non-technical exposition of the political economy of protection. It asks how do political forces operate to generate protection, and what determines the magnitude and form that protection takes.

Kaestner, Robert

TI Substance Use and Suicidal Behaviors Among Young Adults. **AU** Chatterji, Pinka; Dave, Dhaval; Kaestner, Robert; Markowitz, Sara.

PD May 2002. **TI** Has Welfare Reform Changed Teenage Behaviors? **AU** Kaestner, Robert; O'Neill, June. **AA** Kaestner: NBER and Baruch College/CUNY. O'Neill: Baruch College/CUNY. **SR** National Bureau of Economic Research Working Paper: 8932; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I20, I30, J12, J13. **KW** Welfare Reform. Fertility. Education. Marriage.

AB We use data from the National Longitudinal Surveys of Youth 1979 and 1997 cohorts to compare welfare use, fertility rates, educational attainment, and marriage rates among

teenage women in the years before and the years immediately following welfare reform. Our first objective is to document differences between these cohorts in welfare use and outcomes and behaviors correlated with "entry" into welfare, and with future economic and social well-being. Our second objective is to investigate the causal role of welfare reform in behavioral change. We find significant differences between cohorts in welfare use and in outcomes related to welfare use. Further, difference-in-differences estimates suggest that welfare reform has been associated with reduced welfare receipt, reduced fertility, reduced marriage, and lower school drop-out among young women who, because of a disadvantaged family background, are at high risk of welfare receipt (relative to those at lower risk). Finally, in the post-welfare reform era, teenage mothers are less likely to receive welfare and are more likely to live with a spouse or to live with at least one parent than in the pre-reform era. Establishing definitively that welfare reform is responsible for these changes among teenagers will require further investigation.

PD May 2002. **TI** Medicaid Managed Care and Infant Health: A National Evaluation. **AU** Kaestner, Robert; Dubay, Lisa; Kenney, Genevieve. **AA** Kaestner: University of Illinois-Chicago and NBER. Dubay and Kenney: Urban Institute. **SR** National Bureau of Economic Research Working Paper: 8936; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I11, I18. **KW** Medicaid. Health. Prenatal Care. Birth.

AB In this study, we examine the effects of Medicaid managed care (MMC) on prenatal care utilization and infant health. We obtain separate estimates of the effect of primary care case management (PCCM) managed care programs and HMO managed care plans on prenatal care utilization, birth weight, and cesarean section. The results suggest the following: MMC was associated with a small, clinically unimportant decrease in the number of prenatal care visits; MMC had no statistically significant relationship to the APNCU index of the adequacy of prenatal care; MMC was associated with a significant increase in the incidence of low- birth weight and pre-term birth; and MMC had no association with the incidence of cesarean section. We argue that a causal interpretation of the first and third findings is unsupported by a careful reading of the evidence, and we conclude that Medicaid managed care had virtually no causal effect on, prenatal care use, birth outcomes, and cesarean section.

Kaiser, Ulrich

PD February 2002. **TI** The Effects of Website Provision on the Demand for German Women's Magazines. **AA** Harvard University, NBER, and Centre for European Economic Research. **SR** National Bureau of Economic Research Working Paper: 8806; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L82, L86. **KW** Website Provision. Market Share. Women's Magazines.

AB The effect of website provision on the demand for German women's magazines is analyzed using differentiated product demand models estimated on panel data that cover the period 1990-2000. Descriptive evidence on the magazines' website contents suggest that websites are used to provide supplementary information and to advertise the current print

issue. Website provision does not significantly affect magazines' market shares. This result is robust with respect to the application of alternative econometric approaches to identify the demand model. A counter-factual analysis shows, however, that online magazines would lose around 0.3 per cent in market share if they went back offline. Likewise, magazines that are currently offline may gain market shares of between 0.07 and 0.37 per cent if they launched a website. Interestingly, some of the potential "winners" from going online actually launched a website in 2001.

Kalai, Ehud

PD September 2001. TI Ex-Post Stability in Large Games. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1351; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 10. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C70, C72. KW Anonymous Games. Nash Equilibrium. Bayesian Equilibrium. Ex-Post Nash. Purification. Interchangeable Equilibria. Rational Expectations.

AB The equilibria of strategic games with many semi-anonymous players have a strong ex-post Nash property. Even with perfect hindsight about the realized types and selected actions of all his opponents, no player has an incentive to revise his own chosen action. This is illustrated for normal form and for one shot Bayesian games with statistically independent types, provided that a certain continuity condition holds. Implications of this phenomenon include strong robustness properties of such equilibria and strong purification result for large anonymous games.

PD March 2002. TI Large Robust Games. AA Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1350; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 12. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, C73. KW Anonymous Games. Nash Equilibrium. Bayesian Equilibrium. Robust Equilibrium. Ex-Post Nash. Rational Expectations.

AB A major modeling difficulty of non-cooperative game theory is the sensitivity of Nash equilibria to details that are not defined by the real life situation they describe. The difficulty is less severe in games with many semi-anonymous players. All the equilibria of such games are extensively robust, they are immune to changes in the order of play, information transmission, cheap talk, commitments, revision possibilities, and more. This is illustrated for normal form games and for one-shot Bayesian games with statistically independent types, subject to a suitable continuity condition on the payoff functions.

Kanda, Daniel

PD July 2002. TI Assessing Monthly Progress Toward Annual Fiscal Revenue Targets. AA IMF. SR International Monetary Fund Working Paper: WP/02/116; IMF, Publication Services, Catalog Orders, 700

19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 26. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE C12, C51, C53, H61. KW Sri Lanka. United States. Fiscal Revenue. Hypothesis Testing.

AB A simple statistical methodology is developed to help evaluate monthly progress toward an annual fiscal revenue target, and the applicability of the methodology to both developing and industrial countries is demonstrated using data for Sri Lanka and the United States.

Kantor, Shawn

TI The Welfare of Children During the Great Depression. AU Fishback, Price V.; Haines, Michael R.; Kantor, Shawn.

TI Can the New Deal's Three R's Be Rehabilitated? A Program-by-Program, County-by-County Analysis. AU Fishback, Price V.; Kantor, Shawn; Wallis, John Joseph.

Kaplan, Steven

PD March 2002. TI Characteristics, Contracts and Actions: Evidence from Venture Capitalist Analyses. AU Kaplan, Steven; Stromberg, Per Johan. AA University of Chicago. SR CEPR Discussion Paper: 3243; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE G24, G32. KW Investment Banking. Venture Capital. Financing Policy. Capital and Ownership Structure. Brokerage.

AB We study the investment analyses of 67 portfolio investments by 11 venture capital (VC) firms. VCs consider the attractiveness and risks of the business, management, and deal terms as well as expected post-investment monitoring. We then consider the relation of the analyses to the contractual terms. Greater internal and external risks are associated with more VC cash flow rights, VC control rights; greater internal risk, also with more contingencies for the entrepreneur; and greater complexity, with less contingent compensation. Finally, expected VC monitoring and support are related to the contracts. We interpret these results in relation to financial contracting theories.

Katz, Lawrence F.

TI Comparative Advantage, Learning, and Sectoral Wage Determination. AU Gibbons, Robert; Katz, Lawrence F.; Lemieux, Thomas; Parent, Daniel.

Katzman, Brett

PD March 2002. TI The Impact of Lending, Borrowing, and Anti-Smoking Policies on Cigarette Consumption by Teens. AU Katzman, Brett; Markowitz, Sara; McGeary, Kerry Anne. AA Katzman: University of Miami. Markowitz: Rutgers University and NBER. McGeary: University of Miami. SR National Bureau of Economic Research Working Paper: 8844; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 36. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I12, I18. KW Tobacco. Youth. Borrowing.

AB A major factor contributing to smoking initiation and experimentation by teenagers is the ability to "bum" cigarettes. Yet research until now has ignored the impact of a

lending/borrowing market on the smoking decisions of teenagers. In this paper, we develop a theoretical model where smoking decisions are determined by an individual's utility maximization process that includes an incentive to lend cigarettes. Predictions from this model are tested using data from the Youth Risk Behavior Surveys that can distinguish between teens who primarily buy and those who primarily bum their cigarettes. We show the ways in which price and restrictions on smoking will impact the decision to buy or bum cigarettes, as well as the impact on the allocation of purchased cigarettes between those self-consumed and those lent to others. Key results indicate that as prices and restrictions increase, teenagers are less likely to be regular smokers who purchase cigarettes and are more likely to consume smaller quantities obtained via the lending market. The basic conclusions are that anti-smoking policies have significant effects on the quantity of cigarettes consumed by teens and that these policies can help reduce the number of teens that escalate from experimental to regular smoking.

Keane, Michael P.

PD August 2002. **TI** Changes in the Structure of Earnings During the Polish Transition. **AU** Keane, Michael P.; Prasad, Eswar S. **AA** Keane: Yale University. Prasad: IMF. **SR** International Monetary Fund Working Paper: WP/02/135; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 31. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** J31, P20. **KW** Wage Inequality. Between-and Within-Group Inequality. Education and Experience Premia. Transition.

AB This paper documents that inequality in labor earnings increased substantially during the economic transition in Poland. One surprising result is that earnings inequality increased markedly in both the private and public sectors, indicating that even state-owned enterprises in Poland moved toward competitive wage setting during the transition. Education premia increased sharply, while experience premia declined. Increases in within-group inequality account for about 60 percent of the increase in overall wage inequality. But, contrary to the experience of countries like the United States, increases in within-group inequality in Poland were very different across skill groups, with much larger increases for highly educated workers.

Keen, Michael

PD July 2002. **TI** Some International Issues in Commodity Taxation. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/124; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 21. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** H20, H73. **KW** Commodity Taxation. Cross-Border Shopping.

AB This paper reviews issues and evidence concerning tax-motivated, cross-border commodity transactions. A distinction is drawn between "arbitrage trades" (driven by cross-country differences in tax rates) and "tax not paid" transactions (motivated by the opportunity to pay no tax at all on transactions with international aspects). Assessment of the severity of the associated policy problems faces the difficulty that the observed extent of cross-border transactions conveys

no information on the induced inefficiency that the possibility of such transactions may generate. Given the difficulty of securing coordination of national tax policies, much of the emphasis in dealing with these problems in the coming years is likely to be on administrative cooperation.

Kehoe, Patrick J.

TI Policy-Driven Productivity in Chile and Mexico in the 1980s and 1990s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

Kehoe, Timothy J.

TI Policy-Driven Productivity in Chile and Mexico in the 1980s and 1990s. **AU** Bergoeing, Raphael; Kehoe, Patrick J.; Kehoe, Timothy J.; Soto, Raimundo.

Keller, Wolfgang

PD January 2003. **TI** Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the United States. **AU** Keller, Wolfgang; Yeaple, Stephen R. **AA** Keller: Brown University and University of Texas. Yeaple: University of Pennsylvania. **SR** Brown University, Department of Economics Working Paper: 2003/06; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. **PG** 52. **PR** no charge. **JE** F23, F36, F41, F43. **KW** Technology Spillovers. FDI. Productivity Gains.

AB We estimate international technology spillovers to U.S. manufacturing firms via imports and foreign direct investment (FDI) between the years of 1987 and 1996. In contrast to earlier work, our results suggest that FDI leads to significant productivity gains for domestic firms. The size of FDI spillovers is economically important, accounting for about 14% of productivity growth in U.S. firms between 1987 and 1996. In addition, there is some evidence for imports-related spillovers, but it is weaker than for FDI. The paper also gives a detailed account of why our study leads to results different from those found in previous work. This analysis indicates that our results are likely to generalize to other countries and periods.

Kemsley, Deen

TI The Share Price Effects of Dividend Taxes and Tax Imputation Credits. **AU** Harris, Trevor S.; Hubbard, R. Glenn; Kemsley, Deen.

Kenney, Genevieve

TI Medicaid Managed Care and Infant Health: A National Evaluation. **AU** Kaestner, Robert; Dubay, Lisa; Kenney, Genevieve.

Keuschnigg, Christian

PD March 2002. **TI** Start-Ups, Venture Capitalists and the Capital Gains Tax. **AU** Keuschnigg, Christian; Nielsen, Soren Bo. **AA** Keuschnigg: University of St Gallen and CEPR. Nielsen: Copenhagen Business School. **SR** CEPR Discussion Paper: 3263; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D82, G24, H24, H25. **KW** Venture Capital. Capital Gains Taxation. Double Moral Hazard.

AB A model of start-up finance with double moral hazard is

proposed. Entrepreneurs have ideas but lack their own resources as well as commercial experience. Venture capitalists provide start-up finance and managerial support. Both types of agents thus jointly contribute to the firm's success, but neither type's effort is verifiable. We find that the market equilibrium is biased towards inefficiently low venture capital support. In this situation, the capital gains tax is particularly harmful. The introduction of a small tax impairs managerial advice and leads to first order welfare losses. Once the tax is in place, limitations on loss offset may paradoxically contribute to higher quality of venture capital backed entrepreneurship and welfare.

Khatri, Yougesh

PD September 2002. TI Corporate Performance and Governance in Malaysia. AU Khatri, Yougesh; Leruth, Luc E.; Piesse, Jenifer. AA Khatri and Leruth: IMF. Piesse: Kings College, University of London and University of Stellenbosch. SR International Monetary Fund Working Paper: WP/02/152; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 16. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE G30. KW Corporate Governance. Stochastic Frontier. Southeast Asian Crisis.

AB This paper measures corporate sector performance (efficiency) and empirically examines the role of corporate governance. A stochastic frontier with inefficiency effects is fitted to a panel dataset of 31 of the largest non-financial companies listed on the Kuala Lumpur Stock Exchange for the period 1995 to 1999. Focusing specifically on the impact of the system of corporate governance and the level of control on firm-level performance, results show an underlying vulnerability in these firms, exacerbated by their reliance on bank-based borrowing and a highly concentrated shareholding structure with complex cross holdings. Furthermore, debt does not appear to have the control features present in outsider systems of corporate governance.

Kim, Sukkoo

PD April 2002. TI The Reconstruction of the American Urban Landscape in the Twentieth Century. AA Washington University in St. Louis and NBER. SR National Bureau of Economic Research Working Paper: 8857; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE N71, N72, R11. KW Urban Areas. Population Density. Employment Density. Nineteenth Century.

AB One of the most important representations of an urban spatial structure is its density. Indeed, an urban area is defined as a densely populated place with a sizeable number of inhabitants. Yet, despite the fact that the defining element of an urban area is its density, few scholars have systematically examined the long-run changes in the densities of economic activities in these areas. This paper documents the historical changes in population and employment densities in U.S. cities and metropolitan areas and explores the causes of their rise and decline between the late nineteenth and the twentieth centuries.

Kireyev, Alexei P.

PD August 2002. TI Liberalization of Trade in Financial Services and Financial Sector Stability (Analytical Approach). AA IMF. SR International Monetary Fund Working Paper:

WP/02/138; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 24. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E42, F40, G20. KW Financial Services. Financial Sector Stability. Trade Liberalization.

AB The paper seeks to establish a link between the liberalization of trade in financial services undertaken by countries under the WTO and the stability of their financial systems. The paper concludes that liberalization has generally been conducive to stability because of the mutually reinforcing nature of existing international rules and practices. Financial stability and efficiency, which should be ultimate goals of further liberalization, can be ensured by taking advantage of coherent policy advice and the application of existing multilateral mechanisms -- in particular, the WTO negotiations and the IMF/World Bank financial sector assessment program.

PD August 2002. TI Liberalization of Trade in Financial Services and Financial Sector Stability (Empirical Approach). AA IMF. SR International Monetary Fund Working Paper: WP/02/139; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 15. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E42, F40, G20. KW Financial Services. Financial Sector Stability. Trade Liberalization.

AB The paper explores empirically the links between the WTO-driven liberalization of trade in financial services and the stability of national financial systems. Econometric testing of indicators intended to proxy financial sector stability -- subdivided into exchange rate and banking sector stability -- suggests that opening of the financial sector is an efficient policy instrument at the disposal of the authorities for achieving a variety of macroeconomic goals. While liberalization is found to be broadly conducive to stability, the outcome of liberalization on exchange rate stability is less predictable than on banking sector stability.

Kirkegaard, Rene

PD February 2003. TI Buy-Out Prices in Online Auctions: Multi-Unit Demand. AU Kirkegaard, Rene; Overgaard, Per Baltzer. AA University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2003/04; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 48. PR no charge. JE D44, D82. KW Sequential Auctions. Multi-Unit Demand. Buy-Out Prices.

AB On many online auction sites it is now possible for a seller to augment his auction with a maximum or buy-out price. The use of this instrument has been justified in "one-shot" auctions by appeal to impatience or risk aversion. Here we offer additional justification by observing that trading on Internet auctions is not of a "one-shot" nature, but that market participants expect more transactions in the future. This has important implications when bidders desire multiple objects. Specifically, it is shown that an early seller has an incentive to introduce a buy-out price, if similar products are offered later on by other sellers. The buy-out price will increase revenue in the current auction, but revenue in future auctions will decrease, as will the sum of revenues. In contrast, if a single seller owns multiple units, overall revenue will increase if buyers anticipate the use of buy-out prices in the future by this

seller. In both cases, an optimally chosen buy-out price introduces potential inefficiencies in the allocation.

Klaff, Daniel B.

PD April 2002. **TI** Collective Bargaining and Staff Salaries in American Colleges and Universities. **AU** Klaff, Daniel B.; Ehrenberg, Ronald G. **AA** Klaff: Cornell University and Cornell Higher Education Research Institute. Ehrenberg: Cornell University and NBER. **SR** National Bureau of Economic Research Working Paper: 8861; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 14. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I22, J31, J45, J51. **KW** Collective Bargaining. Academia. Wages.

AB Our study is the first study that addresses the impact of collective bargaining coverage on salaries in academia for employees other than faculty. We use data from a 1997-98 study on the costs of staffing in higher education conducted by the Association of Higher Education Facilities Officers and other sources to estimate the impact of staff unions on staff salaries in American higher education. Our best estimate is that for the occupations in our sample, collective bargaining coverage raises staff salaries by at most 10 to 20 percent relative to the salaries of comparable higher education employees not covered by union contracts.

Klein, Michael W.

PD April 2002. **TI** Dollarization and Trade. **AA** Tufts University and NBER. **SR** National Bureau of Economic Research Working Paper: 8879; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 17. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F15, F33. **KW** Dollarization. Bilateral Trade. Fixed Exchange Rate. United States.

AB Dollarization has been suggested as a policy that might, among other goals, promote trade between a country adopting the dollar and the United States. Evidence supporting this conjecture could be drawn from a recent series of papers by Rose and co-authors who show that a currency union increases bilateral trade among its members, and that this effect is both large and statistically significant. In this paper we show that this result is not robust if we consider bilateral United States trade (even though the United States accounts for 60 percent of all observations of currency unions between industrial and non-industrial countries), nor if we consider bilateral trade of countries that have adopted the United States dollar, like Panama. Furthermore, the effect of dollarization on trade with the United States is not statistically distinct from the effect of a fixed dollar exchange rate on trade with the United States.

TI Capital Account Liberalization and Economic Performance: Survey and Synthesis. **AU** Edison, Hali J.; Klein, Michael W.; Ricci, Luca A.; Slok, Torsten M.

Klette, Tor Jakob

PD March 2002. **TI** Innovating Firms and Aggregate Innovation. **AU** Klette, Tor Jakob; Kortum, Samuel S. **AA** Klette: University of Oslo and CEPR. Kortum: University of Minnesota, NBER, and Federal Reserve Bank of Minneapolis. **SR** CEPR Discussion Paper: 3248; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website:

www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L11, O31. **KW** R&D. Firm Growth. Productivity. Market Structure. Endogenous Growth Theory. Birth and Death Processes.

AB We develop a parsimonious model of innovating firms rich enough to confront firm-level evidence. It captures the dynamic behavior of individual heterogeneous firms, describes the evolution of an industry with simultaneous entry and exit, and delivers a general equilibrium model of technological change. While unifying the theoretical analysis of firms, industries and the aggregate economy, the model yields insights into empirical work on innovating firms. It accounts for the persistence over time of firms' R&D investment, the concentration of R&D among incumbent firms, and the link between R&D and patenting. Furthermore, it explains why R&D as a fraction of revenues is strongly related to firm productivity yet largely unrelated to firm size or growth.

PD March 2002. **TI** Innovating Firms and Aggregate Innovation. **AU** Klette, Tor Jakob; Kortum, Samuel S. **AA** Klette: University of Oslo and CEPR. Kortum: University of Minnesota, Federal Reserve Bank of Minneapolis, and NBER. **SR** National Bureau of Economic Research Working Paper: 8819; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** L11, O31. **KW** Technological change. Innovation.

AB See the abstract for Klette, Tor Jakob; Kortum, Samuel S., March 2002, "Innovating Firms and Aggregate Innovation". CEPR Discussion Paper: 3248; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org.

Klingebiel, Daniela

TI Explaining the Migration of Stocks from Exchanges in Emerging Economies to International Centers. **AU** Claessens, Stijn; Klingebiel, Daniela; Schmukler, Sergio L.

Klor, Esteban F.

PD October 2002. **TI** A Positive Model of Overlapping Income Taxation in a Federation of States. **AA** University of Rochester. **SR** Wallis Institute of Political Economy Working Paper: 32; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. **PG** 43. **PR** 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. **JE** D72, H23, H77. **KW** Fiscal Federalism. Political Economy. Income Taxation.

AB This paper develops a positive theory of overlapping income taxation in a federation of states. Its main motivation comes from the observation that, in the U.S., states' income tax rates are significantly lower than the federal income tax rate. The analysis shows that in a federal system total productivity dispersion between the states determines the federal tax rate. In fact, there exists a positive relation between the level of productivity dispersion and the federal tax rate, even if the income of the decisive voter is above the mean income. When the individuals' income is endogenous, the higher the implemented federal tax rate is, the lower the resulting state tax rate will be, even if the decisive voter at the state level has zero

pre-tax income. Empirical evidence obtained from a panel data set on tax schedules at the state level supports the main hypothesis of the paper.

Kluve, Jochen

PD April 2002. **TI** Disentangling Treatment Effects of Polish Active Labour Market Policies: Evidence from Matched Samples. **AU** Kluve, Jochen; Lehmann, Hartmut; Schmidt, Christoph M. **AA** Kluve: University of California, Berkeley and IZA. Lehmann: Heriot- Watt University, IZA, University of Michigan at Ann Arbor. Schmidt: Ruhr-Universität Bochum, IZA, CEPR, and RWI, Germany. **SR** CEPR Discussion Paper: 3298; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C49, J68. **KW** Active Labor Market Policy. Transition. Exact Matching. Propensity Score. Program Participation.

AB This paper estimates causal effects of two Polish active labor market policies -- Training and Intervention Works -- on employment probabilities. Utilizing data from the 18th wave of the Polish Labor Force Survey we discuss three stages of an appropriately designed exact matching procedure. The approach is illustrated using the estimated propensity score as a summary measure of balance. Distributions of pre-treatment labor market status histories show the decisive relevance of employment indicators as determinants of program participation -- a point often ignored in evaluation research. We implement a conditional difference-in-differences estimator of treatment effects based on these individual trinomial sequences of pre-treatment labor market status. Our findings suggest that training raises employment probability, while Intervention Works seems to lead to a negative treatment effect for men. Furthermore, we find that appropriate subdivision of the matched sample for conditional treatment effect estimation can add considerable insight to the interpretation of results.

Knowles, Justin

TI Sweetening the Pot: How American Sugar Buys Protection. **AU** Gokcekus, Omer; Knowles, Justin; Tower, Edward.

Kogan, Leonid

PD April 2002. **TI** Risk Aversion and Optimal Portfolio Policies in Partial and General Equilibrium Economies. **AU** Kogan, Leonid; Uppal, Raman. **AA** Kogan: MIT. Uppal: London Business School and CEPR. **SR** CEPR Discussion Paper: 3306; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D52, G11, G12. **KW** Asset Allocation. Stochastic Investment. Incomplete Markets. Borrowing Constraints.

AB In this article, we show how to analyze analytically the equilibrium policies and prices in an economy with a stochastic investment opportunity set and incomplete financial markets, when agents have power utility over both intermediate consumption and terminal wealth, and face portfolio constraints. The exact local comparative statistics and approximate but analytical expression for the portfolio policy and asset prices are obtained by developing a method based on perturbation analysis to expand around the solution for an

investor with log utility. We then use this method to study a general equilibrium exchange economy with multiple agents who differ in their degree of risk aversion and face borrowing constraints. We characterize explicitly the consumption and portfolio policies and also the properties of asset returns. We find that the volatility of stock returns increases with the cross-sectional dispersion of risk aversion, with the cross-sectional dispersion in portfolio holdings, and with the relaxation of the constraint on borrowing. Moreover, tightening the borrowing constraint lowers the risk-free interest rate and raises the equity premium in equilibrium.

Kokoszka, Piotr

TI Bootstrap Misspecification tests for ARCH Based on the Empirical Process of Squared Residuals. **AU** Horvath, Lajos; Kokoszka, Piotr; Teyssiere, Gilles.

Kollmann, Robert

PD March 2002. **TI** Monetary Policy Rules in the Open Economy: Effects on Welfare and Business Cycles. **AA** University of Bonn and CEPR. **SR** CEPR Discussion Paper: 3279; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E52, F36, F41. **KW** Open Economy. Interest Rate Rules. Business Cycles.

AB This paper computes welfare maximizing Taylor-style interest rate rules, in a business cycle model of a small open economy. The model assumes staggered price setting and shocks to domestic productivity, to the world interest rate, to world inflation and to the uncovered interest rate parity condition. Optimized policy rules have a pronounced anti-inflation stance and entail significant nominal and real exchange rate volatility. The country responds to an increase in external volatility by holding more foreign assets. The policy rule affects the variance and the mean of consumption. The effect on the mean matters significantly for welfare.

Kolpin, Van

TI Technology, Agglomeration, and Regional Competition for Investment. **AU** Blonigen, Bruce A.; Kolpin, Van.

Konings, Josef

TI International Rent Sharing in Multinational Firms. **AU** Budd, John W.; Konings, Josef; Slaughter, Matthew J.

Kortum, Samuel S.

TI Innovating Firms and Aggregate Innovation. **AU** Klette, Tor Jakob; Kortum, Samuel S.

TI Innovating Firms and Aggregate Innovation. **AU** Klette, Tor Jakob; Kortum, Samuel S.

Kousnetzoff, Nina

PD December 2001. **TI** Croissance économique mondiale: un scénario de référence à l'horizon 2030 (World Economic Growth: A Reference Scenario to the Year 2030). **AA** CEPII. **SR** CEPII Working Paper: 2001/21; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 50. **PR** no charge. **JE** E17, O41, O47. **KW** Growth. World. Forecast. Long Term.

AB This paper presents a forecast of world economic growth divided into 30 geographical areas, for the period 2000 to 2030. The forecast is made using a neo-classical growth model with human capital, except for the oil producing countries, for which the real price of oil and the growth of the rest of the world determine the GDP growth rate. Firstly the models used for the forecast are described. The reference scenario is then presented, including the demographic assumptions and the investment rate assumptions for physical and human capital. Finally the results of the forecast are analyzed for 11 geographical areas: GDP and labor productivity growth rates; GDP per capita levels compared to the USA; and shares of the 11 geographical areas in the world GDP. This paper is written in French.

Kraay, Aart

PD February 2002. **TI** Trade Integration and Risk Sharing. **AU** Kraay, Aart; Ventura, Jaume. **AA** Aart: The World Bank. Ventura: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8804; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F15, F36, G15. **KW** Trade Integration. Trade Balance. Exchange Rate Volatility. Home Bias.

AB What are the effects of increased trade in goods and services on the trade balance? We study the effects of reducing transport costs in a Ricardian model with complete asset markets. Trade integration has three effects on the structure of the economy: a reduction in the home bias in consumption, an increase in the degree of international competition in goods markets, and a reduction in real exchange rate volatility. The reduction in the home bias increases the volatility of the trade balance regardless of the source of shocks. Except for the case where supply shocks lead to counter-cyclical trade balances, (i) the increase in international competition also increases the volatility of the trade balance; and (ii) the reduction in real exchange rate volatility increases the volatility of the trade balance if risk aversion is low but lowers it if risk aversion is high. The opposite applies when supply shocks lead to counter-cyclical trade balances. We calibrate the model to U.S. data and provide a quantitative assessment of the effects of increased trade in services on the trade balance.

Kramarenko, Vitali

TI Lithuania: History and Future of the Currency Board Arrangement. **AU** Alonso-Gamo, Patricia; Fabrizio, Stefania; Kramarenko, Vitali; Wang, Qing.

Kremer, Michael

PD May 2002. **TI** Odious Debt. **AU** Kremer, Michael; Jayachandran, Seema. **AA** Kremer: Harvard University and NBER. Jayachandran: Harvard University. **SR** National Bureau of Economic Research Working Paper: 8953; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F34, K33. **KW** Sovereign Debt. World Bank. IMF. Moral Hazard.

AB Some argue that sovereign debt incurred without the consent of the people and not for their benefit should be considered odious and not transferable to successor governments. We argue that an institution that truthfully announced whether regimes are odious could create an

equilibrium in which successor governments suffer no reputational loss from failure to repay odious debt and hence creditors curtail odious lending. Equilibria with odious lending could be eliminated by amending creditor country laws to prevent seizure of assets for failure to repay odious debt and restricting foreign assistance to countries not repaying odious debt. Shutting down the borrowing capacity of illegitimate regimes can be viewed as a form of economic sanction and has two advantages: it helps rather than hurts the population, and it does not create incentives for evasion by third parties. However, an institution empowered to assess regimes might falsely term debt odious if it favored debtors, and if creditors anticipate this, they would not make loans to legitimate governments. An institution empowered only to declare future lending to a particular government odious would have greater incentives to judge truthfully. A similar approach could be used to reduce moral hazard associated with World Bank and IMF loans.

Krishna, Kala

PD February 2002. **TI** Quantity Controls, License Transferability, and the Level of Investment. **AU** Krishna, Kala; Ranjan, Ram; Tan, Ling Hui. **AA** Krishna: Pennsylvania State University and NBER. Ranjan: Pennsylvania State University. Tan: IMF. **SR** National Bureau of Economic Research Working Paper: 8796; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D21, D23, L51. **KW** Investment Decision. Entry Decision. Auctioning Licenses. Quantity Control.

AB This paper models investment/entry decisions in a competitive industry that is subject to a quantity control on an input for production. The quantity control is implemented by auctioning licenses for the restricted input. The paper shows that liberalizing the quantity control could reduce investment in the industry under certain circumstances. Furthermore, the level of investment is quite different when licenses are tradable than when they are not. Key factors in the comparison include the elasticity of demand for the final good and the degree of input substitutability. Two examples are computed to illustrate the results.

Krueger, Alan B.

PD April 2002. **TI** Economic Considerations and Class Size. **AA** Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 8875; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I21, I22. **KW** Student Achievement. Metanalysis. Class Size.

AB This paper examines evidence on the effect of class size on student achievement. First, we show that the results of quantitative summaries of the literature, such as Hanushek (1997), depend critically on whether studies are accorded equal weight. Hanushek summarizes 277 estimates extracted from 59 published studies, and weights all estimates equally. Studies from which many estimates were extracted tend to find negative effects of school resources, whereas the majority of studies from which relatively few estimates were extracted tend to find positive effects. When all studies in Hanushek's literature summary are given equal weight, resources are

systematically related to student achievement. It is argued that assigning equal weights to studies, or weights according to quality, is preferable to assigning weights according to the number of estimates extracted from the studies, because study quality is unlikely to be related to the number of estimates taken from the study, and because researcher discretion in selecting estimates is limited when studies are assigned equal weight. Second, a cost-benefit analysis of class size reduction is performed. Results of the Tennessee STAR class-size experiment suggest that the internal rate of return from reducing class size from 22 to 15 students is around 6%.

Kumar, Vinay

TI Explaining Variations in Private Equity: A Panel Approach. **AU** Leachman, Lori; Kumar, Vinay; Orleck, Scott.

Kunreuther, Howard

PD April 2002. **TI** Interdependent Security: The Case of Identical Agents. **AU** Kunreuther, Howard; Heal, Geoffrey. **AA** Kunreuther: University of Pennsylvania, Columbia University, and NBER. Heal: Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8871; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C72, D62. **KW** Anti-terrorism. Security. Airline Industry.

AB Do firms have adequate incentives to invest in anti-terrorism mechanisms? This paper develops a framework for addressing this issue when the security choices by one agent affect the risks faced by others. We utilize the airline security problem to illustrate how the incentive by one airline to invest in baggage checking is affected by the decisions made by others. Specifically if an airline believes that others will not invest in security systems it has much less economic incentive to do so on its own. Private sector mechanisms such as insurance and liability will not necessarily lead to an efficient outcome. To induce adoption of security measures one must turn to regulation, taxation or institutional coordinating mechanisms such as industry associations. We compare the airline security example with problems having a similar structure (i.e., computer security and fire protection) as well as those with different structures (i.e., theft protection and vaccinations). The paper concludes with suggestions for future research.

Kunze, Astrid

PD March 2002. **TI** The Evolution of the Early Career Gender Wage Gap. **AA** IZA, Bonn. **SR** CEPR Discussion Paper: 3242; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** J16, J30, J70. **KW** Male-Female Wage Differentials. Human Capital. Early Career. Sample Selection. Occupation. Apprenticeship Training.

AB In this paper we investigate the male-female wage differential: Does it evolve over the early career or does it exist right from entry into first employment onwards? For the analysis we use new administrative longitudinal data and focus on the early careers of skilled workers in Germany. We adopt a simple human capital theory approach. Advantages of the data

for this type of analysis are that we can observe complete work and wage histories, and that we are also able to observe workers' skills. Regarding entry wages we find a gap of approximately 25%. For the early career, i.e. up to eight years of work experience, the differential remains almost constant at this high level. We find that differences in apprenticeship training explain the main part of this gap and seem to lead to a permanent wage disadvantage throughout the early career.

Kupiec, Paul H.

PD July 2002. **TI** Internal Model-Based Capital Regulation and Bank Risk-Taking Incentives. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/125; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 28. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** G13, G21, G28, G31. **KW** Regulatory Capital Requirements. Credit Risk. Credit VaR. Internal Models.

AB Advocates for internal model-based capital regulation argue that this approach will reduce costs and remove distortions that are created by rules-based capital regulations. These claims are examined using a Merton-style model of deposit insurance. Analysis shows that internal model-based capital estimates are biased by safety-net-generated funding subsidies that convey to bank shareholders when market and credit risk regulatory capital requirements are set using bank internal model estimates. These subsidies are not uniform across the risk spectrum, and, as a consequence, internal model regulatory capital requirements will cause distortions in bank lending behavior.

PD September 2002. **TI** Internal Models, Subordinated Debt, and Regulatory Capital Requirements for Bank Credit Risk. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/157; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 24. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** G18, G20, G21, G28. **KW** Regulatory Capital Requirements. Credit VaR. Subordinated Debt. Internal Risk Models.

AB Shortcomings make credit VaR estimates an unsuitable basis for setting bank regulatory capital requirements. If, alternatively, banks are required to issue subordinated debt that has a minimum market value and maximum acceptable probability of default, banks must set their equity capital in a manner that limits both the probability of bank default and the expected loss on insured deposits, largely removing any safety net-related funding cost subsidy and the moral hazard incentives it creates. Required equity capital can be estimated using a modified credit VaR framework, and supervisors can use external credit ratings to indirectly verify the accuracy of bank internal model estimates.

La Porta, Rafael

PD March 2002. **TI** Related Lending. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio; Zamarripa, Guillermo. **AA** La Porta: Harvard University and NBER. Lopez-de-Silanes: Yale University and NBER. Zamarripa: National Banking and Securities Commission, Mexico. **SR** National Bureau of Economic Research Working Paper: 8848; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA

02138-5398. Website: www.nber.org. PG 21. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G32, L14. KW Related Lending. Mexico. Information Sharing. Default.

AB In many countries, banks lend to firms controlled by the banks owners. We examine the benefits of related lending using a newly assembled dataset for Mexico. Related lending is prevalent (20% of commercial loans) and takes place on better terms than arms-length lending (annual interest rates are 4 percentage points lower). Related loans are 33% more likely to default and, when they do, have lower recovery rates (30% less) than unrelated ones. The evidence supports the view that rather than enhance information sharing, related lending is a manifestation of looting.

TI Courts: the Lex Mundi Project. AU Djankov, Simeon; La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

Laevan, Luc

TI Financial Development, Property Rights and Growth. AU Claessens, Stijn; Laevan, Luc.

Lafontaine, Francine

PD April 2002. **TI** Contracting in the Absence of Specific Investments and Moral Hazard: Understanding Carrier-Driver Relations in U.S. Trucking. AU Lafontaine, Francine; Masten, Scott E. AA Lafontaine: University of Michigan Business School and NBER. Masten: University of Michigan Business School. SR National Bureau of Economic Research Working Paper: 8859; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 38. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D23, J33, L24, L92. KW Truck Drivers. Contracts.

AB This paper considers functions of contracting other than the protection of relationship-specific investments and the provision of marginal incentives, and applies the theory to explain variation in the form of compensation of over-the-road truck drivers in the U.S. Specifically, we argue that contracts in this industry serve to economize on the costs of price determination for heterogeneous transactions. We show that the actual terms of those contracts vary systematically with the nature of hauls in a way that is consistent with the theory. By contrast, we find that vehicle ownership, which defines a driver's status as an owner operator or company driver, depends on driver, but not trailer or haul, characteristics.

PD April 2002. **TI** The Role of Residual Claims and Self-Enforcement in Franchise Contracting. AU Lafontaine, Francine; Raynaud, Emmanuel. AA Lafontaine: University of Michigan Business School and NBER. Raynaud: INRA SADAPT and University of Paris I. SR National Bureau of Economic Research Working Paper: 8868; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D23, L24. KW Franchising. Contracts. Incentive Mechanisms.

AB Much of the economic literature on franchising has been concerned with incentive issues and how these are managed in franchised contracts. Two main types of incentive mechanisms have been identified: residual claims and self enforcement. In this paper we describe these incentive mechanisms, and their use in franchise contracts. We argue that although these two

types of mechanisms are usually thought of as alternative ways to align franchisee and franchisor incentives, they are in fact complementary in franchise contracts because they address different incentive problems. We explore what these incentive problems are, and then describe specifically how franchise contract terms and practices support each type of incentive mechanism. Finally, we discuss briefly, via two examples, how our analysis also applies to non-franchised systems with common marks or other reputation concerns.

Lafourcade, Miren

TI Can Business and Social Networks Explain the Border Effect Puzzle? AU Combes, Pierre-Philippe; Lafourcade, Miren; Mayer, Thierry.

Lagunoff, Roger

TI On the Size and Structure of Group Cooperation. AU Haag, Matthew; Lagunoff, Roger.

PD October 2002. **TI** Credible Communication in Dynastic Government. AA Georgetown University. SR Wallis Institute of Political Economy Working Paper: 34; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. PG 21. PR 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. JE C73, D72, D73, D82, H11. KW Dynastic Government. Dynamic Policy Bias. Auditor Neutrality. Credible Communication.

AB It has been suggested that "horizontal accountability," i.e., a system of governance where auditing functions lie outside the executive branch, can ensure credible disclosure of information. This paper examines a model of intertemporal information provision in government that suggests a cautious approach to that view. Government consists of a succession of regimes, each ruling for one period before relinquishing power to a successor. Without external auditing, credible communication cannot be sustained. Hence, expenditure policies are suboptimal. Even with external auditing, credible communication requires ideological conflicts between the auditor and the regime. Moreover, because information transmission stops when the auditor's and the regime's biases coincide, effective deterrents even in the "good" periods (when the auditor's and the regime's biases differ) are difficult to construct. As a result, in standard constructions of equilibrium, efficient policy choices are shown to be unsustainable.

TI Dynamic Enfranchisement. AU Jack, William; Lagunoff, Roger.

Lahiri, Amartya

TI A Two-Country Model of Endogenous Growth. AU Farmer, Roger E. A.; Lahiri, Amartya.

TI Economic Growth in an Interdependent World Economy. AU Farmer, Roger E. A.; Lahiri, Amartya.

Lakdawalla, Darius

PD May 2002. **TI** The Growth of Obesity and Technological Change: A Theoretical and Empirical Examination. AU Lakdawalla, Darius; Philipson, Tomas. AA Lakdawalla: RAND and NBER. Philipson: University of Chicago and NBER. SR National Bureau of Economic

Research Working Paper: 8946; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 26. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I10, O33. KW Obesity. Technological Change. Production. Food Prices. AB This paper provides a theoretical and empirical examination of the long-run growth in weight over time. We argue that technological change has induced weight growth by making home- and market-production more sedentary and by lowering food prices through agricultural innovation. We analyze how such technological change leads to unexpected relationships among income, food prices, and weight. Using individual-level data from 1976 to 1994, we then find that such technology-based reductions in food prices and job-related exercise have had significant impacts on weight across time and populations. In particular, we find that about forty percent of the recent growth in weight seems to be due to agricultural innovation that has lowered food prices, while sixty percent may be due to demand factors such as declining physical activity from technological changes in home and market production.

Lalive, Rafael

PD April 2002. TI The Effect of Benefit Sanctions on the Duration of Unemployment. AU Lalive, Rafael; van Ours, Jan C.; Zweimueller, Josef. AA Lalive and Zweimueller: University of Zurich, van Ours: CentER, Tilburg University and CEPR. SR CEPR Discussion Paper: 3311; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE I64, J65, J68. KW Unemployment Duration. Benefit Sanctions. Monitoring. AB This paper investigates the effectiveness of benefit sanctions in reducing unemployment duration. Data from the Swiss labor market allow making a distinction between the effect of a warning that a person is not complying with eligibility requirements and the effect of the actual enforcement of a benefit sanction. We find that both warning and enforcement have a positive effect on the exit rate out of unemployment. Moreover, the stricter the sanction policy, the shorter the unemployment spell. This can be taken as evidence of a strong ex-ante effect of a strict sanction policy.

Lambert, Peter J.

TI Progressivity Comparisons. AU Dardanoni, Valentino; Lambert, Peter J.

Lane, Timothy

TI Aid and Fiscal Management. AU Bulir, Ales; Lane, Timothy.

Laraki, Rida

PD August 2002. TI Stopping Games in Continuous Time. AU Laraki, Rida; Solan, Eilon. AA Laraki: CNRS and Laboratoire d'Econometrie de l'Ecole Polytechnique. Solan: Northwestern University and Tel Aviv University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1354; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 19. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00

Northwestern faculty/students; make check payable to Northwestern University. JE C72, C73. KW Dynkin Games. Stopping Games. Optimal Stopping. Stochastic Analysis. Continuous Time.

AB We study two-player zero-sum stopping games in continuous time and infinite horizon. We prove that the value in randomized stopping times exists as soon as the payoff processes are right-continuous. In particular, unlike the existing literature, we do not assume any conditions on the relations between the payoff processes. We also show that both players have simple ϵ -optimal randomized stopping times; namely, randomized stopping times which are small perturbations of non-randomized stopping times.

PD February 2003. TI Continuous-Time Games of Timing. AU Laraki, Rida; Solan, Eilon; Vieille, Nicolas. AA Laraki: CNRS and Laboratoire d'Econometrie de l'Ecole Polytechnique. Solan: Northwestern University and Tel Aviv University. Vieille: HEC. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1363; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 34. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, C73. KW Subgame Perfect. Continuous-Time.

AB We address the question of existence of equilibrium in general timing games of complete information. Under weak assumptions, any two-player timing game has a subgame perfect ϵ -equilibrium, for each $\epsilon > 0$. This result is robust. For some classes of games (symmetric games, games with cumulative payoffs), stronger existence results are established.

Larribeau, Sophie

TI A Structural Econometric Model of Price Discrimination in the Mortgage Lending Industry. AU Gary-Bobo, Robert; Larribeau, Sophie.

Le Breton, Michel

TI On Efficiency and Sustainability in a Collective Decision-Making Problem with Heterogeneous Agents. AU Haimanko, Ori; Le Breton, Michel; Weber, Shlomo.

Leachman, Lori

PD 2002. TI Explaining Variations in Private Equity: A Panel Approach. AU Leachman, Lori; Kumar, Vinay; Orleck, Scott. AA Leachman: Duke University. Kumar: Goldman Sachs. Orleck: Parthenon Group. SR Duke University Department of Economics Working Paper: 02/14; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. PG 39. PR no charge. JE G15, G24. KW Private Equity. Venture Capital.

AB This study employs a panel approach to investigate factors that influence the development of private equity markets over time and across countries. The empirical evidence indicates that profitable exit options are essential to the growth and development of private equity across both time and countries. The opportunity cost of investing is also found to be important. Moreover, the evidence strongly supports the hypothesis that venture capital investing and patent screening are positively related. Across countries the evidence suggests

that institutional features that support property rights and contract enforcement and that facilitate information flow and expectations formation contribute to more robust private equity markets.

Leahy, John

TI Wealth Accumulation and the Propensity to Plan.
AU Ameriks, John; Caplin, Andrew; Leahy, John.

Lee, Jaewoo

TI Current Account and Real Exchange Rate Dynamics in the G-7 Countries. AU Chinn, Menzie D.; Lee, Jaewoo.

Lee, Jong-Kun

TI In Finance, Size Matters. AU Bossone, Biagio; Lee, Jong-Kun.

Lee, Jong-Wha

TI IMF Programs: Who is Chosen and What Are the Effects?
AU Barro, Robert J.; Lee, Jong-Wha.

Lee, Kevin

TI Competition, Corporate Governance and Financing of Corporate Growth in Emerging Markets. AU Glen, Jack; Lee, Kevin; Singh, Ajit.

Leeper, Eric M.

PD February 2003. TI Putting "M" Back in Monetary Policy. AU Leeper, Eric M.; Roush, Jennifer E.
AA Leeper: Indiana University. Roush: Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 761; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 48. PR no charge. JE E41, E52. KW Monetary Policy. Transmission. Money Demand. Money Market. Monetary Policy Rules. Identified VAR.

AB Money demand and the stock of money have all but disappeared from monetary policy analyses. This paper is an empirical contribution to the debate over the role of money in monetary policy analysis. The paper models supply and demand interactions in the money market and finds evidence of an essential role for money in the transmission of policy. Across sub-samples, it finds evidence consistent with the following inferences: (1) the money stock and the interest rate jointly transmit monetary policy; (2) for a given exogenous change in the nominal interest rate, the estimated impact of policy on economic activity increases monotonically with the response of the money supply; (3) the path of the real rate is not sufficient for determining policy impacts.

Lefgren, Lars

TI The Impact of Teacher Training on Student Achievement: Quasi- Experimental Evidence from School Reform Efforts in Chicago. AU Jacob, Brian A.; Lefgren, Lars.

TI Remedial Education and Student Achievement: A Regression- Discontinuity Analysis. AU Jacob, Brian A.; Lefgren, Lars.

Legros, Florence

TI Pensions and Savings in a Monetary Union: An Analysis

of Capital Flows. AU Jousten, Alain; Legros, Florence.

TI Demographic Evolutions and Unemployment: An Analysis of French Labour Market with Workers Generations. AU Chateau, Jean; Guerin, Jean-Louis; Legros, Florence.

Lehmann, Hartmut

TI Disentangling Treatment Effects of Polish Active Labour Market Policies: Evidence from Matched Samples. AU Kluve, Jochen; Lehmann, Hartmut; Schmidt, Christoph M.

Lehrer, Ehud

PD June 2003. TI No-Regret with Bounded Computational Capacity. AU Lehrer, Ehud; Solan, Eilon.
AA Lehrer: Tel Aviv University. Solan: Tel Aviv University and Northwestern University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1373; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 18. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C72, C79. KW Bounded Rationality. Computational Capacity. Regret.

AB We deal with no regret and related aspects of vector-payoff games when one of the players is limited in computational capacity. We show that player 1 can almost approach with bounded-recall strategies, or with finite automata, any convex set which is approachable when no capacity bound is present. In particular we deduce that with bounded computational capacity player 1 can ensure having almost no regret.

Leite, Carlos A.

TI Is Growth Enough? Macroeconomic Policy and Poverty Reduction. AU Ghura, Dhaneshwar; Leite, Carlos A.; Tsangarides, Charalambos.

Lemieux, Thomas

TI Comparative Advantage, Learning, and Sectoral Wage Determination. AU Gibbons, Robert; Katz, Lawrence F.; Lemieux, Thomas; Parent, Daniel.

Lemoine, Françoise

PD March 2002. TI China in the International Segmentation of Production Processes. AU Lemoine, Françoise; Unal-Kesenci, Deniz. AA CEPII. SR CEPII Working Paper: 2002/02; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. PG 38. PR no charge. JE F13, F14, F15, O24, O53. KW China. Trade Policy. Economic Integration. Specialization. Technology Transfer.

AB This structural analysis of China's foreign trade shows that its outstanding performance in world markets is directly linked to its involvement in the international segmentation of production processes. China's tariff policy in favor of processing activities proved very successful in creating export-oriented industries based on imported inputs. Production sharing with Asian countries has resulted in highly internationalized and competitive industries, while China's traditional export sector has remained sluggish. China displays

a strong specialization in the downstream stages of production processes, associated with large deficits in the upstream stages (semi-finished products and components). This vertical division of production has enabled China to rapidly diversify its exports of consumption goods, and to create strengths in capital goods exports, especially in electrical machinery. Imports of parts and components embody a large share of high technology and represent an important channel for the transfer of technology into China.

Leruth, Luc E.

TI Corporate Performance and Governance in Malaysia. AU Khatri, Yougesh; Leruth, Luc E.; Piesse, Jenifer.

Lev, Baruch

TI What Value Analysts? AU Amir, Eli; Lev, Baruch; Sougiannis, Theodore.

Levine, David

TI Factor Saving Innovation. AU Boldrin, Michele; Levine, David.

TI The Case Against Intellectual Property. AU Boldrin, Michele; Levine, David.

TI Perfectly Competitive Innovation. AU Boldrin, Michele; Levine, David.

TI When is Reputation Bad? AU Ely, Jeffrey C.; Fudenberg, Drew; Levine, David.

Levine, Phillip B.

PD March 2002. TI Abortion as Insurance. AU Levine, Phillip B.; Staiger, Douglas. AA Levine: Wellesley College and NBER. Staiger: Dartmouth College and NBER. SR National Bureau of Economic Research Working Paper: 8813; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 29. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE I18, J13. KW Abortion as Insurance. Fertility. Pregnancy.

AB This paper views abortion access as an insurance policy that protects women from unwanted pregnancies. Within this framework, we present a theoretical model where greater access provides value in the form of insurance against unwanted births and also reduces the incentive to avoid pregnancy. This model predicts that legalized abortion should lead to a reduction in the likelihood of giving birth. It also predicts that if abortion access becomes relatively inexpensive (including both monetary and psychic costs), then pregnancies would rise and births would remain unchanged or may even rise as well. We review the evidence on the impact of changes in abortion policy mainly from the United States and find support for both predictions. Then we test these hypotheses using recent changes in abortion policy in several Eastern European countries. We find that countries which changed from very restrictive to liberal abortion laws experienced a large reduction in births, highlighting the insurance value. Changes from modest restrictions to abortion available upon request, however, led to no such change in births, despite large increases in abortions, indicating the pregnancies rose as well. These findings are consistent with the incentive effect implications of our model.

Levine, Ross

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

Lewis, Tracy R.

PD February 2003. TI Managing Switching Costs in Multiperiod Procurements with Strategic Buyers. AU Lewis, Tracy R.; Yildirim, Huseyin. AA Duke University. SR Duke University Department of Economics Working Paper: 03/04; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. PG 46. PR no charge. JE C73, D44, L21. KW Switching Cost. Skill Acquisition. Skill Loss. Outsourcing. Markov Perfect Equilibrium.

AB This paper examines the use of switching costs by long lived strategic buyers to manage dynamic competition between rival suppliers. The analysis reveals how buyers may employ switching costs to their advantage. We show, ironically, when switching costs are high a buyer may induce suppliers to price more competitively by credibly threatening to replace the incumbent supplier with his rivals. The implication of these findings for adoption of technology and firm organization are explored in a setting where buyers are integrated with their suppliers and where the buyer is an outsourcer.

Li, Hao

TI Suspense. AU Chan, William M.; Courty, Pascal; Li, Hao.

Lieberman, Offer

PD May 2002. TI Error Bounds and Asymptotic Expansions for Toeplitz Product Functionals of Unbounded Spectra. AU Lieberman, Offer; Phillips, Peter C. B. AA Lieberman: Technion-Israel Institute of Technology and Yale University. Phillips: Yale University, University of Auckland, and University of York. SR Yale Cowles Foundation Discussion Paper: 1374; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 22. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C13, C22. KW Asymptotic Expansion. Higher Cumulants. Long Memory. Singularity. Spectral Density. Toeplitz Matrix.

AB This paper establishes error orders for integral limit approximations to traces of powers (to the p th order) of products of Toeplitz matrices. Such products arise frequently in the analysis of stationary time series and in the development of asymptotic expansions. The elements of the matrices are Fourier transforms of functions which we allow to be bounded, unbounded, or even to vanish on $(-, ?)$, thereby including important cases such as the spectral functions of fractional processes. Error rates are also given in the case in which the matrix product involves inverse matrices. The rates are sharp up to an arbitrarily small $\epsilon > 0$. The results improve on the $o(1)$ rates obtained in earlier work for analogous products. For the $p = 1$ case, an explicit second order asymptotic expansion is found for a quadratic functional of the autocovariance sequences of stationary long memory time series. The order of magnitude of the second term in this expansion is shown to depend on the long memory parameters. It is demonstrated that the pole in the first order approximation is removed by the second order term, which provides a substantially improved

approximation to the original functional.

TI Higher-Order Improvements of the Parametric Bootstrap for Long-Memory Gaussian Processes. **AU** Andrews, Donald W. K.; Lieberman, Offer.

Liew, Jimmy

PD November 1999. **TI** Can Book-to-Market, Size and Momentum Be Risk Factors that Predict Economic Growth? **AU** Liew, Jimmy; Vassalou, Maria. **AA** Liew: Morgan Stanley Dean Witter. Vassalou: Columbia University and CEPR. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/11; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 19. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** G11, G12, G15. **KW** Book-to-Market. Size. Momentum. GDP Growth.

AB We test whether the profitability of HML, SMB, and WML can be linked to future GDP growth. Using data from ten countries, we find that HML and SMB contain significant information about future GDP growth. This information is to a large degree independent of that in the market factor. Even in the presence of popular business cycle variables, HML and SMB retain their ability to predict future economic growth in some countries. Our results support a risk-based explanation for the performance of HML and SMB. Little evidence was found to support such an explanation in the case of WML.

Lim, Kyung-Mook

PD March 2003. **TI** The Baby Boom and the Stock Market Boom. **AU** Lim, Kyung-Mook; Weil, David N. **AA** Lim: Korea Development Institute. Weil: Brown University and NBER. **SR** Brown University, Department of Economics Working Paper: 2003/07; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers/. **PG** 24. **PR** no charge. **JE** G12, J11. **KW** Demographics. Asset Prices. Baby Boom.

AB This paper addresses two issues. The first is whether demographic change was plausibly responsible for the run-up in stock prices over the last decade, and whether the attempt by the baby boom cohort to cash out of its investments in the period 2010-30 might lead to an "asset meltdown." The second issue is whether the rise in dependency that will accompany the retirement of the baby boom cohort calls for an increase in national saving. We analyze these issues using a forward-looking macro-demographic model, and show that they are related via the existence of installation costs for capital. If such costs are sufficiently large, then demographics do have the power to affect stock prices, but "saving for America's old age" is less optimal. However, conventional estimates of capital installation costs are not large enough to explain large stock price movements in response to actual demographic change.

Linton, Oliver B.

TI Limit Theorems for Estimating the Parameters of Differentiated Product Demand Systems. **AU** Berry, Steven; Linton, Oliver B.; Pakes, Ariel.

TI More Efficient Kernel Estimation in Nonparametric Regression with Autocorrelated Errors. **AU** Carroll,

Raymond J.; Linton, Oliver B.; Mammen, Enno; Xiao, Zhijie.

Lipson, Marc L.

TI Execution Costs of Institutional Equity Orders. **AU** Jones, Charles M.; Lipson, Marc L.

TI Sixteenths: Direct Evidence on Institutional Execution Costs. **AU** Jones, Charles M.; Lipson, Marc L.

TI Price Impacts and Quote Adjustment on the Nasdaq and NYSE/AMEX. **AU** Jones, Charles M.; Lipson, Marc L.

Ljungqvist, Alexander P.

PD April 2002. **TI** IPO Pricing in the Dot-Com Bubble. **AU** Ljungqvist, Alexander P.; Wilhelm, William J., Jr. **AA** Ljungqvist: New York University, ECGI, and CEPR. Wilhelm: University of Oxford and University of Virginia. **SR** CEPR Discussion Paper: 3314; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G24, G32. **KW** Initial Public Offerings. Underpricing. Intermediation. Internet. Hot Issue Markets.

AB IPO initial returns reached astronomical levels during 1999-2000. We show that the regime shift in initial returns and other elements of pricing behavior can be at least partially accounted for by a variety of marked changes in pre-IPO ownership structure and insider selling behavior over the period which reduced key decision-makers' incentives to control underpricing. After controlling for these changes, there appears to be little special about the 1999-2000 period, aside from the preponderance of Internet and high-tech firms going public. Our results suggest that it was firm characteristics that were unique during the "dot-com bubble" and that pricing behavior followed from incentives created by these characteristics.

Lochner, Lance

PD March 2002. **TI** Human Capital Formation with Endogenous Credit Constraints. **AU** Lochner, Lance; Monge-Naranjo, Alexander. **AA** Lochner: Stanford University, University of Rochester, and NBER. Monge-Naranjo: Northwestern University. **SR** National Bureau of Economic Research Working Paper: 8815; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 40. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E21, E22. **KW** Endogenous Constraint. Borrowing.

AB We study the accumulation of human capital and the behavior of consumption and earnings in a life cycle equilibrium model with endogenous borrowing constraints. The implications of our model are very different from those of standard exogenous constraint models. We find that efficient borrowing limits are functions of individual observable characteristics and choices, especially ability and human capital investments. The connection between human capital investments and borrowing limits creates additional incentives to invest beyond those present in models with exogenous constraints. Furthermore, government policies affect the incentives to default and, hence, the limits on private borrowing. As opposed to exogenous constraint models, additional subsidies for investment in human capital should be accompanied by increases in credit, since borrowers are more able to re-pay higher debts. We calibrate the model to U.S. data

and are able to replicate key features of the economy regarding human capital investment, earnings, and consumption. The calibrated model is then used to study the steady state impacts of changes in government policies.

Loginova, Oksana

PD January 2003. TI Price Experimentation with Strategic Buyers. AU Loginova, Oksana; Taylor, Curtis. AA Loginova: Duke University. Taylor: Duke University. SR Duke University Department of Economics Working Paper: 03/02; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. PG 26. PR no charge. JE C73, D81, D82. KW Price Experimentation. Learning. Strategic Rejections.

AB There are many situations in which buyers have a significant stake in what a firm learns about their demands. Specifically, any time that price discrimination is possible on an individual basis and repeat purchases are likely, buyers possess incentives for strategic manipulation of demand information. A simple two-period model in which a monopolist endeavors to learn about the demand parameter of a repeat buyer is presented here. It is shown that high first-period prices may lead to strategic rejections by high-valuation buyers who wish to conceal information (i.e., to pool), while low first-period prices may lead to strategic rejections by low-valuation buyers who wish to reveal information (i.e., to signal). The seller never experiments against patient buyers in any equilibrium. Indeed, the seller often charges first-period prices that reveal no information at all, and she may even set an equilibrium first-period price strictly below the buyer's lowest possible valuation.

Lopez-de-Silanes, Florencio

TI Related Lending. AU La Porta, Rafael; Lopez-de-Silanes, Florencio; Zamarripa, Guillermo.

TI Courts: the Lex Mundi Project. AU Djankov, Simeon; La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

TI Courts: the Lex Mundi Project. AU Djankov, Simeon; La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei.

Lopez-Salido, J. David

TI Markups, Gaps, and the Welfare Costs of Business Fluctuations. AU Gali, Jordi; Gertler, Mark; Lopez-Salido, J. David.

Louveaux, Quentin

PD January 2003. TI Lifting, Superadditivity, Mixed Integer Rounding and Single Node Flow Sets Revisited. AU Louveaux, Quentin; Wolsey, Laurence A. AA Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/01; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 35. PR \$5 per paper; \$100 per year. JE C11, C29. KW Lifting. Mixed Integer Rounding. Single Node Flow Sets.

AB In this survey we attempt to give a unified presentation of a variety of results on the lifting of valid inequalities, as well as a standard procedure combining mixed integer rounding with lifting for the development of strong valid inequalities for knapsack and single node flow sets. Our hope is that the latter

can be used in practice to generate cutting planes for mixed integer programs. The survey contains essentially two parts. In the first we present lifting in a very general way, emphasizing superadditive lifting which allows one to lift simultaneously different sets of variables. In the second, our procedure for generating strong valid inequalities consists of reduction to a knapsack set with a single continuous variable, construction of a mixed integer rounding inequality, and superadditive lifting. It is applied to several generalizations of the 0-1 single node flow set.

Love, Inessa

TI Global Capital Flows and Financing Constraints. AU Harrison, Ann E.; Love, Inessa; McMillan, Margaret S.

TI Trade Credit, Financial Intermediary Development and Industry Growth. AU Fisman, Raymond; Love, Inessa.

Ludwig, Jens

TI The Effects of Gun Prevalence on Burglary: Deterrence vs Inducement. AU Cook, Philip J.; Ludwig, Jens.

Lunde, Asger

TI Consistent Preordering with an Estimated Criterion Function, with an Application to the Evaluation and Comparison of Volatility Models. AU Hansen, Peter Reinhard; Lunde, Asger.

TI Testing the Significance of Calendar Effects. AU Hansen, Peter Reinhard; Lunde, Asger.

TI Choosing the Best Volatility Models: The Model Confidence Set Approach. AU Hansen, Peter Reinhard; Lunde, Asger; Nason, James M.

Luque, Javier A.

TI Efficiency and Equity in Schools Around the World. AU Hanushek, Eric A.; Luque, Javier A.

Ma, Jun

TI Intergovernmental Grants Systems and Management: Applications of a General Framework to Indonesia. AU Ahmad, Ehtisham; Ma, Jun; Searle, Bob; Piperno, Stefano.

Ma, Tongshu

TI Risk Reduction in Large Portfolios: Why Imposing the Wrong Constraints Helps. AU Jagannathan, Ravi; Ma, Tongshu.

MacDonald, Ronald

TI The Impact of Central Bank Intervention on Exchange-Rate Forecast Heterogeneity. AU Beine, Michel; Benassy-Quere, Agnes; Dauchy, Estelle; MacDonald, Ronald.

Machin, Stephen

PD September 2000. TI Crime and Economic Incentives. AU Machin, Stephen; Meghir, Costas. AA Machin: University College London, IFS, and London School of Economics. Meghir: University College London, IFS, and CEPR. SR Institute for Fiscal Studies Working Paper: W00/17; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 28.

PR free from website; 3 pounds for hardcopies. **JE** D19, K42, Z13. **KW** Crime Rate. Unskilled Workers. Wage.

AB We explore the role that economic incentives, particularly changes in wages at the bottom end of the wage distribution, play in determining crime rates. We use data on the police force areas of England and Wales between 1975 and 1996. We find that falls in the wages of unskilled workers leads to increases in crime. We carry out a number of experiments with different wage measures, including a wage measure that accounts for the effects of changes in the composition of employment. These reinforce the picture of a strong impact of wages on crime. The result that incentives play a central role is reinforced further by the strong impact on crime of deterrence measures and of a measure of the returns to crime.

Madrian, Brigitte C.

TI Health Insurance, Labor Supply, and Job Mobility: A Critical Review of the Literature. **AU** Gruber, Jonathan; Madrian, Brigitte C.

Magill, Michael

TI Demography and the Long-Run Predictability of the Stock Market. **AU** Geanakoplos, John; Magill, Michael; Quinzii, Martine.

Maldonado-Bear, Rita

TI The Impact of the Rule of Law on the Structure and Function of Securities Markets. **AU** Bear, Larry Alan; Maldonado-Bear, Rita.

Mammen, Enno

TI More Efficient Kernel Estimation in Nonparametric Regression with Autocorrelated Errors. **AU** Carroll, Raymond J.; Linton, Oliver B.; Mammen, Enno; Xiao, Zhijie.

Mankiw, N. Gregory

TI The NAIRU in Theory and Practice. **AU** Ball, Laurence; Mankiw, N. Gregory.

Manole, Vlad

TI Determinants of Commercial Bank Performance in Transition: An Application of Data Envelopment Analysis. **AU** Grigorian, David A.; Manole, Vlad.

Mansoor, Ali

TI Indonesia: Managing Decentralization. **AU** Ahmad, Ehtisham; Mansoor, Ali.

Marcellino, Massimiliano

TI Factor Based Index Tracking. **AU** Corielli, Francesco; Marcellino, Massimiliano.

PD April 2002. **TI** Instability and Non-Linearity in the EMU. **AA** Universita Bocconi and CEPR. **SR** CEPR Discussion Paper: 3312; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C53, E23, E24, E27, E31, E37. **KW** Instability. Non-Linearity. Time-Varying Models. Non-Linear Models. European Monetary Union.

AB In this paper we evaluate the relative performance of linear, non-linear and time-varying models for about 500

macroeconomic variables for the countries in the Euro area, using a real-time forecasting methodology. It turns out that linear models work well for about 35% of the series under analysis, time-varying models for another 35% and non-linear models for the remaining 30% of the series. The gains in forecasting accuracy from the choice of the best model can be substantial, in particular for longer forecast horizons. These results emerge from a detailed disaggregated analysis, while they are hidden when an average loss function is used. To explore in more detail the issue of parameter instability, we then apply a battery of tests, detecting non-constancy in about 20-30% of the time series. For these variables the forecasting performance of the time-varying and non-linear models further improves. Finally, we evaluate whether non-linear models perform better for three key macroeconomic variables: industrial production, inflation and unemployment. It turns out that this is often the case.

PD April 2002. **TI** Forecast Pooling for Short Time Series of Macroeconomic Variables. **AA** Universita Bocconi and CEPR. **SR** CEPR Discussion Paper: 3313; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** C53, E37. **KW** Time-Varying Models. Non-Linear Models. Forecast Pooling. European Monetary Union.

AB It is common to have several competing forecasts for the same variable, and many methods have been suggested to select the best on the basis of their past forecasting performance. As an alternative, the forecasts can be combined to obtain a pooled forecast, and several options are available to choose which forecasts should be pooled, and how to determine their relative weights. In this paper we compare the relative performance of alternative pooling methods, using a very large dataset of about 500 macroeconomic variables for the countries in the European Monetary Union. In this case the forecasting exercise is further complicated by the short time span available, due to the need for collecting a homogeneous dataset. For each variable in the dataset, we consider 58 forecasts produced by a range of linear, time-varying and non-linear models, plus 16 pooled forecasts. Our results indicate that on average combination methods work well. Yet, a disaggregated analysis reveals that single non-linear models can outperform combination forecasts for several series, even though they perform rather badly for other series so that on average their performance is not as good as that of pooled forecasts.

Marchiori, Carmen

TI Stable Coalitions. **AU** Carraro, Carlo; Marchiori, Carmen.

TI Back to Kyoto? US Participation and the Linkage Between R&D and Climate Cooperation. **AU** Buchner, Barbara; Carraro, Carlo; Cersosimo, Igor; Marchiori, Carmen.

Markowitz, Sara

TI Substance Use and Suicidal Behaviors Among Young Adults. **AU** Chatterji, Pinka; Dave, Dhaval; Kaestner, Robert; Markowitz, Sara.

TI The Impact of Lending, Borrowing, and Anti-Smoking Policies on Cigarette Consumption by Teens. **AU** Katzman, Brett; Markowitz, Sara; McGeary, Kerry Anne.

Marsiliani, Laura

PD October 2002. TI On Income Inequality and Green Preferences. AU Marsiliani, Laura; Renstrom, Thomas I. AA Marsiliani: University of Rochester. Renstrom: University of Rochester and CEPR. SR Wallis Institute of Political Economy Working Paper: 30; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. PG 11. PR 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. JE D63, D72, H21, H23. KW Environmental Policy. Redistribution. Inequality. Political Economy.

AB We derive conditions on individual preferences and technology that give rise to a negative correlation between income inequality and environmental protection. We present a class of models (which capture a static model as well as an overlapping-generations model) in which individuals differ in earning abilities, and where a majority elected representative takes decisions over a pollution tax and a redistributive tax. We show that, if private consumption goods and the environment are non-inferior goods, then if the decisive individual has lower ability than the average, she will prefer a higher redistributive tax and a lower pollution tax.

PD October 2002. TI Environmental Policy and Capital Movements: The Role of Government Commitment. AU Marsiliani, Laura; Renstrom, Thomas I. AA Marsiliani: University of Rochester. Renstrom: University of Rochester and CEPR. SR Wallis Institute of Political Economy Working Paper: 31; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. PG 17. PR 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. JE F21, H21, H23. KW Environmental Policy. International Capital. Time Consistency. Inequality. Political Economy. Human Capital.

AB This paper explores the relationship between environmental protection and international capital movements, when tax policy is endogenous (through voting). A two-period general equilibrium model of a small open economy is specified to compare the effects of two different constitutions (commitment or no commitment in tax policy), as well as income inequality. Under the commitment regime, the equilibrium is characterized by a lower labor tax, a higher environmental tax, and less capital moving abroad than in the no-commitment equilibrium. Furthermore, given the degree of commitment, more equal societies are characterized by tougher environmental policy and less capital moving abroad.

PD November 2002. TI Inequality, Environmental Protection and Growth. AU Marsiliani, Laura; Renstrom, Thomas I. AA Marsiliani: University of Rochester. Renstrom: University of Rochester and CEPR. SR Wallis Institute of Political Economy Working Paper: 35; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. PG 18. PR 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. JE D62, D72, H21, H23, O41. KW Environmental Policy. Redistribution. Inequality.

Political Economy. Growth.

AB We analyze how, in representative democracies, income distribution influences the stringency of environmental policy and economic growth. Individuals (who differ in abilities) live for two periods, work when young and own capital when old. Externalities are caused by a polluting factor. The revenue from pollution taxation, as well as capital-income taxation, is redistributed in a lump-sum fashion to the old. The fiscal decision, at each point in time, is taken by a majority elected representative. In political-economic equilibrium, more inequality (in terms of the skewness of the distribution) yields a lower pollution tax, a larger capital tax, and lower growth.

Martin, Robert F.

PD January 2003. TI Consumption, Durable Goods, and Transaction Costs. AA Board of Governors of the Federal Reserve System. SR Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 756; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. PG 48. PR no charge. JE D12, E21. KW Housing. PSID. Durable Goods. Nondurable Goods.

AB We study consumption of durable and nondurable goods when the durable good is subject to transaction costs. In the model, agents derive utility from a service flow of a durable good and a consumption flow of a nondurable good. The key feature of the model is the existence of a fixed transaction cost in the durable good market. The fixed cost induces an inaction region in the purchase of the durable good. More importantly, the inability to adjust the durable stock induces variation in consumption of the nondurable good over the inaction region. The variation is a function of the degree of complementarity between durable and nondurable goods, the rate of intertemporal substitution, and a precautionary motive induced by incomplete markets. We test the model using the PSID. Housing serves as the durable good. The data indicate an increase in consumption before moving to a smaller house and a decrease in consumption before moving to a larger house. This result is consistent with the model when there exists complementarity between the durable and nondurable good or when there is a strong precautionary effect.

Martin, Will

TI Commercial Policy Variability, Bindings and Market Access. AU Francois, Joseph; Martin, Will.

Masson, Paul R.

TI Experience with Budgetary Convergence in the WAEMU. AU Dore, Ousmane; Masson, Paul R.

Masten, Scott E.

TI Contracting in the Absence of Specific Investments and Moral Hazard: Understanding Carrier-Driver Relations in U.S. Trucking. AU Lafontaine, Francine; Masten, Scott E.

Maurel, Mathilde

TI Impacts economiques et sociaux de l'élargissement pour l'Union européenne et la France (Social and Economic Impact of Enlargement on European Union and France). AU Bchir, Mohamed Hedi; Maurel, Mathilde.

Mayer, Thierry

TI Illusory Border Effects: Distance Mismeasurement Inflates Estimates of Home Bias in Trade. AU Head, Keith; Mayer, Thierry.

TI Can Business and Social Networks Explain the Border Effect Puzzle? AU Combes, Pierre-Philippe; Lafourcade, Miren; Mayer, Thierry.

McCallum, Bennett T.

TI The Non-Optimality of Proposed Monetary Policy Rules Under Timeless-Perspective Commitment. AU Jensen, Christian; McCallum, Bennett T.

McCleary, Rachel M.

TI Religion and Political Economy in an International Panel. AU Barro, Robert J.; McCleary, Rachel M.

McGeary, Kerry Anne

TI The Impact of Lending, Borrowing, and Anti-Smoking Policies on Cigarette Consumption by Teens. AU Katzman, Brett; Markowitz, Sara; McGeary, Kerry Anne.

McHugh, James E.

PD August 2002. TI Wage Centralization, Union Bargaining, and Macroeconomic Performance. AA IMF. SR International Monetary Fund Working Paper: WP/02/143; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 20. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE E50, J51. KW Labor Markets. Trade Unions. Wage Centralization.

AB This paper addresses two questions. First, under what circumstances will a centralized wage-bargaining system offer higher output and employment than a decentralized system? Second, what is the relationship between the degree of wage centralization and inflation? The paper argues that centralized wage setting may offer worse outcomes, despite the existence of a negative coordination externality in decentralized wage setting. This is more likely to occur when the legal and institutional environment strengthens the bargaining position of the union in the centralized regime compared with unions operating in a more decentralized regime. Furthermore, as product markets become more competitive, the macroeconomic outcomes in both regimes converge, and the degree of wage centralization becomes irrelevant.

McIntosh, Steven

PD November 2000. TI Measuring and Assessing the Impact of Basic Skills on Labour Market Outcomes. AU McIntosh, Steven; Vignoles, Anna. AA CEE and CEP. SR CEE Discussion Paper: 03; Centre for Economic Performance, LSE, Houghton Street, London WC2A 2AE. Contact: cee@lse.ac.uk. Website: cee.lse.ac.uk. PG 27. PR 5 pounds single copies; 60 pounds annual subscription; make checks payable to LSE. JE I21, J31. KW Wages. Literacy. Numeracy. Skills.

AB As discussed elsewhere in this collection of papers, workers' skill levels can be measured in a number of distinct ways. It is crucial in an era of rising demand for skills that we have evidence on the labor market value of the full range of worker skills, including basic literacy and numeracy. However,

the role of basic literacy and numeracy skills in the labor market is relatively under-researched. The reason for this is that there are significant problems associated with measuring workers' basic skills levels, particularly when trying to make comparisons across countries, and up to now there has also been a distinct lack of data on this issue. This paper therefore attempts to fill this gap in the literature, using two unique data sets, the UK National Child Development Study and the International Adult Literacy Survey, to measure UK workers' basic literacy and numeracy skills. The paper then evaluates the impact of these skills on respondents' labor market outcomes, particularly wages. We find clear evidence of a wage and employment return for workers with higher level literacy and numeracy skills.

TI The Returns to Academic and Vocational Qualifications in Britain. AU Dearden, Lorraine; McIntosh, Steven; Myck, Michal; Vignoles, Anna.

McKnight, Robin

TI Why Did Employee Health Insurance Contributions Rise? AU Gruber, Jonathan; McKnight, Robin.

McMillan, John

TI Property Rights and Finance. AU Johnson, Simon; McMillan, John; Woodruff, Christopher.

McMillan, Margaret S.

TI Global Capital Flows and Financing Constraints. AU Harrison, Ann E.; Love, Inessa; McMillan, Margaret S.

Medrano, Luis Angel

PD April 2002. TI Regulating Insider Trading when Investment Matters. AU Medrano, Luis Angel; Vives, Xavier. AA Medrano: Universitat Pompeu Fabra. Vives: INSEAD. SR CEPR Discussion Paper: 3292; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D82, G14. KW Insider Trading. Selective Disclosure. Disclose-or-Abstain Rule. Real Investment. Welfare. Hedging. Speculation. Noise Traders.

AB We analyze the effects of insider trading on real investment and welfare, and the consequences of different regulatory policies: a disclose-or-abstain rule, "fair" disclosure, laissez-faire and forbidding insider trades based on "precise" information. We perform the analysis in a model in which all traders are rational expected-utility maximizers and aware of their position in the market. We compare the equilibrium with insider trading with the equilibrium in the same market without insider trading in two scenarios: costly and costless information acquisition. We find that with costly information acquisition an abstain-or-disclose rule tends to be optimal while with free information acquisition laissez-faire is better. This suggests enforcing an abstain-or-disclose rule with a high standard of proof for inside information. This rule of thumb advocates a laissez-faire policy both for selective disclosure and in high-tech industries. Our approach uncovers the pitfalls of welfare analysis in the noise trader model.

Meghir, Costas

TI Crime and Economic Incentives. AU Machin, Stephen; Meghir, Costas.

Mehra, Rajnish

TI Junior Must Pay: Pricing the Implicit Put in Privatizing Social Security. **AU** Constantinides, George M.; Donaldson, John B.; Mehra, Rajnish.

Meier, Martin

PD December 2002. **TI** Finitely Additive Beliefs and Universal Type Spaces. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2002/75; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 62. **PR** \$5 per paper; \$100 per year. **JE** C19, C49. **KW** Type Space. Finitely Additive Beliefs.

AB In this paper we examine the existence of a universal (to be precise: terminal) type space when beliefs are described by finitely additive probability measures. We find that in the category of all type spaces that satisfy certain measurability conditions (?-measurability, for some fixed regular cardinal ?), there is a universal type space (i.e. a terminal object, that is a type space to which every type space can be mapped in a unique beliefs-preserving way (the morphisms of our category, the so-called type morphisms)), while, by a probabilistic adaptation of the elegant sober-drunk example of Heifetz and Samet (1998a), we show that if all subsets of the spaces are required to be measurable there is no universal type space.

Melitz, Mark J.

PD April 2002. **TI** The Impact of Trade on Intra-Industry Reallocations and Aggregate Industry Productivity. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8881; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F12, F13, O47. **KW** Gains from Trade. Heterogeneous Firms. Productivity.

AB This paper builds a dynamic industry model with heterogeneous firms that explains why international trade induces reallocations of resources among firms in an industry. The paper shows how the exposure to trade will induce only the more productive firms to enter the export market and will simultaneously force the least productive firms to exit. It then shows how further increases in the industry's exposure to trade lead to additional inter-firm reallocations towards more productive firms. These phenomena have been empirically documented but can not be explained by current general equilibrium trade models. The paper also shows how the aggregate industry productivity growth generated by the reallocations contributes to a welfare gain. The paper adapts Hopenhayn's (1992a) dynamic industry model to monopolistic competition in a general equilibrium setting. In so doing, the paper provides an extension of Krugman's (1980) trade model that incorporates firm level productivity differences. Firms with different productivity levels coexist in an industry because each firm faces initial uncertainty concerning its productivity before making an irreversible investment to enter the industry. Entry into the export market is also costly, but the firm's decision to export occurs after it gains knowledge of its productivity.

Melka, Johanna

PD May 2003. **TI** Skills, Technology and Growth: Is ICT

the Key to Success? Part I: An Analysis of ICT Impact on French Growth. **AU** Melka, Johanna; Mulder, Nanno; Nayman, Laurence; Zignago, Soledad. **AA** Melka, Nayman, and Zignago: CEPII. Mulder: OECD. **SR** CEPII Working Paper: 2003/04; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 36. **PR** no charge. **JE** J21, L63, O47. **KW** ICT. Growth Accounting. Labor Quality. Capital Services.

AB This paper aims at assessing the contribution of ICT to growth in France at the macro-level. On the labor side, it stresses the contributions of various factors to the labor quality and shows how they explain the labor productivity change in the period 1995-00. One of the reasons why France lags behind the U.S. in terms of ICT contribution to growth is that the proportion of U.S. ICT investment in total investments is more than twice as high as it is in France. In France, the contribution of ICT to hourly labor productivity growth accelerated sharply over the 1995-2000 period relative to the previous period. This acceleration was accompanied by an acceleration in total factor productivity but not by an increase in the quality of French labor. The latter had increased regularly until the period 1990-95, owing primarily to an increase in the education level of the work force. Over the last period, the fall in the quality of French labor is consistent with the rise in hours worked by less well-paid workers, particularly younger workers.

Mendis, Chandima

TI Trade and Integration in the Caribbean. **AU** Egoume-Bossogo, Philippe; Mendis, Chandima.

Mendoza, Enrique G.

TI Credit Frictions and "Sudden Stops" in Small Open Economies: An Equilibrium Business Cycle Framework for Emerging Markets Crises. **AU** Arellano, Cristina; Mendoza, Enrique G.

PD May 2002. **TI** Why Should Emerging Economies Give up National Currencies: A Case for "Institutions Substitution." **AA** University of Maryland and NBER. **SR** National Bureau of Economic Research Working Paper: 8950; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E32, E50, F30, F41. **KW** Emerging Economies. Business Cycles. Capital Inflows. Credibility. National Currencies.

AB Financial contagion and Sudden Stops of capital inflows experienced in emerging markets crises may originate in an explosive mix of lack of policy credibility and world capital market imperfections that afflict emerging economies with national currencies. Hence, this paper argues that abandoning national currencies to adopt a hard currency can significantly reduce the emerging countries' vulnerability to these crises. The credibility of their financial policies would be greatly enhanced by the implicit subordination to the policy-making institutions of the hard currency issuer. Their access to international capital markets would improve as the same expertise and information that global investors gather already to evaluate the monetary policy of the hard currency issuer would apply to emerging economies. Yet, adopting a hard currency does not eliminate business cycles, rule out all forms of financial crises, or solve severe fiscal problems that plague emerging economies, and it entails giving up seigniorage and potential benefits of conducting independent monetary policy.

However, these disadvantages seem dwarfed by the urgent need to enable emerging countries to access global capital markets without exposing them to the risk of recurrent Sudden Stops.

Metcalf, Gilbert E.

TI Tax Incidence. **AU** Fullerton, Don; Metcalf, Gilbert E.

TI Cap and Trade Policies in the Presence of Monopoly and Distortionary Taxation. **AU** Fullerton, Don; Metcalf, Gilbert E.

Michel, Philippe

PD February 2003. **TI** Public Debt and Limited Altruism: Is Ricardian Equivalence Possible if Altruism is Limited? **AA** University of Aix-Marseille II, University of Paris I, and Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/08; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 12. **PR** \$5 per paper; \$100 per year. **JE** D64, E62, H63. **KW** Public Debt. Altruism. Ricardian Equivalence.

AB There have been many criticisms of Barro's theory of Ricardian equivalence, but these criticisms apply mainly to a "special form" of Barro's model and there are different possible interpretations of this model. We study another very simple model in which altruism is limited. The effects of public debt are studied under two different types of assumptions. The first type of assumptions is standard: young agents buy the government bonds which are perfect substitutes to the assets of firms. This leads to the "traditional" effects of public debt: it increases current consumptions and decreases future capital stocks. Alternatively, we assume that agents apply a special rule called the "patriarchal rule". If agents expect that their children will apply it, then it is rational for them to apply it. This rule leads to a robust property of Ricardian equivalence.

Mihov, Ilian

TI The Case for Restricting Fiscal Policy Discretion. **AU** Fatas, Antonio; Mihov, Ilian.

PD March 2002. **TI** Credibility and Flexibility with Monetary Policy Committees. **AU** Mihov, Ilian; Sibert, Anne. **AA** Mihov: INSEAD and CEPR. Sibert: Birkbeck College, London. **SR** CEPR Discussion Paper: 3278; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E42, E52, E58. **KW** Monetary Policy Committee. Reputation. Output Stabilization. Inflationary Bias.

AB We consider independent monetary policy committees as a simple way of attaining relatively low inflation without completely sacrificing the stabilization role of monetary policy. If central banker's types are unknown, then for a wide range of parameters an independent monetary policy committee is better than either a mandated zero-inflation rule or discretionary policy conducted by an opportunistic central banker.

Miles, David K.

PD March 2002. **TI** Optimal Social Security Design. **AU** Miles, David K.; Sefton, James. **AA** Miles: Imperial College, London, CESifo, and CEPR. Sefton: National Institute of Economic and Social Research. **SR** CEPR Discussion

Paper: 3290; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** H11, H21, H31. **KW** Social Security. Pensions. Optimal Taxes.

AB This paper considers the optimal design of public pension provision for the retired and income support for those of working age. We consider social security systems that differ in terms of the level of benefits, degree of means testing and the nature of contributions. We aim to find which system maximizes the expected utility of agents behind an initial veil of ignorance about their future labor productivity. We also explore whether systems that differ from the (ex-ante) optimal one could be reformed. We ask whether agents who already know what their productivity is would vote for a move towards a system that they would have found optimal from behind a veil of ignorance about their own position on the wages ladder. We also consider which systems could be sustained in an economy where reform is decided by majority voting. We find a substantial role for means testing in optimal welfare systems. We also find the possibility of multiple equilibria in welfare systems.

Milligan, Kevin

PD March 2002. **TI** Subsidizing the Stork: New Evidence on Tax Incentives and Fertility. **AA** University of British Columbia and NBER. **SR** National Bureau of Economic Research Working Paper: 8845; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 32. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H31, J12, J13. **KW** Fertility. Tax Policy. Quebec. AFDC.

AB Variation in tax policy presents an opportunity to estimate the responsiveness of fertility to prices. This paper exploits the introduction of a pro-natalist transfer policy in the Canadian province of Quebec that paid up to C\$8,000 to families having a child. I implement a quasi-experimental strategy by forming treatment and control groups defined by time, jurisdiction, and family type. This permits a triple-difference estimator to be implemented -- both on the program's introduction and cancellation. Furthermore, the incentive was available broadly, rather than to a narrow subset of the population as studied in the literature on AFDC and fertility. This provides a unique opportunity to investigate heterogeneous responses. I find a strong effect of the policy on fertility, and some evidence of a heterogeneous response that may help reconcile these results with the AFDC literature.

Mimouni, Mondher

TI Market Access Maps: A Bilateral and Disaggregated Measure of Market Access. **AU** Bouet, Antoine; Fontagne, Lionel; Mimouni, Mondher; Pichot, Xavier.

Miniaci, Raffaele

TI What Do We Learn from Recall Consumption Data? **AU** Battistin, Erich; Miniaci, Raffaele; Weber, Guglielmo.

Minvielle, Gildas

TI Mondialisation et regionalisation: le cas des industries du textile et de l'habillement (Globalisation and Regionalisation: The Textile Clothing Case). **AU** Fouquin, Michel; Morand, Pascal; Avisse, Richard; Minvielle, Gildas; Dumont, Philippe.

TI Mondialisation et regionalisation: le cas des industries du textile et de l'habillement (Globalisation and Regionalisation: The Textile Clothing Case). **AU** Fouquin, Michel; Morand, Pascal; Avisse, Richard; Minvielle, Gildas; Dumont, Philippe.

Mion, Giordano

PD February 2003. **TI** Spatial Externalities and Empirical Analysis: The Case of Italy. **AA** Universite Catholique de Louvain and University of Bari. **SR** CORE Discussion Paper: 2003/15; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 23. **PR** \$5 per paper; \$100 per year. **JE** F12, R12, R32. **KW** Economic Geography. Spatial Externalities. Market Potential.

AB In the last ten years the space issue, i.e., the study of the role played by space in economic phenomena, has attracted a lot of interest from many economic fields. The combination of increasing returns, market imperfections, and trading costs creates new forces that, together with factor endowments, determine the distribution of economic activities. Despite their theoretical relevance, there is still little evidence, especially at large scale level, on the effective contribution of these externalities to agents' location decisions. The aim of this work is to estimate a model of economic geography, using a space-time panel data on Italian provinces, to both test the empirical relevance of this theory, and to try to measure the geographic extent of spatial externalities. Particular attention is devoted to rigorously addressing those endogeneity issues that naturally arise when dealing with both structural models and spatial data. Our results are consistent with the hypothesis that product-market linkages, coming from increasing returns and trade costs, actually influence the geographic concentration of economic activities and that their spread over space is, contrary to previous findings, not negligible.

Mitchell, Olivia S.

TI Strengthening Employment-Based Pensions in Japan. **AU** Clark, Robert L.; Mitchell, Olivia S.

Moav, Omer

TI Land Inequality and the Origin of Divergence and Overtaking in the Growth Process: Theory and Evidence. **AU** Galor, Oded; Moav, Omer; Vollrath, Dietrich.

Monacelli, Tommaso

TI Monetary Policy and Exchange Rate Volatility in a Small Open Economy. **AU** Gali, Jordi; Monacelli, Tommaso.

Monge-Naranjo, Alexander

TI Human Capital Formation with Endogenous Credit Constraints. **AU** Lochner, Lance; Monge-Naranjo, Alexander.

Montado, Estela

TI An Audit of the Data Needs of the DfEE Centres for the Economics of Education and the Wider Benefits of Learning. **AU** Desai, Tanvi; Montado, Estela; Vignoles, Anna.

Montero, Maria

PD December 1999. **TI** Coalition Formation in Games

with Externalities. **AA** Tilburg University. **SR** Tilburg CentER Discussion Paper: 99121; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: center.uvt.nl. **PG** 39. **PR** no charge. **JE** C71, C72, C78. **KW** Coalition Formation. Externalities. Partition Function. Random Proposers.

AB This paper studies an extensive form game of coalition formation with random proposers in a situation where coalitions impose externalities on other players. It is shown that an agreement will be reached without delay provided that any set of coalitions profit from merging. Even under this strong condition, the formation of the grand coalition is not guaranteed. Therefore, the resulting coalition structure will not necessarily be efficient. The results of this model are compared with the related work of Ray and Vohra (GEB, 1999), which assumes that players move in a predetermined order. The game with random proposers tends to give a large advantage to the proposer, whereas the game with a rule of order tends to favor the responders and may not capture the competition between players. The game with random proposers yields more efficient results for some specific classes of games. However, the results of the two games cannot in general be ranked in terms of efficiency.

Montes, Ana

TI The Intergenerational State: Education and Pensions. **AU** Boldrin, Michele; Montes, Ana.

Montout, Sylvie

TI Brazil and Mexico's Manufacturing Performance in International Perspective, 1970-1999. **AU** Mulder, Nanno; Montout, Sylvie; Peres Lopes, Luis.

Moon, Hyungsik Roger

PD January 2003. **TI** GMM Estimation of Autoregressive Roots Near Unity with Panel Data. **AU** Moon, Hyungsik Roger; Phillips, Peter C. B. **AA** Moon: University of Southern California. Phillips: Yale University, University of Auckland, and University of York. **SR** Yale Cowles Foundation Discussion Paper: 1390; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 62. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C22, C23. **KW** Bias. Boundary Point Asymptotics. GMM Estimation. Local to Unity. Moment Conditions. Nuisance Parameters. Panel Data. Pooled Regression. Projected Score.

AB This paper investigates a generalized method of moments (GMM) approach to the estimation of autoregressive roots near unity with panel data and incidental deterministic trends. Such models arise in empirical econometric studies of firm size and in dynamic panel data modeling with weak instruments. The two moment conditions in the GMM approach are obtained by constructing bias corrections to the score functions under OLS and GLS detrending, respectively. It is shown that the moment condition under GLS detrending corresponds to taking the projected score on the Bhattacharya basis, linking the approach to recent work on projected score methods for models with an infinite number of nuisance parameters (Waterman and Lindsay, 1998). Assuming that the localizing parameter takes a nonpositive value, we establish consistency of the OMM estimator and find its limiting distribution. A notable new finding is that the GMM estimator has convergence rate $n^{1/6}$,

when the true localizing parameter is zero (i.e., when there is a panel unit root) and the deterministic trends in the panel are linear. These results, which rely on boundary point asymptotics, point to the continued difficulty of distinguishing unit roots from local alternatives, even asymptotically.

Morand, Pascal

TI Mondialisation et regionalisation: le cas des industries du textile et de l'habillement (Globalisation and Regionalisation: The Textile Clothing Case). **AU** Fouquin, Michel; Morand, Pascal; Avisse, Richard; Minvielle, Gildas; Dumont, Philippe.

Morris, Stephen

PD July 2002. **TI** Best Response Equivalence. **AU** Morris, Stephen; Ui, Takashi. **AA** Morris: Yale University. **Ui**: Yokohama National University. **SR** Yale Cowles Foundation Discussion Paper: 1377; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 31. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, C79. **KW** Best Response Equivalence. Duality. Farkas' Lemma. Potential Games.

AB Two games are best-response equivalent if they have the same best-response correspondence. We provide a characterization of when two games are best-response equivalent. The characterizations exploit a dual relationship between payoff differences and beliefs. Some "potential game" arguments (cf. Monderer and Shapley, 1996) rely only on the property that potential games are best-response equivalent to identical interest games. Our results show that a large class of games are best-response equivalent to identical interest games, but are not potential games. Thus we show how some existing potential game arguments can be extended.

PD December 2002. **TI** Generalized Potentials and Robust Sets of Equilibria. **AU** Morris, Stephen; Ui, Takashi. **AA** Morris: Yale University. **Ui**: Yokohama National University. **SR** Yale Cowles Foundation Discussion Paper: 1394; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 36. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D82. **KW** Incomplete Information. Potential. Refinements. Robustness.

AB This paper introduces generalized potential functions of complete information games and studies the robustness of sets of equilibria to incomplete information. A set of equilibria of a complete information game is robust if every incomplete information game where payoffs are almost always given by the complete information game has an equilibrium which generates behavior close to some equilibrium in the set. This paper provides sufficient conditions for the robustness of sets of equilibria in terms of argmax sets of generalized potential functions and shows that the sufficient conditions generalize the existing sufficient conditions for the robustness of equilibria.

Moskowitz, Tobias J.

TI Informal Financial Networks: Theory and Evidence. **AU** Garnaise, Mark J.; Moskowitz, Tobias J.

PD April 2002. **TI** The Returns to Entrepreneurial Investment: A Private Equity Premium Puzzle? **AU** Moskowitz, Tobias J.; Vissing-Jorgensen, Annette. **AA** University of Chicago and NBER. **SR** National

Bureau of Economic Research Working Paper: 8876; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 36. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G11, G12. **KW** Private Equity. Public Equity. Equity Premium.

AB We document the return to investing in U.S. nonpublicly traded equity. Entrepreneurial investment is extremely concentrated, yet despite its poor diversification, we find that the returns to private equity are no higher than the returns to public equity. Given the large public equity premium, it is puzzling why households willingly invest substantial amounts in a single privately held firm with a seemingly far worse risk-return tradeoff. We briefly discuss how large nonpecuniary benefits, a preference for skewness, or overestimates of the probability of survival could potentially explain investment in private equity despite these findings.

TI Confronting Information Asymmetries: Evidence from Real Estate Markets. **AU** Garnaise, Mark J.; Moskowitz, Tobias J.

Moulin, Herve

PD April 2003. **TI** Characterization of Additive Cost Sharing Methods. **AU** Moulin, Herve; Vohra, Rakesh V. **AA** Moulin: Rice University. Vohra: Northwestern University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1364; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 10. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C71, D73. **KW** Cost Sharing. Additivity. Network Flow. Dummy Axiom.

AB The set of additive cost sharing methods when individual demands are integer valued and cost shares are non negative, is characterized by its extreme points and by a network flow representation. The extreme methods allocate costs incrementally along a chain of demand vectors independent of the cost function. The result generalizes Wang's characterization in that we do not assume the Dummy axiom.

Mowery, David C.

TI Post-Issue Patent "Quality Control": A Comparative Study of US Patent Re-examinations and European Patent Oppositions. **AU** Graham, Stuart J. H.; Hall, Bronwyn H.; Harhoff, Dietmar; Mowery, David C.

Mueller, Holger M.

TI Distributional Conflict in Organisations. **AU** Inderst, Roman; Mueller, Holger M.; Warneryd, Karl.

Mulder, Nanno

PD May 2002. **TI** Brazil and Mexico's Manufacturing Performance in International Perspective, 1970-1999. **AU** Mulder, Nanno; Montout, Sylvie; Peres Lopes, Luis. **AA** Mulder: CEPII. Montout: Universite Paris I. Peres Lopez: University of Coimbra. **SR** CEPII Working Paper: 2002/05; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 30. **PR** no charge. **JE** O11, O47, O54. **KW** Manufacturing. Sectoral Productivity. Unit Labor Costs. The Americas.

AB This paper studies the labor productivity performances of Brazil and Mexico in the manufacturing sector, compared with the United States during the period 1970-99. Brazil and Mexico are compared separately with the USA, in 1985 and 1988 respectively using the International Comparisons of Output and Productivity (ICOP) method. With ICOP, detailed sectoral-specific conversion factors (unit value ratios, UVRs) are estimated to express value added per person engaged in a common currency. This paper shows that labor productivity in Brazil was 43 per cent of the US level in 1985 and that in Mexico it was 27 per cent of the US in 1988. The extrapolation to the 1970-99 period shows that the productivity gaps of the Latin countries with the USA widened, in particular in the 1980s. In the 1990s, Brazil managed to stabilize the productivity differential, whereas Mexico continued to lose ground relative to the USA.

TI Skills, Technology and Growth: Is ICT the Key to Success? Part I: An Analysis of ICT Impact on French Growth. **AU** Melka, Johanna; Mulder, Nanno; Nayman, Laurence; Zignago, Soledad.

Mullainathan, Sendhil

TI How Much Should We Trust Differences-in-Differences Estimates? **AU** Bertrand, Marianne; Duflo, Esther; Mullainathan, Sendhil.

TI Do Cigarette Taxes Make Smokers Happier? **AU** Gruber, Jonathan; Mullainathan, Sendhil.

Mulligan, Casey B.

TI Economic Interpretations of Intergenerational Correlations. **AU** Grawe, Nathan D.; Mulligan, Casey B.

PD May 2002. **TI** Social Security and Democracy. **AU** Mulligan, Casey B.; Gil, Ricard; Sala-i-Martin, Xavier. **AA** Mulligan: University of Chicago and NBER. Gil: University of Chicago. Sala-i-Martin: Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8958; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 40. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D72, H11, H55. **KW** Social Security. Democracy. Retirement.

AB Many political economic theories use and emphasize the process of voting in their explanation of the growth of Social Security, government spending, and other public policies. But is there an empirical connection between democracy and Social Security program size or design? Using some new international data sets to produce both country-panel econometric estimates as well as case studies of South American and southern European countries, we find that Social Security policy varies according to economic and demographic factors, but that very different political histories can result in the same Social Security policy. We find little partial effect of democracy on the size of Social Security budgets, on how those budgets are allocated, or how economic and demographic factors affect Social Security. If there is any observed difference, democracies spend a little less of their GDP on Social Security, grow their budgets a bit more slowly, and cap their payroll tax more often, than do economically and demographically similar non-democracies. Democracies and non-democracies are equally likely to have benefit formulas inducing retirement and, conditional on GDP per capita, equally likely to induce retirement with a retirement test vs. an earnings test.

Murphy, Dennis R.

PD May 2002. **TI** Price and Quality Relationships in Local Service Industries. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 249; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. **Contact Person:** troundree@ftc.gov. **Website:** www.ftc.gov/be/econwork.htm. **PG** 66. **PR** no charge. **JE** D83, L15. **KW** Price and Quality. Signaling. **AB** This working paper presents the findings of research on the relationship between price and quality in consumer service industries in the Washington, D.C. area. The study relies primarily upon consumer ratings of service provider quality and other data published in Washington Consumer's Checkbook Magazine. The data base includes nineteen service industries and, in virtually all cases, time series information for price and quality ratings over several ratings periods since the magazine's inception in 1976. The results provide interesting and frequently surprising information on basic price-quality relationships in this sector, and on the reliability of several non-price "signals" that consumers might use to gauge a service provider's probable performance. Specifically, only three of the nineteen industries report consistently significant positive price-quality correlations, and industries specializing in repair services frequently display significant negative correlations between price and quality. Further, possible signaling mechanisms, such as the size of a firm's Yellow Pages advertisement, or a firm's status as a member of a nationwide chain, do not function as indicators of higher quality in this data set.

Myck, Michal

TI The Returns to Academic and Vocational Qualifications in Britain. **AU** Dearden, Lorraine; McIntosh, Steven; Myck, Michal; Vignoles, Anna.

Nagin, Daniel

PD March 2002. **TI** Monitoring, Motivation and Management: The Determinants of Opportunistic Behavior in a Field Experiment. **AU** Nagin, Daniel; Rebitzer, James; Sanders, Seth; Taylor, Lowell. **AA** Nagin and Taylor: Carnegie Mellon University. Rebitzer: Case Western Reserve University and NBER. Sanders: University of Maryland. **SR** National Bureau of Economic Research Working Paper: 8811; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J22, J64, M12. **KW** Shirking Model. Rational Cheater. Monitoring. Experimental Data.

AB Economic models of incentives in employment relationships are based on a specific theory of motivation. Employees are "rational cheaters," who anticipate the consequences of their actions and shirk when the perceived marginal benefit exceeds the marginal cost. Managers respond to this decision calculus by implementing monitoring and incentive pay practices that lessen the attractiveness of shirking. The "rational cheater model" is not the only model of opportunistic behavior, and indeed is viewed skeptically by human resource practitioners and by many non-economists who study employment relationships. We investigate the "rational cheater model" using data from a double-blind field experiment that allows us to observe the effect of experimentally-induced variations in monitoring on employee opportunism. The experiment is unique in that it occurs in the context of an

ongoing employment relationship, i.e., with the firm's employees producing output as usual under the supervision of their front-line managers. The results indicate that a significant fraction of employees do not respond to manipulations in the monitoring rate. This heterogeneity is related to employee assessments about their general treatment by the employer.

Nargis, Nigar

TI Wage Moderation in France. **AU** Estevao, Marcello; Nargis, Nigar.

Nason, James M.

PD February 2003. **TI** The Present-Value Model of the Current Account Has Been Rejected: Round Up the Usual Suspects. **AU** Nason, James M.; Rogers, John H. **AA** Nason: University of British Columbia. Rogers: Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 760; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 35. **PR** no charge. **JE** E32, F41. **KW** World Real Interest Rate. Capital Mobility. Bayesian Monte Carlo. Current Account.

AB Tests of the present-value model of the current account are frequently rejected by the data. Standard explanations rely on the "usual suspects" of non-separable preferences, shocks to fiscal policy and the world real interest rate, and imperfect international capital mobility. We confirm these rejections on post-war Canadian data, then investigate their source by calibrating and simulating alternative versions of a small open economy, real business cycle model. Monte Carlo experiments reveal that, although each of the suspects matters in some way, a "canonical" RBC model moves closest to the data when it features exogenous world real interest rate shocks.

TI Choosing the Best Volatility Models: The Model Confidence Set Approach. **AU** Hansen, Peter Reinhard; Lunde, Asger; Nason, James M.

Nayman, Laurence

TI Skills, Technology and Growth: Is ICT the Key to Success? Part I: An Analysis of ICT Impact on French Growth. **AU** Melka, Johanna; Mulder, Nanno; Nayman, Laurence; Zignago, Soledad.

Nesterov, Yu

PD February 2003. **TI** Smooth Minimization of Non-Smooth Functions. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/12; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 25. **PR** \$5 per paper; \$100 per year. **JE** C61, C65. **KW** Non-Smooth Optimization. Convex Optimization. Optimal Methods. Complexity Theory. Structural Optimization.

AB In this paper we propose a new approach for constructing efficient schemes for non-smooth convex optimization. It is based on a special smoothing technique, which can be applied to the functions with explicit max-structure. Our approach can be considered as an alternative to black-box minimization. From the viewpoint of efficiency estimates, we manage to

improve the traditional bounds on the number of iterations of the gradient schemes from $O(1/e^2)$ to $O(1/e)$, keeping basically the complexity of each iteration unchanged.

PD February 2003. **TI** Characteristic Functions of Directed Graphs and Applications to Stochastic Equilibrium Problems. **AA** Universite Catholique de Louvain. **SR** CORE Discussion Paper: 2003/13; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 20. **PR** \$5 per paper; \$100 per year. **JE** C65, C69. **KW** Directed Graphs. Characteristic Functions.

AB In this paper we introduce the notions of characteristic and potential functions of directed graphs and study their properties. The main motivation for our research is the stochastic equilibrium traffic assignment problem, in which the drivers choose their routes with some probabilities. Since the number of the strategies in this game is intractably large, we need to find an efficient way of computation of the expected arc flows in the network. We show that the characteristic functions of the graphs are very useful in this respect. Using this technique we can form and solve numerically the equilibrium traffic assignment problem in a reasonable computational time. As a byproduct of our results we show that the spectral radius of a matrix with non-negative elements admits a convex parametrization as a function of its entries.

Neumark, David

PD April 2002. **TI** Employment Relationships in the New Economy. **AU** Neumark, David; Reed, Deborah. **AA** Neumark: Michigan State University and NBER. Reed: Public Policy Institute of California. **SR** National Bureau of Economic Research Working Paper: 8910; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J21. **KW** Employment. New Economy. High-Tech Industries.

AB It is often argued that "new economy" jobs are less likely to use traditional employment relationships, and more likely to rely on "alternative" or "contingent" work. When we look at new economy jobs classified on the basis of employment in high-tech industries, we do not find greater use of contingent or alternative employment relationships. However, when we classify new economy workers based on residence in high-tech cities, contingent and alternative employment relationships are more common, even after accounting for the faster employment growth in these cities. Finally, defining "new economy" more literally to be those industries with the fastest growth yields the most striking differences, as workers in the fastest-growing industries are much more likely to be in contingent or alternative employment relationships, with a large share of this difference driven by employment in the fast-growing construction and personnel supply services industries where employment is perhaps "intrinsically" contingent or alternative. While subject to numerous qualifications, the combined evidence gives some support to the hypothesis that the new economy may entail a possibly significant and long-lasting increase in contingent and alternative employment relationships.

Nicholson, Michael W.

PD July 2002. TI Intellectual Property Rights, Internalization and Technology Transfer. AA FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 250; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 34. PR no charge. JE F23, L24, O34. KW Multinational Enterprise. Licensing. Intellectual Property. Technology Transfer. Foreign Direct Investment.

AB Intellectual property protection affects the manner in which multinational enterprises facilitate technology transfer from the innovating North to the developing South. Firms with products that are complex or technologically sophisticated will tend to internalize production through foreign direct investment. Firms that face a lower risk of imitation, or are less technically advanced, will tend to license production to non-affiliated Southern firms. Changes in intellectual property protection affect the level and the composition of technology transfer, depending on the value of the firm's proprietary asset.

Nicholson, Sean

PD April 2002. TI Physician Income Prediction Errors: Sources and Implications for Behavior. AU Nicholson, Sean; Souleles, Nicholas S. AA Nicholson: University of Pennsylvania. Souleles: University of Pennsylvania and NBER. SR National Bureau of Economic Research Working Paper: 8907; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 32. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D84, I11, J24, J30, J44. KW Income Expectations. Income Shocks. Income Prediction Errors. Health Care.

AB Although income expectations play a central role in many economic decisions, little is known about the sources of income prediction errors and how agents respond to income shocks. This paper uses a unique panel data set to examine the accuracy of physicians' income expectations, the sources of income prediction errors, and the effect of income prediction errors on physician behavior. The data set contains direct survey measures of income expectations for medical students who graduated between 1970 and 1998, their corresponding income realizations, and a rich summary of the shocks hitting their medical practices. We find that income prediction errors were positive on average over the sample period, but varied significantly over time and cross-sectionally. We trace these results to persistent specialty-specific shocks, such as the growth of health maintenance organizations (HMOs) and other changes across health care markets. Physicians who experienced negative income shocks were more likely to respond by increasing their hours worked, allocating fewer of their work hours to teaching/research and more to patient care, and were more likely to switch specialties.

Nickell, Steve

PD December 1999. TI The Netherlands and the United Kingdom: A European Unemployment Miracle? AU Nickell, Steve; van Ours, Jan C. AA Nickell: London School of Economics. van Ours: Tilburg University, OSA, CEPR. SR Tilburg CentER Discussion Paper: 99119; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: center.uvt.nl. PG 36.

PR no charge. JE J51, J58. KW Unemployment. The Netherlands. Great Britain.

AB The unemployment rates in both the UK and the NL have declined substantially since the early 1980s. In this paper we argue that this is because of a significant reduction in the equilibrium unemployment rate, which was itself due to combinations of supply-oriented policies. The combinations are partly overlapping and partly differing between the two countries. The main difference is in wage negotiations. Where the Dutch unions were already co-operative, British unions were made to co-operate. The main overlap is in the popularity of part-time work and the re-enforcement of financial incentives for work for unemployed workers collecting benefits.

Nicodeme, Gaetan

TI Deposit Insurance and International Bank Deposits. AU Huizinga, Harry; Nicodeme, Gaetan.

Nielsen, Helena Skyt

PD January 2003. TI Does the Gap in Family-Friendly Policies Drive the Family Gap? AU Nielsen, Helena Skyt; Simonsen, Marianne; Verner, Mette. AA CIM, CLS and University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2003/01; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 38. PR no charge. JE J13, J22, J33, J45. KW Fertility. Family Gap. Career Interruptions. Wages. Public vs. Private Sector.

AB A segregation of the labor market into a family-friendly and a non-family friendly sector has the effect that women self-select into the sectors depending on institutional constraints, preferences for family-friendly working conditions and expected wage differences. We find that neglecting the sector dimension tends to understate the effect of birth-related interruptions in both sectors. The combined effect of a large depreciation effect and no recovery means that females in the non-family friendly sector (e.g. private sector) are punished severely after childbirth. In the family friendly sector (e.g. public sector), we find complete catching up.

Nielsen, Morten O.

PD September 2002. TI Spectral Analysis of Fractionally Cointegrated Systems. AA University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2002/12; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 10. PR no charge. JE C12, C32. KW Common Stochastic Trend. Fractional Cointegration. Frequency Domain Analysis. Reduced Rank. Zero-Frequency.

AB Fractional cointegration imposes restrictions on the zero-frequency behavior of a time series. In a multivariate time series, integrated of order d ($1/2, 3/2$) and cointegrating to order $d-b$ ($-1/2, 1/2$), we derive these restrictions in terms of the (reduced) rank of the spectral density matrix of the d th differenced series and in terms of gain, coherence, and phase measures.

PD November 2002. TI Local Empirical Spectral Measure of Multivariate Processes with Long Range Dependence. AA University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2002/16;

Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 18. PR no charge. JE C14, C22, C32. KW Brownian Motion. Fractional ARIMA. Functional. Central Limit Theorem. Goodness-of-Fit Test. Integrated Periodogram. Long Memory. Narrow-Band Frequency. Least Squares.

AB We derive a functional central limit theorem for the empirical spectral measure or discretely averaged (integrated) periodogram of a multivariate long range dependent stochastic process in a degenerating neighborhood of the origin. We show that, under certain restrictions on the memory parameters, this local empirical spectral measure converges weakly to a Gaussian process with independent increments. Applications to narrow-band frequency domain estimation in time series regression with long range dependence, and to local (to the origin) goodness-of-fit testing are offered.

PD November 2002. **TI** Semiparametric Estimation in Time Series Regression with Long Range Dependence. **AA** University of Aarhus. **SR** University of Aarhus Department of Economics Working Paper: 2002/17; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 30. PR no charge. JE C14, C22. KW Fractional Integration. Generalized Least Squares. Linear Regression. Long Range Dependence. Semiparametric Estimation. Whittle Likelihood.

AB We consider semiparametric estimation in time series regression in the presence of long range dependence in both the errors and the stochastic regressors. A central limit theorem is established for a class of semiparametric frequency domain weighted least squares estimates, which includes both narrow band ordinary least squares and narrow band generalized least squares as special cases. The estimates are semiparametric in the sense that focus is on the neighborhood of the origin, and only periodogram ordinates in a degenerating band around the origin are used. This setting differs from earlier work on time series regression with long range dependence where a fully parametric approach has been employed. The generalized least squares estimate is infeasible when the degree of long range dependence is unknown and must be estimated in an initial step. In that case, we show that a feasible estimate exists, which has the same asymptotic properties as the infeasible estimate. By Monte Carlo simulation, we evaluate the finite-sample performance of the generalized least squares estimate and the feasible estimate.

PD November 2002. **TI** Multivariate Lagrange Multiplier Tests for Fractional Integration. **AA** University of Aarhus. **SR** University of Aarhus Department of Economics Working Paper: 2002/18; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 24. PR no charge. JE C13, C32. KW Asymptotic Local Power. Efficient Test. Fractional Integration. Lagrange Multiplier Test. Multivariate Unit Root. Nonstationarity.

AB We introduce a multivariate Lagrange Multiplier (LM) test for fractional integration. We derive and analyze the LM statistic and show that it is asymptotically chi-squared distributed under local alternatives, and that, under Gaussianity, the LM test is asymptotically efficient against local alternatives. It is shown that the regression variant in Breitung & Hassler (2002) is not equivalent to the LM test in the multivariate case, although it is in the univariate case. A generalization of the LM

test that explicitly allows for different integration orders for each variate is also introduced. The finite sample properties of the LM test are evaluated and compared to the Breitung & Hassler (2002) test by Monte Carlo experiments. An application to multivariate time series of real interest rates for six countries is offered, demonstrating that more clear-cut evidence can be drawn from multivariate tests compared to conducting several univariate tests.

Nielsen, Soren Bo

TI Start-Ups, Venture Capitalists and the Capital Gains Tax. **AU** Keuschnigg, Christian; Nielsen, Soren Bo.

Nijman, Theo E.

TI Currency Hedging for International Stock Portfolios: A General Approach. **AU** de Roon, Frans A.; Nijman, Theo E.; Werker, Bas J. M.

Nishiyama, Shinichi

PD March 2002. **TI** Ricardian Equivalence with Incomplete Household Risk Sharing. **AU** Nishiyama, Shinichi; Smetters, Kent. **AA** Nishiyama: Congressional Budget Office. Smetters: U.S. Treasury Department, University of Pennsylvania, and NBER. **SR** National Bureau of Economic Research Working Paper: 8851; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 20. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D91, H31. KW Ricardian Equivalence. Risk-Sharing. Altruism.

AB Several important empirical studies (e.g., Altonji, Hayashi, and Kotlikoff, 1992, 1996, 1997) find that households are not altruistically-linked in a way consistent with the standard Ricardian model, as put forward by Barro (1974). We build a two-sided altruistic-linkage model in which private transfers are made in the presence of two types of shocks: an "observable" shock that is public information (e.g., public redistribution) and an "unobservable" shock that is private information (e.g., idiosyncratic wages). Parents and children observe each other's total income but not each other's effort level. In the second-best optimum, unobservable shocks are only partially shared whereas, for any utility function satisfying a condition derived herein, observable shocks are fully shared. The model, therefore, can generate the low degree of risk sharing found in the recent studies, but Ricardian equivalence still holds.

Noel, Brett J.

TI Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System. **AU** Black, Dan A.; Berger, Mark C.; Noel, Brett J.; Smith, Jeffrey A.

Nordhaus, William D.

PD March 2002. **TI** The Health of Nations: The Contribution of Improved Health to Living Standards. **AA** Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 8818; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 43. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C82, I10, I31, N10. KW Economic Performance. Health Status. Measurement. Health Income.

AB Nations generally measure their economic performance using the yardstick of national output and income. It is not widely recognized, however, that conventional measures of national income and output exclude the value of improvements in the health status of the population. The present study develops a methodology and presents preliminary estimates of how standard economic measures would change if they adequately reflected improvements in health status. The study first discusses the theory of the measurement of national income, examines some of the shortcomings of traditional concepts, and proposes a new concept called "health income" that can be used to incorporate improvements in health status. The study next discusses how the proposed measure fits into existing theories for measuring and valuing consumption and health status. The study applies the new concepts to data for the United States over the twentieth century and concludes that accounting for improvements in the health status would substantially increase the estimated improvement in economic welfare for the U.S. over the twentieth century.

PD May 2002. **TI** The Mildest Recession: Output, Profits, and Stock Prices as the U.S. Emerges from the 2001 Recession. **AA** Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 8938; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 19. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E30, E32, E5. **KW** Recession. Stock Prices. Profits. Return on Equity.

AB This paper examines the state of the United States economy as it emerges from the 2001 recession. A comparison of several central economic variables indicates that the 2001 recession was the mildest recession in the postwar period. In light of highly differentiated characteristics of recessions, the paper suggests that we differentiate among downturns by a five-category "recession severity scale," analogous to the Saffir-Simpson Hurricane Scale. According to this approach, the 2001 recession fits in the least severe box, a "category I recession," along with the 1963 and 1967 non-recessions. The paper next examines the behavior of profits in recent years and shows that financial finagling has infected the aggregate profits numbers. Finally, the study constructs a measure of the forward-looking return on equities and concludes that the prospective real yield on equities in early 2002 is at its low point of the last half-century.

PD November 2002. **TI** The Economic Consequences of a War with Iraq. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1387; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 50. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** E65, H56, Q41, Q43, Q48. **KW** Oil. Defense Spending. War. Iraq.

AB Much has been written about the national-security aspects of a potential conflict in Iraq, but there are no studies of the cost. A review of several past wars indicates that nations historically have consistently underestimated the cost of military conflicts. This study reviews the potential costs of a conflict including the postwar expenses that might be required for occupation, humanitarian assistance, reconstruction, nation-building, along with the implications for oil markets and macroeconomic activity. It considers two potential scenarios that span the potential outcomes, ranging from a short and relatively conflict-free case to protracted conflict with difficult

and expensive postwar reconstruction and occupation. The estimates of the cost to the United States over the decade following hostilities range from \$100 billion to \$1.9 trillion.

Noual, Pierre-Alexandre

TI L'investissement en TIC aux Etats-Unis et dans quelques pays europeens (Comparing US and Some European Countries Investments in ICT). **AU** Cette, Gilbert; Noual, Pierre-Alexandre.

Nsouli, Saleh M.

TI The Speed of Adjustment and the Sequencing of Economic Reforms: Issues and Guidelines for Policymakers. **AU** Funke, Norbert; Nsouli, Saleh M.; Rached, Mounir R.

O'Brien, Daniel P.

PD February 2002. **TI** The Welfare Effects of Third Degree Price Discrimination in Intermediate Good Markets: The Case of Bargaining. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 245; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. **PG** 30. **PR** no charge. **JE** C78, L41. **KW** Price Discrimination. Bargaining.

AB This paper examines the welfare effects of third degree price discrimination by an intermediate good monopolist selling to downstream firms with bargaining power. One of the downstream firms (the "chain store") may have a greater ability than rivals to integrate backward into the supply of the input. In addition to this outside option, the firms' relative bargaining powers depend on their disagreement profits, bargaining weights, and concession costs. If the chain's integration threat is not a credible outside option, and if downstream firms cannot coordinate their bargaining strategies, then price discrimination reduces input prices to all downstream firms.

TI Demand System Estimation and its Application to Horizontal Merger Analysis. **AU** Hosken, Daniel; O'Brien, Daniel P.; Scheffman, David; Vita, Michael.

PD January 2003. **TI** A Critical Analysis of Critical Loss Analysis. **AU** O'Brien, Daniel P.; Wickelgren, Abraham L. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 254; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. **PG** 24. **PR** no charge. **JE** K21, L11, L13, L40. **KW** Critical Loss Analysis. Margins. Price Increases.

AB Critical loss analysis is often used to argue that firms with large margins have more to lose from a reduction in sales and hence are less likely to increase prices. This argument ignores the fact that profit-maximizing competitors who do not coordinate their pricing only have large margins if their customers are not very price sensitive. In this paper, we explore the implications of critical loss analysis. We show that, under the assumptions made in the standard critical loss analysis, firms with larger pre-merger margins are more likely to raise prices than are firms with smaller margins, other things being equal. This reinforces the traditional view that mergers are more likely to harm consumers when the merging firms have greater market power, as measured by their margins. We also derive formulas for evaluating the profitability of price

increases when defining markets and evaluating unilateral effects.

O'Neill, June

TI Has Welfare Reform Changed Teenage Behaviors?
AU Kaestner, Robert; O'Neill, June.

O'Rourke, Kevin H.

PD May 2002. TI From Malthus to Ohlin: Trade, Growth and Distribution Since 1500. AU O'Rourke, Kevin H.; Williamson, Jeffrey G. AA O'Rourke: Trinity College and NBER. Williamson: Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 8955; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 28. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F10, N10. KW Trade. Growth. Distribution. Wages. Rents.

AB A recent endogenous growth literature has focused on the transition from a Malthusian world where real wages were linked to factor endowments, to one where modern growth has broken that link. In this paper we present evidence on another, related phenomenon: the dramatic reversal in distributional trends -- from a steep secular fall to a steep secular rise in wage-land rent ratios -- which occurred some time early in the 19th century. What explains this reversal? While it may seem logical to locate the causes in the Industrial Revolutionary forces emphasized by endogenous growth theorists, we provide evidence that something else mattered just as much: the opening up of the European economy to international trade.

Obstfeld, Maurice

PD March 2002. TI Globalization and Capital Markets. AU Obstfeld, Maurice; Taylor, Alan M. AA Obstfeld: University of California, Berkeley and NBER. Taylor: University of California, Davis and NBER. SR National Bureau of Economic Research Working Paper: 8846; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 60. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F21, F33, F36, F41, N10, N20. KW International Capital. Nineteenth Century. Open Economy Trilemma.

AB The ebb and flow of international capital since the nineteenth century illustrates recurring difficulties as well as the alternative perspectives from which policymakers have tried to confront them. This paper is devoted to documenting these vicissitudes quantitatively and explaining them. Economic theory and economic history together can provide useful insights into events of the past and deliver relevant lessons for today. We argue that theories of how international capital mobility has evolved must be understood within the framework of the basic policy trilemma constraining an open economy's choice of monetary regime.

Olmstead, Alan L.

PD April 2002. TI The Red Queen and the Hard Reds: Productivity Growth in American Wheat, 1800-1940. AU Olmstead, Alan L.; Rhode, Paul W. AA Olmstead: University of California, Davis. Rhode: University of North Carolina and NBER. SR National Bureau of Economic Research Working Paper: 8863; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 35. PR \$10.00 per copy (plus \$10.00

per order for shipping outside U.S.). JE N51, O47, Q16. KW Productivity Growth. Biological Revolution. Wheat Production. Nineteenth Century.

AB The standard treatment of U.S. agriculture asserts that, before the 1930s, productivity growth was almost exclusively the result of mechanization rather than biological innovations. This paper shows that, to the contrary, U.S. wheat production witnessed a biological revolution during the 19th and early 20th centuries with wholesale changes in the varieties grown and cultural practices employed. Without these changes, vast expanses of the wheat belt could not have sustained commercial production and yields everywhere would have plummeted due to the increasing severity of insects, diseases, and weeds. Our revised estimates of Parker and Klein's productivity calculations indicate that biological innovations account for roughly one-half of labor productivity growth between 1839 and 1909.

Ongena, Steven

TI To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. AU Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C.

Orleck, Scott

TI Explaining Variations in Private Equity: A Panel Approach. AU Leachman, Lori; Kumar, Vinay; Orleck, Scott.

Ortega, Francisco

TI Lot-Sizing with Fixed Charges on Stocks: The Convex Hull. AU van Vyve, Mathieu; Ortega, Francisco.

Oster, John F.

TI Comparing the Predictive Information Content of College Football Rankings. AU Fair, Ray C.; Oster, John F.

Otker-Robe, Inci

TI The Evolution of Exchange Rate Regimes Since 1990: Evidence from De Facto Policies. AU Bubula, Andrea; Otker-Robe, Inci.

Ottaviani, Marco

PD October 2002. TI Non-Fully Strategic Information Transmission. AU Ottaviani, Marco; Squintani, Francesco. AA Ottaviani: London Business School. Squintani: University of Rochester. SR Wallis Institute of Political Economy Working Paper: 29; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. PG 26. PR 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. JE C72, C79, D82, G14. KW Communication. Bounded Rationality. Financial Advice. Grade Inflation.

AB Building on Crawford and Sobel's (1982) general communication model, this paper introduces the possibility that players are non-strategic. The sender might be honest, truthfully reporting private information, or the receiver might be naive, blindly implementing the sender's recommendations. In contrast to the predictions of the fully-strategic model, we show that equilibrium communication is inflated but detailed, and that the equilibrium outcome is biased in an ex-ante sense.

Our findings are relevant to understanding communication by financial analysts and academic evaluators.

Ottaviano, Gianmarco

PD February 2003. **TI** Agglomeration and Economic Geography. **AU** Ottaviano, Gianmarco; Thisse, Jacques-Francois. **AA** Ottaviano: Universita de Bologna, GIIIS, and CEPR. Thisse: Universite Catholique de Louvain, CERAS, INRA-CESAER, and CEPR. **SR** CORE Discussion Paper: 2003/16; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. **Website:** www.core.ucl.ac.be/services/DP.html. **PG** 41. **PR** \$5 per paper; \$100 per year. **JE** R12, R30. **KW** Economic Geography. First Nature. Second Nature. Core-Periphery.

AB Uneven economic development can be seen as the result of the uneven distribution of natural resources. This is sometimes called 'first nature' and refers to exogenously given characteristics of different sites. However, first nature alone is an inadequate explanation of many other clusters of activities, which are much less dependent on natural advantage. The aim of geographical economics is precisely to understand what the economic forces are that, after controlling for first nature, account for "second nature", which emerges as the outcome of human beings' actions to improve upon the first one. That is, geographical economics asks what are the economic forces that can sustain a large permanent imbalance in the distributions of economic activities? In this paper, we focus on the so-called 'new economic geography' approach. After having described some of the main results developed in standard location theory, we use a unified framework to survey the home market effect as well as core-periphery models. We conclude by suggesting new lines of research.

Overgaard, Per Baltzer

TI Buy-Out Prices in Online Auctions: Multi-Unit Demand. **AU** Kirkegaard, Rene; Overgaard, Per Baltzer.

Pakes, Ariel

TI Limit Theorems for Estimating the Parameters of Differentiated Product Demand Systems. **AU** Berry, Steven; Linton, Oliver B.; Pakes, Ariel.

Palomino, Frederic

PD March 2002. **TI** Should Smart Investors Buy Funds with High Returns in the Past? **AU** Palomino, Frederic; Uhlig, Harald. **AA** Palomino: Tilburg University and CEPR. Uhlig: Humboldt University. **SR** CEPR Discussion Paper: 3282; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** G11, G23. **KW** Actively Managed Funds. Index Funds. Fund-Picking Strategy. Fraction- of-Fund Fees.

AB Newspapers and weekly magazines catering to the investing crowd often rank funds according to the returns generated in the past. Aside from satisfying sheer curiosity, these numbers are probably also the basis on which investors pick a fund to invest in. In this article, we fully characterize the equilibrium in a game between a mutual fund manager of unknown ability who controls the riskiness of his portfolio and investors who only observe realized returns. We derive conditions under which (i) investors invest in the fund if the

realized return falls within some interval, i.e., is neither too low nor too high, (ii) an informed fund manager picks a portfolio of minimal riskiness, (iii) an uninformed mutual fund manager will pick a portfolio with higher risk, "gambling" on a lucky outcome and (iv), when the fee structure is endogenous, both types of manager choose the same fraction-of-fund fee structure. Our results are consistent with empirical evidence about the lack of persistence of top performance, and about the very wide use of fraction-of-fund fee structure among mutual funds.

Parent, Daniel

TI Comparative Advantage, Learning, and Sectoral Wage Determination. **AU** Gibbons, Robert; Katz, Lawrence F.; Lemieux, Thomas; Parent, Daniel.

Pautler, Paul A.

PD September 2001. **TI** Evidence on Mergers and Acquisitions. **AA** FTC. **SR** Federal Trade Commission Bureau of Economics Working Paper: 243; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. **Contact Person:** troundtree@ftc.gov. **Website:** www.ftc.gov/be/econwork.htm. **PG** 68. **PR** no charge. **JE** D43, L11, L49. **KW** Mergers. Market Structure.

AB The paper reviews the large empirical literature on the effects of mergers on prices and output. Recent studies from several different strands of literature are examined, including experimental studies. The financial economics literature indicates that on average mergers lead to small net positive effects with significant gains for target shareholders. Studies of plant-level asset transfers tend to show positive productivity effects associated with asset transfers. Certain hospital consolidation studies suggest that there may be substantial efficiencies associated with mergers, while banking industry studies have not, in general, found substantial cost reductions due to mergers. Econometric case studies examining the after-effects of mergers that raised potential antitrust concerns are rare, but those that exist (mainly involving hospitals and airlines) imply that price increases have occurred following several mergers despite the attainment of efficiencies. Finally, some recent studies indicate that there are firm-specific effects from mergers, even in cases where local industry structure is unchanged, suggesting that market structure changes alone do not tell the whole story of merger effects. In addition to the literature review, data are presented demonstrating merger levels and anti-merger enforcement activity over the past two decades.

Peel, David

PD March 2002. **TI** Non-Linear Equilibrium Correction in US Real Money Balances, 1869- 1997. **AU** Peel, David; Sarno, Lucio; Taylor, Mark P. **AA** Peel: Cardiff University. Sarno and Taylor: University of Warwick and CEPR. **SR** CEPR Discussion Paper: 3249; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E41. **KW** Demand For Money. Adjustment Costs. Equilibrium Correction. Non-Linear Dynamics.

AB Several theoretical models of money demand imply non-linear functional forms for the aggregate demand for money

characterized by smooth adjustment towards long-run equilibrium. In this paper, we propose a non-linear equilibrium correction model of US money demand, which is shown to be stable over the sample period from 1869 to 1997.

Peres Lopes, Luis

TI Brazil and Mexico's Manufacturing Performance in International Perspective, 1970-1999. AU Mulder, Nanno; Montout, Sylvie; Peres Lopes, Luis.

Pericoli, Marcello

TI Some Contagion, Some Interdependence: More Pitfalls in Tests of Financial Contagion. AU Corsetti, Giancarlo; Pericoli, Marcello; Sbracia, Massimo.

Perrakis, Stylianos

TI Stochastic Dominance Bounds on Derivative Prices in a Multiperiod Economy with Proportional Transaction Costs. AU Constantinides, George M.; Perrakis, Stylianos.

Perri, Fabrizio

TI Financial Globalization and Real Regionalization. AU Heathcote, Jonathan; Perri, Fabrizio.

Perry, Cynthia D.

TI Social Security and Elderly Living Arrangements. AU Engelhardt, Gary V.; Gruber, Jonathan; Perry, Cynthia D.

Petrongolo, Barbara

TI A Test Between Unemployment Theories Using Matching Data. AU Coles, Melvyn G.; Petrongolo, Barbara.

Petrova, Petia

TI The Property Tax as a Tax on Value: Deadweight Loss. AU Arnott, Richard; Petrova, Petia.

Philipson, Tomas

TI The Growth of Obesity and Technological Change: A Theoretical and Empirical Examination. AU Lakdawalla, Darius; Philipson, Tomas.

Phillips, Joshua J.

PD July 2002. TI School Choice: Money, Race and Congressional Voting Behavior. AU Phillips, Joshua J.; Gokcekus, Omer; Tower, Edward. AA Phillips: K12, Inc. Gokcekus: North Carolina Central University. Tower: Duke University. SR Duke University Department of Economics Working Paper: 02/27; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. PG 15. PR no charge. JE I28. KW Vouchers. Voting. Campaign Contributions.

AB This paper discovers that a campaign contribution to a member of the U.S. House of Representatives by the National Education Association (the major teacher's union) in the 2000 election cycle reduces the probability that a Representative will vote for a pro-choice amendment to the "No Child Left Behind Act of 2001." It also discovers that a Representative who represents a district with a large African American population or who is Republican is more likely to vote for vouchers. Finally, it notes that subsequent NEA contributions reward anti-voucher representatives and punish pro-voucher Representatives.

Phillips, Peter C. B.

TI The KPSS Test with Seasonal Dummies. AU Jin, Sainan; Phillips, Peter C. B.

TI Error Bounds and Asymptotic Expansions for Toeplitz Product Functionals of Unbounded Spectra. AU Lieberman, Offer; Phillips, Peter C. B.

TI GMM Estimation of Autoregressive Roots Near Unity with Panel Data. AU Moon, Hyungsik Roger; Phillips, Peter C. B.

PD January 2003. TI Fractional Brownian Motion as a Differentiable Generalized Gaussian Process. AU Phillips, Peter C. B.; Zinde-Walsh, Victoria. AA Phillips: Yale University, University of Auckland, and University of York. Zinde-Walsh: McGill University and CIREQ. SR Yale Cowles Foundation Discussion Paper: 1391; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 10. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C13, C32. KW Brownian Motion. Fractional Brownian Motion. Fractional Derivative. Covariance Functional. Delta Function. Generalized Derivative. Generalized Gaussian.

AB Brownian motion can be characterized as a generalized random process and, as such, has a generalized derivative whose covariance functional is the delta function. In a similar fashion, fractional Brownian motion can be interpreted as a generalized random process and shown to possess a generalized derivative. The resulting process is a generalized Gaussian process with mean functional zero and covariance functional that can be interpreted as a fractional integral or fractional derivative of the delta-function.

PD January 2003. TI Jackknifing Bond Option Prices. AU Phillips, Peter C. B.; Yu, Jun. AA Phillips: Yale University, University of Auckland, and University of York. Yu: University of Auckland. SR Yale Cowles Foundation Discussion Paper: 1392; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. PG 49. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C13, C22, E43, G13. KW Bias Reduction. Option Pricing. Bond Pricing. Term Structure. Re-Sampling. Continuous Time Models.

AB In continuous time specifications, the prices of interest rate derivative securities depend crucially on the mean reversion parameter of the associated interest rate diffusion equation. This parameter is well known to be subject to estimation bias when standard methods like maximum likelihood (ML) are used. The estimation bias can be substantial even in very large samples and it translates into a bias in pricing bond options and other derivative securities that is important in practical work. The present paper proposes a very general method of bias reduction for pricing bond options that is based on Quenouille's (1956) jackknife. We show how the method can be applied directly to the options price itself as well as the coefficients in continuous time models. The method is implemented and evaluated here in the Cox, Ingersoll and Ross (1985) model, although it has much wider applicability. A Monte Carlo study shows that the proposed procedure achieves substantial bias reductions in pricing bond options with only mild increases in variance that do not compromise the overall gains in mean squared error.

PD January 2003. **TI** Vision and Influence in Econometrics: John Denis Sargan. **AA** Yale University, University of Auckland, and University of York. **SR** Yale Cowles Foundation Discussion Paper: 1393; Librarian, Cowles Foundation, Yale University, Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 19. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** B23, C22, C30. **KW** Academic Bodhisattva. Asymptotic Expansion. Bodhicitta. Edgeworth. Finite Sample Theory. Intellectual Influence. Vision.

AB Denis Sargan's intellectual influence in econometrics is discussed and some of his visions for the future of econometrics are considered in this memorial article. One of Sargan's favorite topics in econometric theory was finite sample theory, including both exact theory and various types of asymptotic expansions. We provide some summary discussion of asymptotic expansions of the type that Sargan developed in this field and give explicit representations of Sargan's formula for the Edgeworth expansion in the case of an econometric estimator that can be written as a smooth function of sample moments whose distributions themselves have Edgeworth expansions.

Piaser, Gwenael

PD January 2003. **TI** Labor Mobility and Income Tax Competition. **AA** Universite Catholique de Louvain and CREPP Universite de Liege. **SR** CORE Discussion Paper: 2003/06; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 11. **PR** \$5 per paper; \$100 per year. **JE** H21, H23, H77. **KW** Fiscal Competition. Labor Mobility. Optimal Taxation. Mechanism Design.

AB This paper provides a model of nonlinear income taxation in the context of international mobility. We consider two identical countries, in which each government chooses non-cooperatively redistributive taxes. It is shown that when skilled workers can move at low cost, income taxation does not involve distortions. When the cost to move becomes high for skilled workers, taxation policy is less redistributive but qualitatively similar to the taxation policy in autarky. Moreover, the mobility of the unskilled workers does not affect the income taxation when both countries have Rawlsian objectives.

Piazzesi, Monika

TI The Fed and Interest Rates: A High-Frequency Identification. **AU** Cochrane, John H.; Piazzesi, Monika.

Pichot, Xavier

TI Market Access Maps: A Bilateral and Disaggregated Measure of Market Access. **AU** Bouet, Antoine; Fontagne, Lionel; Mimouni, Mondher; Pichot, Xavier.

Piesse, Jenifer

TI Corporate Performance and Governance in Malaysia. **AU** Khatri, Yougash; Leruth, Luc E.; Piesse, Jenifer.

Piperno, Stefano

TI Intergovernmental Grants Systems and Management: Applications of a General Framework to Indonesia. **AU** Ahmad, Ehtisham; Ma, Jun; Searle, Bob; Piperno,

Stefano.

Posner, Marc E.

TI Polyhedral Properties of the K-Median Problem on a Tree. **AU** de Vries, Sven; Posner, Marc E.; Vohra, Rakesh V.

Potters, Jan

TI Transparency, Prices and Welfare with Imperfect Substitutes. **AU** Boone, Jan; Potters, Jan.

Prasad, Eswar S.

TI Changes in the Structure of Earnings During the Polish Transition. **AU** Keane, Michael P.; Prasad, Eswar S.

Quah, Danny

PD April 2002. **TI** One Third of the World's Growth and Inequality. **AA** London School of Economics and CEPR. **SR** CEPR Discussion Paper: 3316; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D31, O11, O12, O57. **KW** China. Distribution Dynamics. Gini Coefficient. Headcount Index. India. Poverty. World Income Distribution.

AB This paper studies growth and inequality in China and India -- two economies that account for a third of the world's population. By modeling growth and inequality as components in a joint stochastic process, the paper calibrates the impact each has on different welfare indicators and on the personal income distribution across the joint population of the two countries. For personal income inequalities in a China-India universe, the forces assuming first-order importance are macroeconomic -- growing average incomes dominate all else. The relation between aggregate economic growth and within-country inequality is insignificant for inequality dynamics.

PD April 2002. **TI** Matching Demand and Supply in a Weightless Economy: Market-Driven Creativity With and Without IPRs. **AA** London School of Economics and CEPR. **SR** CEPR Discussion Paper: 3317; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** K11, O31, O32. **KW** Cultural Good. Finitely Expansible. Innovation. Intellectual Asset. Intellectual Property. Internet. IP Valuation. IPR. Knowledge Product. MP3. Non-Rival. Software.

AB Many cultural products have the same non-rival nature as scientific knowledge. They therefore face identical difficulties in creation and dissemination. One traditional view says market failure is endemic -- societies tolerate monopolistic inefficiency in intellectual property (IP) protection to incentivize the creation and distribution of intellectual assets. This paper examines that trade-off in dynamic, representative agent general equilibrium, and characterizes socially efficient creativity. Markets for intellectual assets protected by IP rights can produce too much or too little innovation.

Queralt, Magaly

TI Take-Up Rates and Trade Offs After the Age of Entitlement: Some Thoughts and Empirical Evidence for Child Care Subsidies. **AU** Witte, Ann Dryden; Queralt, Magaly.

TI The Policy Context and Infant and Toddler Care in the

Welfare Reform Era. AU Witte, Ann Dryden; Queralt, Magaly; Witt, Robert; Griesinger, Harriet.

Quinzii, Martine

TI Demography and the Long-Run Predictability of the Stock Market. AU Geanakoplos, John; Magill, Michael; Quinzii, Martine.

Rached, Mounir R.

TI The Speed of Adjustment and the Sequencing of Economic Reforms: Issues and Guidelines for Policymakers. AU Funke, Norbert; Nsouli, Saleh M.; Rached, Mounir R.

Rajan, Raghuram G.

TI Liquidity Shortages and Banking Crises. AU Diamond, Douglas W.; Rajan, Raghuram G.

Ramakrishnan, Uma

PD June 2002. TI Forecasting Inflation in Indonesia. AU Ramakrishnan, Uma; Vamvakidis, Athanasios. AA IMF. SR International Monetary Fund Working Paper: WP/02/111; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 18. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE C51, E31, E37. KW Indonesia. Inflation Forecasting.

AB A reliable inflation-forecasting model is central for a sound monetary policy framework. In this paper, we study the domestic and international transmission effects on inflation in Indonesia and analyze the possible leading indicators of inflation. We identify the exchange rate, foreign inflation, and monetary growth as the main variables with a significant predictive power for inflation in Indonesia.

Ramamurthy, S.

PD August 2002. TI Treasury Reform in Kazakhstan: Lessons for Other Countries. AU Ramamurthy, S.; Tandberg, E. AA Ramamurthy; not available. Tandberg; IMF. SR International Monetary Fund Working Paper: WP/02/129; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 27. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE H61, P20. KW Treasury Reform. Budget Reform. Transition Economies.

AB Kazakhstan's government has established a comprehensive and efficient treasury system for government revenues and expenditures, and introduced a state-of-the-art government financial management information system. Kazakhstan is among the leading BRO (Baltics, Russia, and other Former Soviet Union) countries in modernizing its budget execution system despite remaining challenges in other areas of fiscal management. The successful outcomes are related partly to the high quality of the reform process, and partly to the institutional design of the Kazakh treasury. Some design features are common for most well-functioning treasuries. Other features are related to the specific economic factors, institutional features, and financial management objectives of a transition economy, with a strong emphasis on fiscal control and financial discipline.

Ramcharan, Rodney

PD July 2002. TI Migration and Human Capital Formation: Theory and Evidence from the U.S. High School Movement. AA IMF. SR International Monetary Fund Working Paper: WP/02/123; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. PG 22. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE F22, F43, N32. KW Factor Movements. Human Capital Formation. Migration.

AB In 1910, 12 percent of American 14-17 year olds were enrolled in high school; by 1930, enrollment had increased to 50 percent; enrollment in Britain was 12 percent in 1950. This paper argues that by increasing the skill premium, the massive inflows of European unskilled immigrants at the turn of the twentieth century engendered America's sharp rise in human capital investment. The increased enrollments raised the supply of schools, leading to continued schooling investment. Cross section evidence and a VAR analysis of the time series data support the hypothesized role of immigration in generating the high school movement.

Ranjan, Ram

TI Quantity Controls, License Transferability, and the Level of Investment. AU Krishna, Kala; Ranjan, Ram; Tan, Ling Hui.

Raposo, Clara

TI Active Agents, Passive Principals: Does High-Powered CEO Compensation Really Improve Incentives? AU Dow, James; Raposo, Clara.

Ray, Indrajit

PD April 2003. TI Observable Implications of Nash and Subgame-Perfect Behavior in Extensive Games. AU Ray, Indrajit; Snyder, Susan. AA Ray; University of Birmingham, Snyder; Brown University. SR Brown University, Department of Economics Working Paper: 2003/02; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. PG 17. PR no charge. JE C72, C92. KW Revealed Preference. Consistency. Subgame Perfect.

AB Revealed preference theory is a powerful tool for testing models of individual choice. It is now being extended to collective choice models as well. In this paper we develop tests for whether play in a game is consistent with equilibrium behavior when preferences are unobserved. We provide necessary and sufficient conditions for observed outcomes in extensive game forms to be rationalized first, partially, as a Nash equilibrium and then, fully, as the unique subgame perfect equilibrium. One could use these conditions to find that play is (a) consistent with subgame perfect equilibrium, or (b) is not consistent with subgame perfect behavior but consistent with Nash equilibrium, or (c) is consistent with neither. Further, we discuss the relevance of the test outcomes for rationalization of data by multiple preference profiles.

Raynaud, Emmanuel

TI The Role of Residual Claims and Self-Enforcement in Franchise Contracting. AU Lafontaine, Francine; Raynaud, Emmanuel.

Razin, Assaf

TI Trade Openness and Investment Instability. AU Coury, Tarek; Razin, Assaf; Sadka, Efraim.

TI Trade Openness and Investment Instability. AU Coury, Tarek; Razin, Assaf; Sadka, Efraim.

Rebitzer, James

TI Monitoring, Motivation and Management: The Determinants of Opportunistic Behavior in a Field Experiment. AU Nagin, Daniel; Rebitzer, James; Sanders, Seth; Taylor, Lowell.

Redmond, Sandra

TI Functional Literacy, Educational Attainment and Earnings -- Evidence from the International Adult Literacy Survey. AU Denny, Kevin J.; Harmon, Colm P.; Redmond, Sandra.

Reed, Deborah

TI Employment Relationships in the New Economy. AU Neumark, David; Reed, Deborah.

Reed, Howard

TI Who Gains When Workers Train? Training and Corporate Productivity in a Panel of British Industries. AU Dearden, Lorraine; Reed, Howard; van Reenen, John.

Regev, Tomer

TI Speculating on a Cure for Cancer: A Non-Event that Made Stock Prices Soar. AU Huberman, Gur; Regev, Tomer.

Reichlin, Lucrezia

PD March 2002. TI Factor Models in Large Cross-Sections of Time Series. AA Universite Libre de Bruxelles and CEPR. SR CEPR Discussion Paper: 3285; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE C22, C23, E32, E37. KW Factor Analysis. Panel Data. Business Cycles.

AB This paper reviews recent econometric work on factor models in large cross-sections of time series. In this literature, traditional factor analysis is adapted to develop parsimonious estimation methods for high dimension time series models. The review covers problems of consistency and rates -- as the dimension of the cross-section and the time dimension become large -- identification and forecasting. We also review empirical applications on measuring and interpreting business cycles.

Reiffen, David

PD February 2002. TI Generic Drug Industry Dynamics. AU Reiffen, David; Ward, Michael R. AA Reiffen: U.S. Treasury Department. Ward: University of Texas at Arlington. SR Federal Trade Commission Bureau of Economics Working Paper: 248; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 51. PR no charge. JE L11, L69. KW Generic Drug Pricing. Entry. Market Structure. First Mover.

AB Because of its unique institutional and regulatory features, the generic drug industry provides a useful laboratory

for understanding how competition evolves within a market. We exploit these features to estimate a system of structural relationships in this industry, including the relationship between price and the number of competitors, and between drug characteristics and the entry process. Our methodology yields a number of findings regarding industry dynamic effects. We find that generic drug prices fall with the number of competitors, but remain above long-run marginal cost until there are eight or more competitors. We also find the size and time paths of generic revenues, rents and the number of firms are greatly affected by measures reflecting the expected market size. An advantage of estimating a system of structural equations is that we can determine how a change in an exogenous variable will affect the equilibrium. We exploit this property to evaluate recent policy changes toward the pharmaceutical industry.

Reinhart, Carmen M.

PD June 2002. TI The Modern History of Exchange Rate Arrangements: A Reinterpretation. AU Reinhart, Carmen M.; Rogoff, Kenneth S. AA IMF and NBER. SR National Bureau of Economic Research Working Paper: 8963; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 33. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F30, F31, F41. KW Exchange Rates. Monetary Regimes.

AB We develop a novel system of re-classifying historical exchange rate regimes. One difference between our study and previous classification efforts is that we employ an extensive data base on market-determined parallel exchange rates. Our "natural" classification algorithm leads to a stark reassessment of the post-war history of exchange rate arrangements. When the official categorization is a form of peg, roughly half the time our classification reveals the true underlying monetary regime to be something radically different, often a variant of a float. Conversely, when official classification is floating, our scheme routinely suggests that the reality was a form of de facto peg. Our new classification scheme points to a complete rethinking of economic performance under alternative exchange rate regimes. Indeed, the breakup of Bretton Woods had a far less dramatic impact on most exchange rate regimes than is popularly believed. Also, contrary to an influential empirical literature, our evidence suggests that exchange rate arrangements may be quite important for growth, trade and inflation. Our newly compiled monthly data set on market-determined exchange rates goes back to 1946 for 153 countries.

Reinker, Kenneth S.

PD July 2002. TI Predicting Equity Returns for 37 Countries: Tweaking the Gordon Formula. AU Reinker, Kenneth S.; Tower, Edward. AA Duke University. SR Duke University Department of Economics Working Paper: 02/22; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. PG 25. PR no charge. JE G15. KW Equities. Returns. Mutual Funds.

AB Recently, there has been a lot of discussion about whether and how much the U.S. stock market is overvalued, leading some economic gurus to suggest that foreign markets may be good investments. We ask whether this is the case and apply the Gordon formula to predict future real rates of return on three Morgan Stanley Capital International indices and 37 individual country indices. Our conclusion is that, as a whole,

foreign markets do indeed promise significantly higher future returns than the U.S. market does, suggesting that an increased focus on international diversification by investors and fund managers could be beneficial.

PD April 2003. **TI** Index Fundamentalism Revisited. **AU** Reinker, Kenneth S.; Tower, Edward. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 03/07; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 26. **PR** no charge. **JE** G11. **KW** Indexing. Mutual Funds. Vanguard. **AB** Is there any justification for investing in managed mutual funds or are managed funds for suckers, as indexing advocates argue? We answer this question by looking at a long time span of real fund returns (26 years) for one specific company (Vanguard) that is notable for its low fees on managed funds. By creating synthetic portfolios -- portfolios based on weighted averages of the assets of Vanguard's mutual funds -- we find that whether index funds or managed funds are the superior buy depends on the time span in question, but that managed funds almost always have a lower standard deviation of return than index funds.

Renstrom, Thomas I.

PD April 2002. **TI** Endogenous Firm Objectives. **AU** Renstrom, Thomas I.; Yalcin, Erkan. **AA** Renstrom: University of Rochester and CEPR. Yalcin: Yeditepe University. **SR** Wallis Institute of Political Economy Working Paper: 27; Mrs. Terry Fisher, W. Allen Wallis Institute of Political Economy, University of Rochester, 107 Harness Hall, Rochester, NY 14627. Website: www.wallis.rochester.edu. **PG** 19. **PR** 3 papers free per year; \$3 each additional; \$30 annual subscription; make checks payable to Wallis Institute of Political Economy. **JE** D21, G34, L21. **KW** Imperfect Competition. Shareholder Voting. **AB** We analyze the behavior of a monopolistic firm in general equilibrium when the firm's decision is taken through shareholder voting. We show that, depending on the underlying distribution, rational voting may imply overproduction as well as underproduction, relative to the efficient level. Any initial distribution of shares is an equilibrium if individuals do not recognize their influence on voting when trading shares. However, when they do, and there are no short-selling constraints, the only equilibrium is the efficient one. With short-selling constraints, underproduction typically occurs. It is not market power itself causing underproduction, but the inability to perfectly trade the rights to market power.

TI When to Tax Labor? **AU** Basu, Parantap; Renstrom, Thomas I.

TI On Income Inequality and Green Preferences. **AU** Marsiliani, Laura; Renstrom, Thomas I.

TI Environmental Policy and Capital Movements: The Role of Government Commitment. **AU** Marsiliani, Laura; Renstrom, Thomas I.

TI Inequality, Environmental Protection and Growth. **AU** Marsiliani, Laura; Renstrom, Thomas I.

Reynoso, Alejandro

PD April 2002. **TI** Can Subsidiaries of Foreign Banks Contribute to the Stability of the Forex Market in Emerging Economies? A Look at Some Evidence from the Mexican Financial System. **AA** NBER. **SR** National Bureau of

Economic Research Working Paper: 8864; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F31, F33, F36, G21. **KW** Mexico. Foreign Banks. Dollar Reserve Requirement.

AB Over the last decade, the ownership of the banking sector in Latin America has changed hands from local shareholders to large foreign banks from Spain and the United States. The foreign exchange market in these countries has been segmented through various kinds of restrictions because the central bank is unable to function as a lender of last resort in any currency other than its own. The outstanding issue is whether, in practice, a parent bank effectively takes on the role of such lender of last resort in supporting its subsidiaries overseas. If this is the case, the question becomes whether having a significant participation of foreign subsidiaries is a necessary condition for lifting lending restrictions. We use the data on the compliance of domestic and foreign banks with the dollar reserve requirements in Mexico to try to address this question. The answer is a qualified yes. When there are weak domestic banks, it seems that subsidiaries of foreign banks have better access to funding in foreign exchange, especially in times of stress. However, when compared with strong domestic banks, the evidence suggests that these local entities can do as well or even better than the foreign subsidiaries.

Rhode, Paul W.

PD April 2002. **TI** Gallman's Annual Output Series for the United States, 1834-1909. **AA** University of North Carolina and NBER. **SR** National Bureau of Economic Research Working Paper: 8860; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 22. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** N11, O47. **KW** Gallman. US National Product. Nineteenth Century.

AB This paper presents Robert Gallman's classic, but heretofore unpublished annual series for US national product over the 1834-59 and 1869-1909 periods. The "Volume 30" series, reported as decadal averages, underlie much of what we know about American income growth and capital formation before 1909. This paper briefly documents Gallman's construction and use of the annual series, offers corrections for minor errors found in the previously circulated versions, compares the series with alternative national product estimates, and explores promising avenues for further research. Most importantly, this paper lays out why Gallman considered his annual "Volume 30" series unsuitable for business-cycle analysis.

TI The Red Queen and the Hard Reds: Productivity Growth in American Wheat, 1800-1940. **AU** Olmstead, Alan L.; Rhode, Paul W.

Ricci, Luca A.

TI Capital Account Liberalization and Economic Performance: Survey and Synthesis. **AU** Edison, Hali J.; Klein, Michael W.; Ricci, Luca A.; Slok, Torsten M.

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

Ridder, Geert

TI Fast Track or Failure: A Study of the Completion Rates of Graduate Students in Economics. AU van Ours, Jan C.; Ridder, Geert.

Rigobon, Roberto

PD February 2002. TI The Impact of Monetary Policy on Asset Prices. AU Rigobon, Roberto; Sack, Brian P. AA Rigobon: MIT and NBER. Sack: Federal Reserve Board of Governors. SR National Bureau of Economic Research Working Paper: 8794; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 23. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E44, E47, E52, G12. KW Monetary Policy Shocks. Asset Pricing. Identification.

AB Estimating the response of asset prices to changes in monetary policy is complicated by the endogeneity of policy decisions and the fact that both interest rates and asset prices react to numerous other variables. This paper develops a new estimator that is based on the heteroskedasticity that exists in high frequency data. We show that the response of asset prices to changes in monetary policy can be identified based on the increase in the variance of policy shocks that occurs on days of FOMC meetings and of the Chairman's semi-annual monetary policy testimony to Congress. The identification approach employed requires a much weaker set of assumptions than needed under the "event study" approach that is typically used in this context. The results indicate that an increase in short-term interest rates results in a decline in stock prices and in an upward shift in the yield curve that becomes smaller at longer maturities. The findings also suggest that the event-study estimates contain biases that make the estimated effects on stock prices appear too small and those on Treasury yields too large.

Ritter, Jay

PD February 2002. TI A Review of IPO Activity, Pricing, and Allocations. AU Ritter, Jay; Welch, Ivo. AA Ritter: University of Florida. Welch: Yale University and NBER. SR National Bureau of Economic Research Working Paper: 8805; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 35. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G14, G24. KW Initial Public Offering. Agency Conflict. Under-pricing. Share Allocation.

AB We review the theory and evidence on IPO activity: why firms go public, why they reward first-day investors with considerable under-pricing, and how IPOs perform in the long run. Our perspective on the literature is three-fold: First, we believe that many IPO phenomena are not stationary. Second, we believe research into share allocation issues is the most promising area of research in IPOs at the moment. Third, we argue that asymmetric information is not the primary driver of many IPO phenomena. Instead, we believe future progress in the literature will come from non-rational and agency conflict explanations. We describe some promising such alternatives.

Robinson, James A.

TI Economic Backwardness in Political Perspective. AU Acemoglu, Daron; Robinson, James A.

TI Economic Backwardness in Political Perspective. AU Acemoglu, Daron; Robinson, James A.

Rodrik, Dani

TI Economic Development as Self-Discovery. AU Hausmann, Ricardo; Rodrik, Dani.

Rogers, John H.

TI The Present-Value Model of the Current Account Has Been Rejected: Round Up the Usual Suspects. AU Nason, James M.; Rogers, John H.

Rogoff, Kenneth S.

TI The Modern History of Exchange Rate Arrangements: A Reinterpretation. AU Reinhart, Carmen M.; Rogoff, Kenneth S.

PD August 2002. TI Bankruptcy Procedures for Sovereigns: A History of Ideas, 1976-2001. AU Rogoff, Kenneth S.; Zettelmeyer, Jeromin. AA IMF. SR International Monetary Fund Working Paper: WP/02/133; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. PG 34. PR \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. JE B29, B30, F02. KW Sovereign Debt. Debt Crises. Bankruptcy.

AB This paper describes the evolution of ideas to apply bankruptcy reorganization principles to sovereign debt crises. Our focus is on policy proposals between the late 1970s and Anne Krueger's (2001) proposed "Sovereign Debt-Restructuring Mechanism," with brief reference to the economics literature on sovereign debt. We describe the perceived inefficiencies that motivate proposals, and how proposals seek to change debtor and creditor incentives. We find that there has been a moving consensus on what constitutes the underlying problem, but not on how to fix it. The range of proposed approaches remains broad and only recently shows some signs of narrowing.

Rombouts, Jeroen

TI Semiparametric Multivariate GARCH Models. AU Hafner, Christian; Rombouts, Jeroen.

Romer, Christina D.

PD February 2002. TI A Rehabilitation of Monetary Policy in the 1950s. AU Romer, Christina D.; Romer, David H. AA University of California, Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 8800; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 16. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E52, E58, N12. KW Forward Looking. Taylor Rule. Historical. Monetary Policy. United States.

AB Monetary policy in the United States in the 1950s was remarkably modern. Analysis of Federal Reserve records show that policymakers had an overarching aversion to inflation and were willing to accept significant costs to prevent it from rising to even moderate levels. This aversion to inflation was the result of policymakers' beliefs that higher inflation could not raise output in the long run, that the level of output that would trigger increases in inflation was only moderate, and that inflation had large real costs in the medium and long runs. Furthermore, both narrative and empirical analysis indicates that policymakers were not wedded to free reserves or other

faulty indicators in their implementation of policy. Empirical estimates of a forward-looking Taylor rule show that policymakers in the 1950s raised nominal interest rates more than one-for-one with increases in expected inflation, and suggests that monetary policy in the 1950s was more similar to policy in the 1980s and 1990s than to that in the late 1960s and 1970s. One implication of these findings is that the inflation of the late 1960s and 1970s must have been the result of a change in the conduct of policy.

Romer, David H.

TI A Rehabilitation of Monetary Policy in the 1950s.
AU Romer, Christina D.; Romer, David H.

Rose, Andrew K.

PD March 2002. **TI** One Reason Countries Pay their Debts: Renegotiation and International Trade. **AA** University of California, Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 8853; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F10, F34. **KW** Sovereign Debt. Renegotiation. International Trade.

AB This paper estimates the effect of sovereign debt renegotiation on international trade. Sovereign default may be associated with a subsequent decline in international trade either because creditors want to deter default by debtors, or because trade finance dries up after default. To estimate the effect, I use an empirical gravity model of bilateral trade and a large panel data set covering fifty years and over 200 trading partners. The model controls for a host of factors that influence bilateral trade flows, including the incidence of IMF programs. Using the dates of sovereign debt renegotiations conducted through the Paris Club as a proxy measure for sovereign default, I find that renegotiation is associated with an economically and statistically significant decline in bilateral trade between a debtor and its creditors. The decline in bilateral trade is approximately eight percent a year and persists for around fifteen years.

Rosenberg, Dinah

PD May 2002. **TI** Stochastic Games with a Single Controller and Incomplete Information. **AU** Rosenberg, Dinah; Solan, Eilon; Vieille, Nicolas. **AA** Rosenberg: Universite Paris Nord. Solan: Northwestern University and Tel Aviv University. Vieille: HEC. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1346; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 23. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern University. **JE** C72, C73. **KW** Max-Min Value. Min-Max Value. Stochastic Games.

AB We study stochastic games with incomplete information on one side, where the transition is controlled by one of the players. We prove that if the informed player also controls the transition, the game has a value, whereas if the uninformed player controls the transition, the max-min value and min-max values exist but they may differ. We discuss extensions to the case of incomplete information on both sides.

Rosholm, Michael

TI Labour Market Transitions of French Youth.
AU D'Addio, Anna Christina; Rosholm, Michael.

Rossi, Barbara

PD October 2001. **TI** Optimal Tests for Nested Model Selection with Underlying Parameter Instability. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/05; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 58. **PR** no charge. **JE** C52, C53. **KW** Forecasting. Parameter Instability. Model Selection.

AB This paper develops optimal tests for model selection between two nested models in the presence of underlying parameter instability. These are joint tests for both parameter instability and a null hypothesis on (a subset of) the parameters. They modify the existing tests for parameter instability to allow the parameter vector to be unknown. It is commonly argued that out-of-sample rolling tests are useful to select between competing models when the parameters are time-varying. This paper argues that the optimal tests identified here are locally asymptotically more powerful than the out-of-sample rolling tests. It also shows that the optimal tests are more powerful than sequential tests that test for parameter instability in a first stage and select the model in a second state, the reason being that the two stages of the test are not independent. A simple empirical application to international finance models of nominal exchange rate determination is considered.

PD December 2001. **TI** Confidence Intervals for Half-Life Deviations from Purchasing Power Parity. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/08; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 37. **PR** no charge. **JE** F30, F40. **KW** Purchasing Power Parity. Half-Life. Persistence. Roots Close to Unity.

AB According to the Purchasing Power Parity (PPP) theory, real exchange rate fluctuations are mainly caused by transitory shocks. The theory fits well one empirical feature of the data, namely the short-run volatility of real exchange rates, but also implies that shocks should die away in one to two years. Existing point estimates of half-life deviations from PPP are about 3 to 5 years, too big to be reconciled with the PPP. This paper assesses how much uncertainty there is around these point estimates. We construct confidence intervals that are robust to high persistence in the presence of small sample sizes. The empirical evidence suggests that the lower bound of the confidence interval is around 4 to 6 quarters for most currencies. With a few exceptions, the results show that the data are not inconsistent with the PPP theory, although we cannot provide conclusive evidence in favor of PPP either.

PD May 2002. **TI** Testing Long-Horizon Predictive Ability with High Persistence, and the Meese-Rogoff Puzzle. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/10; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 61. **PR** no charge. **JE** C53, F30, F40. **KW** Predictive Ability. Random Walk. Long-Horizon Forecasting. Roots Close to Unity.

AB A well-known puzzle in the international finance literature is that a random walk predicts exchange rates better than economic models. This paper offers a potential explanation for this finding. When exchange rates and fundamentals are

highly persistent, long-horizon forecasts of economic models are biased by the estimation error in the parameter that measures the persistence. When this bias outweighs the benefits from exploiting economic information, the random walk model will forecast better. This happens even if the economic model is the true data generating process. The reason is that a random walk model imposes a unit root, rather than estimates it. The paper thus proposes a test for equal predictive ability in the presence of highly persistent variables. We apply this test to the Meese-Rogoff puzzle and show that the poor forecasting ability of economic models does not imply that the models are not a good description of the data.

Rotemberg, Julio J.

PD May 2002. **TI** Stochastic Technical Progress, Nearly Smooth Trends and Distinct Business Cycles. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8919; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 35. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E32, O30, O40. **KW** Technical Progress. Business Cycles. GDP. Growth.

AB This paper investigates whether it is possible to entertain simultaneously two attractive views about US GDP. The first is that long term growth in US GDP is attributable to an empirically plausible specification of random technical progress. The second is that deviations of GDP from a fitted smooth 'trend' are mostly attributable to shocks that have only temporary effects, so that they are unrelated to the shocks to technical progress that lead to long term growth. The paper shows that these two views are not incompatible by constructing a model where stochastic technical progress (whose properties are calibrated to fit some features of US data) has essentially no effect on suitably detrended time series of GDP. The paper also studies variations in wedges between price and marginal cost that are capable of giving rise to these transitory movements.

Roush, Jennifer E.

TI Putting "M" Back in Monetary Policy. **AU** Leeper, Eric M.; Roush, Jennifer E.

Rust, John

PD April 2002. **TI** Middlemen versus Market Makers: A Theory of Competitive Exchange. **AU** Rust, John; Hall, George. **AA** Rust: University of Maryland and NBER. Hall: Yale University and NBER. **SR** National Bureau of Economic Research Working Paper: 8883; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 43. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D43, D82, D83. **KW** Market Microstructure. Specialists. Bid-Ask Spreads.

AB We present a model in which the microstructure of trade in a commodity or asset is endogenously determined. Producers and consumers of a commodity (or buyers and sellers of an asset) who wish to trade can choose between two competing types of intermediaries: "middlemen" (dealer/brokers) and "market makers" (specialists). Market makers post publicly observable bid and ask prices, whereas the prices quoted by different middlemen are private information that can only be obtained through a costly search process. We consider an initial equilibrium where there are no market makers but there is free

entry of middlemen with heterogeneous transactions costs. We characterize conditions under which entry of a single market maker can be profitable even though it is common knowledge that all surviving middlemen will undercut the market maker's publicly posted bid and ask prices in the post-entry equilibrium. The market maker's entry induces the surviving middlemen to reduce their bid-ask spreads, and as a result, all producers and consumers who choose to participate in the market enjoy a strict increase in their expected gains from trade. We show that strict Pareto improvements occur even in cases where the market maker's entry drives all middlemen out of business.

TI Econometric Methods for Endogenously Sampled Time Series: The Case of Commodity Price Speculation in the Steel Market. **AU** Hall, George; Rust, John.

Rysman, Marc

TI Unobserved Product Differentiation in Discrete Choice Models: Estimating Price Elasticities and Welfare Effects. **AU** Akerberg, Daniel A.; Rysman, Marc.

Sachs, Jeffrey D.

TI Geography, Economic Policy, and Regional Development in China. **AU** Demurger, Sylvie; Sachs, Jeffrey D.; Woo, Wing Thye; Bao, Shuming; Chang, Gene; Mellinger, Andrew.

Sack, Brian P.

TI The Impact of Monetary Policy on Asset Prices. **AU** Rigobon, Roberto; Sack, Brian P.

Sadka, Efraim

TI Trade Openness and Investment Instability. **AU** Coury, Tarek; Razin, Assaf; Sadka, Efraim.

TI Trade Openness and Investment Instability. **AU** Coury, Tarek; Razin, Assaf; Sadka, Efraim.

Saez, Emmanuel

PD March 2002. **TI** Direct or Indirect Tax Instruments for Redistribution: Short-Run versus Long-Run. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 8833; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 21. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H21, H23. **KW** Optimal Taxation. Indirect Taxation. Income Taxation.

AB Optimal tax theory has shown that, under weak assumptions, indirect taxation such as production subsidies, tariffs, or differentiated commodity taxation, are sub-optimal and that redistribution should be achieved solely with the direct income tax. However, these important results of optimal tax theory, namely production efficiency and uniform commodity taxation under non-linear income taxation, have been shown to break down when labor taxation is based on income only and when there is imperfect substitution of labor types in the production function. These results in favor of indirect tax instruments are valid in the short-run when skills are exogenous and individuals cannot move from occupation to occupation. In the long-run, it is more realistic to assume that individuals choose their occupation based on the relative after-tax rewards. This paper shows that, in that context, production efficiency and the uniform commodity tax result are restored. Therefore, in the long-run, direct income taxation should be preferred to indirect

tax instruments to raise revenue and achieve redistribution.

TI The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment. **AU** Duflo, Esther; Saez, Emmanuel.

Sahay, Ratna

TI Modern Hyper- and High Inflation. **AU** Fischer, Stanley; Sahay, Ratna; Vegh, Carlos A.

Sala-i-Martin, Xavier

PD April 2002. **TI** The Disturbing "Rise" of Global Income Inequality. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 8904; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 39. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D31, F00, I30, I32. **KW** Global Income Inequality. Distribution of Income.

AB We use aggregate GDP data and within-country income shares for the period 1970-1998 to assign a level of income to each person in the world. We then estimate the gaussian kernel density function for the worldwide distribution of income. We compute world poverty rates by integrating the density function below the poverty lines. We estimate global income inequality using seven different popular indexes: the Gini coefficient, the variance of log-income, two of Atkinson's indexes, the Mean Logarithmic Deviation, the Theil index and the coefficient of variation. All indexes show a reduction in global income inequality between 1980 and 1998. We also find that most global disparities can be accounted for by across-country, not within-country, inequalities. Within-country disparities have increased slightly during the sample period, but not nearly enough to offset the substantial reduction in across-country disparities. The across-country reductions in inequality are driven mainly, but not fully, by the large growth rate of the incomes of the 1.2 billion Chinese citizens. Unless Africa starts growing in the near future, we project that income inequalities will start rising again.

PD May 2002. **TI** The World Distribution of Income (estimated from Individual Country Distributions). **AA** Columbia University, NBER, and UPF. **SR** National Bureau of Economic Research Working Paper: 8933; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 31. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D31, F01, I30, I32, O10. **KW** Income Distribution. Poverty. Global Income Inequality.

AB We estimate the world distribution of income by integrating individual income distributions for 125 countries between 1970 and 1998. We estimate poverty rates and headcounts by integrating the density function below the \$1/day and \$2/day poverty lines. We find that poverty rates declined substantially over the last twenty years. We compute poverty headcounts and find that the number of one-dollar poor declined by 235 million between 1976 and 1998. The number of \$2/day poor declined by 450 million over the same period. We analyze poverty across different regions and countries. Asia is a great success, especially after 1980. Latin America reduced poverty substantially in the 1970s but progress stopped in the 1980s and 1990s. The worst performer was Africa, where poverty rates increased substantially over the last thirty years: the number of \$1/day poor in Africa increased by 175 million

between 1970 and 1998, and the number of \$2/day poor increased by 227. Africa hosted 11% of the world's poor in 1960. It hosted 66% of them in 1998. We estimate nine indexes of income inequality implied by our world distribution of income. All of them show substantial reductions in global income inequality during the 1980s and 1990s.

TI Social Security and Democracy. **AU** Mulligan, Casey B.; Gil, Ricard; Sala-i-Martin, Xavier.

Sanders, Seth

TI Monitoring, Motivation and Management: The Determinants of Opportunistic Behavior in a Field Experiment. **AU** Nagin, Daniel; Rebitzer, James; Sanders, Seth; Taylor, Lowell.

Santos, Andre Oliveira

PD September 2002. **TI** Are Mexican Business Cycles Asymmetrical? **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/150; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12-607, Washington, DC 20431. Website: www.imf.org. **PG** 23. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** C22, E32. **KW** Regime-Switching Models. Mexican Business Cycles. Markov Models.

AB We use the regime-switching econometric models in Hamilton (1989) and Filardo (1994) to study business cycles in Mexico. In particular, we characterize the ups and downs of economic activity in Mexico. As a proxy for economic activity, we use the Mexican quarterly industrial production index from the second quarter of 1972 to the third quarter of 1999. We allow the transition probabilities driving changes in economic activity to be a function of fiscal, financial, and external sector indicators. Our results show that recessions in Mexico are deeper and shorter than expansions.

Sapienza, Paola

TI Does Local Financial Development Matter? **AU** Guiso, Luigi; Sapienza, Paola; Zingales, Luigi.

TI Does Local Financial Development Matter? **AU** Guiso, Luigi; Sapienza, Paola; Zingales, Luigi.

Sarno, Lucio

TI Non-Linear Equilibrium Correction in US Real Money Balances, 1869-1997. **AU** Peel, David; Sarno, Lucio; Taylor, Mark P.

TI The Out-of-Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond. **AU** Clarida, Richard; Sarno, Lucio; Taylor, Mark P.; Valente, Giorgio.

Sartzetakis, Eftichios S.

TI International Environmental Agreements -- The Role of Foresight. **AU** Diamantoudi, Effrosyni; Sartzetakis, Eftichios S.

Saunders, Anthony

TI The Effects of Focus and Diversification on Bank Risk and Return: Evidence from Individual Bank Loan Portfolios. **AU** Acharya, Viral V.; Hasan, Iftekhar; Saunders, Anthony.

Savin, Nathan E.

PD August 2002. TI Testing the Semiparametric Box -- Cox Model with the Bootstrap. AU Savin, Nathan E.; Wurtz, Allan H. AA Savin: University of Iowa. Wurtz: University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2002/11; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 35. PR no charge. JE C13, C14. KW Bootstrap. Box-Cox Transformation. GMM. Lagrange Multiplier Tests. Wald Tests. AB This paper considers tests of the transformation parameter of the Box-Cox model when the distribution of the error is unknown. Monte Carlo experiments are carried out to investigate the rejection probabilities of the GMM-based Wald and Lagrange Multiplier (LM) tests when the null hypothesis is true. The results show that the differences between empirical and nominal levels can be large when asymptotic critical values are used. In most cases, the bootstrap reduces the differences between the empirical and nominal levels, and, in many cases, essentially removes the distortions in levels that occur with asymptotic critical values. Experiments are also carried out to investigate the ability of the bootstrap to provide improved finite-sample critical values with Wald tests based on the semiparametric estimation procedure recently developed by Foster, Tian, and Wei (2001).

Sbracia, Massimo

TI Some Contagion, Some Interdependence: More Pitfalls in Tests of Financial Contagion. AU Corsetti, Giancarlo; Pericoli, Marcello; Sbracia, Massimo.

Scheffman, David

TI Demand System Estimation and its Application to Horizontal Merger Analysis. AU Hosken, Daniel; O'Brien, Daniel P.; Scheffman, David; Vita, Michael.

Schettkat, Ronald

TI Marketization of Production and the US-Europe Employment Gap. AU Freeman, Richard B.; Schettkat, Ronald.

Schmidt, Christoph M.

TI Disentangling Treatment Effects of Polish Active Labour Market Policies: Evidence from Matched Samples. AU Kluge, Jochen; Lehmann, Hartmut; Schmidt, Christoph M.

Schmukler, Sergio L.

TI Global Transmission of Interest Rates: Monetary Independence and Currency Regime. AU Frankel, Jeffrey A.; Schmukler, Sergio L.; Serven, Luis.

TI Explaining the Migration of Stocks from Exchanges in Emerging Economies to International Centers. AU Claessens, Stijn; Klingebiel, Daniela; Schmukler, Sergio L.

Schummer, James

TI Bribing and Signalling in Second Price Auctions. AU Eso, Peter; Schummer, James.

TI Ascending Auctions and Linear Programming. AU Bikhchandani, Sushil; de Vries, Sven; Schummer, James;

Vohra, Rakesh V.

Searle, Bob

TI Intergovernmental Grants Systems and Management: Applications of a General Framework to Indonesia. AU Ahmad, Ehtisham; Ma, Jun; Searle, Bob; Piperno, Stefano.

Sefton, James

TI Optimal Social Security Design. AU Miles, David K.; Sefton, James.

Sen, Anindya

TI Estimating Price Elasticities When There is Smuggling: The Sensitivity of Smoking to Price in Canada. AU Gruber, Jonathan; Sen, Anindya; Stabile, Mark.

Serven, Luis

TI Global Transmission of Interest Rates: Monetary Independence and Currency Regime. AU Frankel, Jeffrey A.; Schmukler, Sergio L.; Serven, Luis.

Sgard, Jerome

PD December 2001. TI Direct Foreign Investments and Productivity Growth in Hungarian Firms, 1992-1999. AA CEPII. SR CEPII Working Paper: 2001/19; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. PG 23. PR no charge. JE F21, O31, P31. KW FDI. Productivity. Hungary. Transition. Panel. Localization. Property Rights.

AB The impact of FDI on total factor productivity in Hungary during the 1990s' is assessed with a large enterprise panel. Foreign equity is associated with higher productivity levels and has a substantial, positive spillover effect on aggregate TFP growth. However, this benefit is significant only when associated with export orientation, while inward-looking FDI has negative side effects. Regionally, the northwestern area, close to EU borders, benefits much more from FDI, whether foreign-owned or locally-owned private firms are considered. Otherwise, only the latter absorb a reduced volume of externalities. Finally, State ownership implies lower levels of productivity, but does not hinder the capacity to respond to market incentives, including FDI induced externalities.

PD January 2003. TI Hyperinflation and the Reconstruction of a National Money: Argentina and Brazil, 1990-2002. AA CEPII. SR CEPII Working Paper: 2003/01; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. PG 29. PR no charge. JE E31, E42, E65. KW Argentina. Brazil. Hyperinflation. Monetary Reform. Monetary Functions. AB This paper compares the 1994 Brazilian Real Plan, which rebuilt a working, national monetary order, and the bimonetary Argentine Currency Board regime. After the 1999 devaluation, Brazil demonstrated the resilience of the new money. Conversely, un-pegging the Argentine peso caused a catastrophe in 2002. "Pesofication" in Argentina is analyzed as an improvised attempt at rebuilding a single, national money. Surprisingly positive results were observed regarding the price mechanism for labor and goods. Conversely, "pesofication" of financial contracts (deposits, credits, bonds, etc.) proved a disaster: State intervention in private contracts opened the way for a large-scale, opaque redistribution of private wealth. This

in turn risked weakening the interaction rules between private and public spheres.

Shastry, Gauri Kartini

PD September 2002. TI How Much of Cross-Country Income Variation is Explained by Health? AU Shastry, Gauri Kartini; Weil, David N. AA Shastry: Harvard University. Weil: Brown University and NBER. SR Brown University, Department of Economics Working Paper: 2003/08; Department of Economics, Box B, Brown University, 64 Waterman Street, Providence, RI 02912. Website: www.econ.brown.edu/working_papers. PG 13. PR no charge. JE E23, I12. KW Health. Income per Capita.

AB We use development accounting techniques to assess the contribution of health to differences in income per capita among countries. Rather than rely on regressions in aggregate data, we build up estimates of the effect of health starting from microeconomic data. We examine both a particular condition, anemia, and a proxy for general health, the adult survival rate. We find that differences in anemia explain 1.3% of the log variance of income per capita, and that differences in adult survival explain 19% of the log variance of income per capita. The latter figure is almost one-third of the variation in output that is left unexplained by other measures of factor accumulation.

Shiller, Robert J.

TI One Simple Test of Samuelson's Dictum for the Stock Market. AU Jung, Jeeman; Shiller, Robert J.

Shleifer, Andrei

TI Comovement. AU Barberis, Nicholas; Shleifer, Andrei; Wurgler, Jeffrey.

TI The Curley Effect. AU Glaeser, Edward L.; Shleifer, Andrei.

Shmaya, Eran

PD May 2002. TI Two Player Non Zero-Sum Stopping Games in Discrete Time. AU Shmaya, Eran; Solan, Eilon. AA Shmaya: Tel Aviv University. Solan: Northwestern University and Tel-Aviv University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1347; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 42. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE C62, C72, C73. KW Stopping Games. Dynkin Games. Stochastic Games.

AB We prove that every two player non zero-sum stopping game in discrete time admits an ϵ -equilibrium in randomized strategies, for every $\epsilon > 0$. We use a stochastic variation of Ramsey Theorem, which enables us to reduce the problem to that of studying properties of ϵ -equilibria in a simple class of stochastic games with finite state space.

Sianesi, Barbara

PD November 2000. TI The Returns to Education: A Review of the Macro-Economic Literature. AU Sianesi, Barbara; van Reenen, John. AA IFS and University of London. SR CEE Discussion Paper: 06; Centre for

Economic Performance, LSE, Houghton Street, London WC2A 2AE. Contact: cee@lse.ac.uk. Website: cee.lse.ac.uk. PG 77. PR 5 pounds single copies; 60 pounds annual subscription; make checks payable to LSE. JE I21, O40. KW Education. Productivity and Public Policy.

AB We offer an extensive summary and a critical discussion of the empirical literature on the impact of human capital on macro-economic performance, with a particular focus on UK policy. Key findings include: (1) Taking the studies as a whole, there is compelling evidence that human capital increases productivity. (2) The impact of increases at different levels of education appear to depend on the level of a country's development, with tertiary/higher education being the most important for growth in OECD countries. (3) Education is found to yield additional indirect benefits to growth (in particular, by stimulating physical capital investments and technological development and adoption). More preliminary evidence seems to indicate that type, quality, and efficiency of education all matter for growth. We also make recommendations for future research priorities.

Sibert, Anne

TI Credibility and Flexibility with Monetary Policy Committees. AU Mihov, Ilian; Sibert, Anne.

Silber, William L.

PD April 2001. TI Glucksman Fellows Research Reports: 1) Quantifying the Impact of Option-Based Compensation on Earnings for the 50 Largest U.S. Technology Companies, 2) A Study on the Measurement and Prediction of the Indirect Costs of Bankruptcy, 3) Price Effects of Addition or Deletion from the Standard & Poor's 500 Index: Evidence of Increasing Market Efficiency, 4) A Study of Two-Step Spinoffs, 5) An Examination of Predictors of Long-term Equity Performance After Corporate Spinoffs in the 1990s, 6) An Examination of the Impact of Long-Term Growth Estimates. AU Silber, William L.; Butensky, Noah E.; Cays, Stephen E.; Cusick, Philip A.; Low, Audra L.; Ruta, Sebastian; Swope, Matthew. AA New York University. SR New York University Salomon Center Working Paper: S/01/17; Publications Department, New York University Salomon Center, Stern School of Business, 44 West 4th Street, Suite 9-160, New York, NY 10012-0021. Website: www.stern.nyu.edu/salomon. PG 13. PR \$10.00 each; \$150.00 yearly subscription; make checks payable to New York University. JE G31, G32, G33, G34. KW Option-Based Compensation. Bankruptcy Costs. Spinoffs. Analyst Forecasts.

AB This collection of papers looks at various issues in corporate finance. The first paper quantifies the impact of option-based compensation on net income, diluted earnings per share and operating income for the fifty largest technology companies trading on the New York Stock Exchange and NASDAQ. The second paper identifies the significance of and the potential causes of the "indirect" costs of bankruptcy. The next paper documents the significantly positive and negative post-announcement returns to individual stocks associated with announced changes to the composition of S&P's 500 Index. The fourth paper explores why firms choose to pursue two-step spinoffs, in which they sell minority stakes in their subsidiaries to investors via an IPO before spinning off the remaining interest to their shareholders. The fifth document examines the long-term stock market performance of parent firms and their spinoffs after a corporate restructuring. The final paper examines the relationships between short-term and long-term

analyst growth estimates and between these growth estimates and market price levels.

Siliverstovs, Boriss

PD October 2002. TI Long-Run Forecasting in Multicointegrated Systems. AU Siliverstovs, Boriss; Engsted, Tom; Haldrup, Niels. AA Siliverstovs: DIW, Berlin. Engsted and Haldrup: University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2002/15; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 26. PR no charge. JE C32, C53. KW Common Features. Multicointegration. Forecasting. VAR Models.

AB Multicointegration typically occurs in dynamic systems involving both stock and flow variables whereby a common feature in the form of shared stochastic trends is present across different levels of multiple time series. Hence, the effect of imposing this "common feature" restriction on out-of-sample valuation and forecasting accuracy of such variables is of interest. We compare the long-run forecasting performance of the multicointegrated variables between a model that correctly imposes the "common feature" restrictions and a model that omits these multicointegrating restrictions completely. We employ different loss functions based on a range of mean square forecast error criteria, and the results indicate that different loss functions result in different ranking of models with respect to their infinite horizon forecasting performance. We consider loss functions using a standard trace mean square forecast error criterion (penalizing the forecast errors of flow variables only), and a loss function evaluating forecast errors of changes in both stock and flow variables. We present a new loss function which further penalizes deviations in the long run relationship between the levels of stock and flow variables. The paper highlights the importance of carefully selecting loss functions in forecast evaluation of models involving stock and flow variables.

Simonovits, Andras

TI Designing Optimal Benefit Rules for Flexible Retirement. AU Eso, Peter; Simonovits, Andras.

Simonsen, Marianne

TI Does the Gap in Family-Friendly Policies Drive the Family Gap? AU Nielsen, Helena Skyt; Simonsen, Marianne; Verner, Mette.

Simpson, John D.

PD July 2001. TI The Use of Exclusive Contracts to Deter Entry. AU Simpson, John D.; Wickelgren, Abraham. AA FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 241; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 27. PR no charge. JE C72, L12, L41, L42. KW Exclusive. Contracts. Entry.

AB This paper shows that an upstream monopolist that sells to competing downstream firms can profitably use exclusive contracts to deter entry even where scale economies are absent. By offering downstream firms a discount if they sign an exclusive contract covering later periods, the incumbent monopolist can often place each downstream firm in a prisoner's dilemma. Because a downstream firm that refuses to

sign the exclusive contract loses profit to downstream firms that sign the exclusive contract, downstream firms will sign exclusive contracts even when, over the long-term, they would obtain the upstream good at a lower price if they all refused to sign.

Singh, Ajit

TI Competition, Corporate Governance and Financing of Corporate Growth in Emerging Markets. AU Glen, Jack; Lee, Kevin; Singh, Ajit.

PD December 2000. TI Information Technology, Venture Capital and the Stock Market. AU Singh, Ajit; Singh, Alaka; Weisse, Bruce. AA University of Cambridge. SR Cambridge Discussion Paper in Accounting and Finance: AF47; Publications Secretary, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. PG 50. PR \$10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. JE G24, L86, O31. KW Information Technology. Stock Markets. Venture Capital. IPOs.

AB This paper investigates the relationship between information technology and capital markets, specifically the enabling and stimulating role of the stock market in the "new economy." A multivariate analysis is used to test the hypothesis that, other things being equal, a more fully developed and mature stock market encourages both faster development of ICT and its use. The findings reveal that stock markets are neither a necessary nor sufficient condition for promoting the development of ICT. Many economies, particularly in Northern Europe, have been able to achieve a high degree of ICT development without a central role for US-style venture capital, IPOs, and stock market institutions. Others, with long flourishing stock markets, have failed to become leaders in ICT development. Even in relation to the US where the stock market has, arguably, enhanced the diffusion of ICT in the economy, the paper suggests the markets are not without considerable downsides.

Singh, Alaka

TI Information Technology, Venture Capital and the Stock Market. AU Singh, Ajit; Singh, Alaka; Weisse, Bruce.

Siniscalchi, Marciano

PD September 2001. TI Bayesian Updating for General Maxmin Expected Utility Preferences. AA Princeton University. SR Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1366; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. PG 15. PR \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. JE D81, D89. KW Bayesian Updating. Maxmin Preferences. Expected Utility.

AB A characterization of "generalized Bayesian updating" in a maxmin expected utility setting is provided. The key axioms are consequentialism and constant-act dynamic consistency. The latter requires that, if an arbitrary act f is preferred (inferior) to a constant act y conditional upon E , and if f dominates (is dominated by) y pointwise on the complementary event E_c , then f is unconditionally preferred (inferior) to y . The result provides a basis for a model of dynamic choice that

accommodates arbitrary unconditional maxmin EU preferences, and allows for deviations from full dynamic consistency related to ambiguity.

PD March 2003. **TI** A Behavioral Characterization of Plausible Priors. **AA** Northwestern University and Princeton University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1365; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 27. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D81, D84. **KW** Ambiguity. Choice Under Uncertainty.

AB Recent theories of choice under uncertainty represent ambiguity via multiple priors, informally interpreted as alternative probabilistic models of the uncertainty that the decision-maker considers equally plausible. This paper provides a robust behavioral foundation for this interpretation. A prior P is deemed "plausible" if (i) preferences over a subset C of acts are consistent with subjective expected utility (SEU), and (ii) jointly with an appropriate utility function, P provides the unique SEU representation of preferences over C . Under appropriate axioms, plausible priors can be elicited from preferences; moreover, if these axioms hold, (i) preferences are probabilistically sophisticated if and only if they are SEU, and (ii) under suitable consequentialism and dynamic consistency axioms, "plausible posteriors" can be derived from plausible priors via Bayes' rule. Several well-known decision models are consistent with the axioms proposed here.

Skott, Peter

PD February 2003. **TI** Distributional Consequences of Neutral Shocks to Economic Activity in a Model with Efficiency Wages and Overeducation. **AA** University of Aarhus. **SR** University of Aarhus Department of Economics Working Paper: 2003/05; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. **PG** 25. **PR** no charge. **JE** I21, J24, J31. **KW** Wage Inequality. Overeducation. Efficiency Wages.

AB This paper shows that the existence and persistence of "overeducation" can be explained by a simple extension of the efficiency wage model. When calibrated to fit the amounts of overeducation found in most empirical studies, the model implies that both the relative wage and the relative employment rate of high-skill workers will depend inversely on the aggregate level of activity. The model may help explain the patterns of rising wage inequality that have been observed in many countries since the early 1970s.

PD February 2003. **TI** Fairness as a Source of Hysteresis in Employment and Relative Wages. **AA** University of Aarhus. **SR** University of Aarhus Department of Economics Working Paper: 2003/06; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. **PG** 36. **PR** no charge. **JE** E12, E24, J31, J41. **KW** Wage Norms. Fairness. Hysteresis. Overeducation. Wage Inequality. Unemployment.

AB This paper analyses the influence of norms of fairness on wage formation. Fairness is defined by "real-wage" and "relative-wage" norms that relate wage offers to workers' own

current wage and to the wages of other groups of workers, and, to avoid shirking, firms pay fair wages. The wage norms change endogenously, and the result is hysteresis with respect to both employment and the distribution of wages. An extension of the model that allows "induced overeducation" may help explain trends in wage inequality.

Slaughter, Matthew J.

TI International Rent Sharing in Multinational Firms. **AU** Budd, John W.; Konings, Josef; Slaughter, Matthew J.

Sleiman, Rakhsat

PD October 2002. **TI** Projections démographiques de quelques pays de l'union européenne -- Allemagne, France, Italie, Royaume-Uni, Pays-Bas, Suede (Demographic Forecasts for Some Main European Countries -- Germany, France, Italy, United Kingdom, The Netherlands, Sweden). **AA** CEPII. **SR** CEPII Working Paper: 2002/13; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 71. **PR** no charge. **JE** J11, J13, J14. **KW** Aging. Demographic Forecasts. Dependency Ratio.

AB To study the consequences of Europe's graying demographic on pensions, this study seeks to forecast demographic trends for several countries within the European Union. The component method is used to do this. It is based on estimating the size and breakdown of a population by sex and age in a given year as a function of the previous year, taking into account aging, mortality, migration, and births. Several scenarios are provided for fertility rates, life expectancy, and migration. They make it possible to observe which variables influence dependency ratios most given a fixed retirement age. In particular, the study stresses the significance of fertility rates and international migration. This paper is written in French.

Slok, Torsten M.

TI Capital Account Liberalization and Economic Performance: Survey and Synthesis. **AU** Edison, Hali J.; Klein, Michael W.; Ricci, Luca A.; Slok, Torsten M.

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

Smeers, Yves

PD December 2002. **TI** Market Incompleteness in Regional Electricity Transmission. Part II: The Forward and Real Time Markets. **AA** Université Catholique de Louvain. **SR** CORE Discussion Paper: 2002/77; CORE/Stat Library, Center for Operations Research and Econometrics, Université Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 32. **PR** \$5 per paper; \$100 per year. **JE** D43, L94. **KW** Incomplete Markets. Market Design. Electricity.

AB The paper extends our previous analysis of market incompleteness to the case where there exist both a forward and real time market. The discussion is conducted with reference to a two-stage framework commonly used in stochastic programming and finance, but also familiar to the power industry. The paper considers two market designs. The first organization assumes that physical transmission services are auctioned in the forward market. The second organization supposes a financial market of transmission services. We

recover the known perfect hedging property of nodal pricing and show that the flowgate model does not share this property. A standard proposition in finance is that market completeness requires that the number of tradable instruments is equal to or exceeds the number of risk factors. We show that none of the nodal or flowgate models satisfy this property. Other instruments, of the option type, should thus be introduced in these systems in order to better trade risk and complete the market.

Smetters, Kent

TI Ricardian Equivalence with Incomplete Household Risk Sharing. **AU** Nishiyama, Shinichi; Smetters, Kent.

Smith, David C.

TI To What Extent Will the Banking Industry be Globalized? A Study of Bank Nationality and Reach in 20 European Nations. **AU** Berger, Allen N.; Dai, Qinglei; Ongena, Steven; Smith, David C.

Smith, James P.

TI Wealth Inequality in the United States and Great Britain. **AU** Banks, James; Blundell, Richard; Smith, James P.

Smith, Jeffrey A.

TI Is the Threat of Reemployment Services More Effective than the Services Themselves? Experimental Evidence from the UI System. **AU** Black, Dan A.; Berger, Mark C.; Noel, Brett J.; Smith, Jeffrey A.

Smith, Roy C.

PD March 2001. **TI** Rating Agencies: Is There an Agency Issue? **AU** Smith, Roy C.; Walter, Ingo. **AA** New York University. **SR** New York University Salomon Center Working Paper: S/01/14; Publications Department, New York University Salomon Center, Stern School of Business, 44 West 4th Street, Suite 9-160, New York, NY 10012-0021. Website: www.stern.nyu.edu/salomon. **PG** 44. **PR** \$10.00 each; \$150.00 yearly subscription; make checks payable to New York University. **JE** D82, F34, G14. **KW** Debt Ratings. Asymmetric Information.

AB This paper examines the potential for conflicts of interest in the debt ratings business. Inherent in the current business model is the fact that firms whose obligations are rated by the agencies pay fees for those ratings, which in turn comprises virtually all of the revenues of the rating agencies. Given the public nature of the ratings, no other business model seems feasible for rating agencies as commercial ventures, so that conflicts of interest are inherent in this important part of the financial markets infrastructure. This paper examines the nature of this conflict, how it is managed, and the significance of market structure and reputation in preventing conflict exploitation. These issues are linked to the use of ratings for regulatory certification purposes, as well as the international dimensions of debt ratings activity through investments and joint ventures of the major rating groups.

Smith, Sarah

TI UK Household Portfolios. **AU** Banks, James; Smith, Sarah.

Snyder, Susan

TI Observable Implications of Nash and Subgame-Perfect Behavior in Extensive Games. **AU** Ray, Indrajit; Snyder, Susan.

Soderling, Ludvig

TI Will There Be New Emerging-Market Economies in Africa by the Year 2020? **AU** Berthelemy, Jean-Claude; Soderling, Ludvig.

Sokoloff, Kenneth L.

TI Exports and Manufacturing Productivity in East Asia: A Comparative Analysis with Firm-Level Data. **AU** Hallward-Driemeier, Mary; Iarossi, Giuseppe; Sokoloff, Kenneth L.

Solan, Eilon

TI Stochastic Games with a Single Controller and Incomplete Information. **AU** Rosenberg, Dinah; Solan, Eilon; Vieille, Nicolas.

TI Two Player Non Zero-Sum Stopping Games in Discrete Time. **AU** Shmaya, Eran; Solan, Eilon.

TI Stopping Games in Continuous Time. **AU** Laraki, Rida; Solan, Eilon.

PD September 2002. **TI** Deterministic Multi-Player Dynkin Games. **AU** Solan, Eilon; Vieille, Nicolas. **AA** Solan: Northwestern University and Tel Aviv University. Vieille: HEC. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1355; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/.

PG 21. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C72, C73. **KW** Dynkin Game. Sequential games.

AB A multi-player Dynkin game is a sequential game in which at every stage one of the players is chosen, and that player can decide whether to continue the game or to stop it, in which case all players receive some terminal payoff. We study a variant of this model, where the order by which players are chosen is deterministic, and the probability that the game terminates once the chosen player decides to stop may be strictly less than 1. We prove that a subgame-perfect ϵ -equilibrium in Markovian strategies exists. If the game is not degenerate, this ϵ -equilibrium is actually in pure strategies, but in degenerate cases there need not exist a subgame-perfect ϵ -equilibrium in pure strategies.

PD September 2002. **TI** Subgame-Perfection in Quitting Games with Perfect Information and Differential Equations. **AA** Northwestern University and Tel-Aviv University. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1356; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 21. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** C72, C73. **KW** Stochastic Games. Dynkin Games. Subgame-Perfect. Differential Inclusions.

AB We introduce a new approach to study subgame-perfect

equilibrium payoffs in stochastic games: the differential equations approach. We apply our approach to quitting games with perfect information. Those are sequential game in which at every stage one of n players is chosen; each player is chosen with probability $1/n$. The chosen player i decides whether he quits, in which case the game terminates and the terminal payoff is some vector a_i , or whether he continues, in which case the game continues to the next stage. If no player ever quits, the payoff is some vector a^* . We define a certain differential inclusion, prove that it has at least one solution, and prove that every vector on a solution of this differential inclusion is a subgame-perfect equilibrium payoff.

TI Continuous-Time Games of Timing. **AU** Laraki, Rida; Solan, Eilon; Vieille, Nicolas.

PD May 2003. **TI** Equilibrium Uniqueness with Perfect Complements. **AU** Solan, Eilon; - Vieille, Nicolas. **AA** Solan: Northwestern University and Tel Aviv University. Vieille: HEC. **SR** Northwestern University, Center for Mathematical Studies in Economics and Management Science Discussion Paper: 1371; Northwestern University, CMS-EMS, 2001 Sheridan Road, 580 Leverone Hall, Evanston, IL 60208-2014. Website: www.kellogg.nwu.edu/research/math/. **PG** 7. **PR** \$3.00 U.S.; \$5.00 via international mail; \$2.00 Northwestern faculty/students; make check payable to Northwestern University. **JE** D11, D50. **KW** Equilibrium Uniqueness. Perfect Complements. Networks.

AB It is sometimes the case that some economic goods are perfect complements to some agents, but not to all agents. We prove that the equilibrium allocations are at most unique under minimal conditions on the demand functions. In addition, we provide somewhat stringent conditions under which equilibrium prices do exist, discuss a few necessary conditions for existence, and a few examples where equilibrium prices fail to exist.

TI No-Regret with Bounded Computational Capacity. **AU** Lehrer, Ehud; Solan, Eilon.

Song, Inwon

PD July 2002. **TI** Collateral in Loan Classification and Provisioning. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/122; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 17. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** G18, G21, K20. **KW** Banking Supervision. Loan Classification. Provisioning. Financial Regulation.

AB Adequate loan classification practices are an essential part of a sound and effective credit risk-management process in a bank. Failure to identify deterioration in credit quality in a timely manner can aggravate and prolong the problem. Two key issues arise with regard to the use of collateral in the context of loan classification and provisioning. In particular, the questions arise whether collateral should be taken into account in classifying a collateralized loan, and whether it should be considered in calculating provisions. This paper surveys country practices in the role of collateral in loan classification and provisioning, and suggests good practices on these issues.

Soto, Raimundo

TI Policy-Driven Productivity in Chile and Mexico in the 1980s and 1990s. **AU** Bergoing, Raphael; Kehoe, Patrick J.;

Kehoe, Timothy J.; Soto, Raimundo.

Sougiannis, Theodore

TI What Value Analysts? **AU** Amir, Eli; Lev, Baruch; Sougiannis, Theodore.

Souleles, Nicholas S.

TI Physician Income Prediction Errors: Sources and Implications for Behavior. **AU** Nicholson, Sean; Souleles, Nicholas S.

Spatt, Chester S.

TI The Microstructure of Stock Markets. **AU** Biais, Bruno; Glosten, Lawrence; Spatt, Chester S.

Squintani, Francesco

TI Non-Fully Strategic Information Transmission. **AU** Ottaviani, Marco; Squintani, Francesco.

Stabile, Mark

TI Estimating Price Elasticities When There is Smuggling: The Sensitivity of Smoking to Price in Canada. **AU** Gruber, Jonathan; Sen, Anindya; Stabile, Mark.

Staiger, Douglas

TI Abortion as Insurance. **AU** Levine, Phillip B.; Staiger, Douglas.

Stark, Graham

TI A Recursive Algorithm to Generate Piecewise Linear Budget Constraints. **AU** Duncan, Alan; Stark, Graham.

Stavins, Joanna

TI Network Externalities and Technology Adoption: Lessons from Electronic Payments. **AU** Gowrisankaran, Gautam; Stavins, Joanna.

Stein, Jeremy C.

TI Market Liquidity as a Sentiment Indicator. **AU** Baker, Malcolm; Stein, Jeremy C.

Stella, Peter

PD August 2002. **TI** Central Bank Financial Strength, Transparency, and Policy Credibility. **AA** IMF. **SR** International Monetary Fund Working Paper: WP/02/137; IMF, Publication Services, Catalog Orders, 700 19th Street, N.W., Room 12- 607, Washington, DC 20431. Website: www.imf.org. **PG** 37. **PR** \$15; prepayment required for individual copies; \$375 annual subscription; make checks payable to IMF. **JE** E58. **KW** Central Bank. Transparency. Credibility.

AB A central bank is financially strong if it possesses resources sufficient to attain its fundamental policy objective(s). Once endowed with those resources, relations between government and central bank should be designed so that significant changes in central bank financial strength do not occur unless necessitated by changes in policy objectives. The level of strength required depends on the array of policy objectives (for example, the exchange rate regime) as well as the constraints and risks presented by the operational environment. Attaining credibility is facilitated if the public can easily determine the financial strength of the bank, yet for a

variety of reasons this is often difficult. Transparency requires institutional arrangements that ensure the central bank generates profit in most states of the world, is subject to strict ex-post independent audit, and transfers regularly all profits, after provisions, to the treasury.

Strand, Niklas

TI Price Discrimination in Oligopoly: Evidence from Swedish Newspapers. AU Asplund, Marcus; Eriksson, Rickard; Strand, Niklas.

Strobl, Eric

TI Multinationals and Local Indigenous Development. AU Barrios, Salvador; Bertinelli, Luisito; Strobl, Eric.

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

Stromberg, Per Johan

TI Characteristics, Contracts and Actions: Evidence from Venture Capitalist Analyses. AU Kaplan, Steven; Stromberg, Per Johan.

Sun, Yixiao

TI Adaptive Local Polynomial Whittle Estimation of Long-Range Dependence. AU Andrews, Donald W. K.; Sun, Yixiao.

Sundaresan, Suresh M.

PD March 2000. TI Continuous-Time Methods in Finance: A Review and an Assessment. AA Columbia University. SR Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/00/03; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. PG 66. PR \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. JE C19, C69, G19. KW Continuous-Time Finance. Methods.

AB I survey and assess the development of continuous-time methods in finance during the last 30 years. The sub-period 1969 to 1980 saw a dizzying pace of development with seminal ideas in derivatives securities pricing, term structure theory, asset pricing, and optimal consumption and portfolio choices. During the period 1981 to 1999 the theory has been extended and modified to better explain empirical regularities in various subfields of finance. This latter sub-period has seen significant progress in econometric theory, computational and estimation methods to test and implement continuous-time models. Capital market frictions, and bargaining issues are being increasingly incorporated in continuous-time theory.

TI Asset Prices and Default-Free Term Structure in an Equilibrium Model of Default. AU Chang, Ganlin; Sundaresan, Suresh M.

TI Debt Valuation, Renegotiations, and Optimal Dividend Policy. AU Fan, Hua; Sundaresan, Suresh M.

Sutton, Bennett W.

TI Sovereign Defaults: The Role of Volatility. AU Catao,

Luis A.; Sutton, Bennett W.

Suzuki, Takashi

TI Imperfect Competition a la Negishi, also with Fixed Costs. AU Dehez, Pierre; Dreze, Jacques H.; Suzuki, Takashi.

Svarer, Michael

PD December 2002. TI Determinants of Divorce in Denmark. AA University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2002/19; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 26. PR no charge. JE J12, J13. KW Marriage. Divorce.

AB In this paper we provide an empirical investigation of the determinants of divorce in the Danish marriage market. The paper complements Svarer (2002) in two ways. First, it considers more carefully the potential endogeneity of premarital cohabitation in the divorce equation. Second, it discusses more thoroughly the effects of other covariates on the divorce hazard.

PD February 2003. TI Do Children Stabilize Marriages? AU Svarer, Michael; Verner, Mette. AA University of Aarhus. SR University of Aarhus Department of Economics Working Paper: 2003/03; Department of Economics, University of Aarhus, Building 350, Universitetsparken, DK-8000 Aarhus C, Denmark. Website: www.econ.au.dk/afn. PG 28. PR no charge. JE J12, J13. KW Marriage. Divorce. Children.

AB In this paper we study the relationship between fertility and divorce. The potential endogeneity of fertility in divorce decisions is explicitly addressed by modelling fertility and divorce jointly. We apply the "timing-of-event" method (Abbring & van den Berg (2002)) to identify the causal effect of births on the divorce hazard. We show that couples who are less prone to divorce are more prone to invest in children, and therefore one might (mistakenly) conclude that children tend to stabilize marriages. However, when correcting for the endogeneity of fertility, we conclude that children themselves do not have a positive effect on marriage duration.

Svensson, Lars E. O.

PD May 2002. TI Inflation Targeting: Should It Be Modeled as an Instrument Rule or a Targeting Rule? AA Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 8925; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. PG 10. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE E31, E42, E52, E58. KW Inflation Targeting. Instrument Rule. Targeting Rule. Monetary Policy.

AB This paper discusses how current inflation targeting should be modeled, and argues that it is better represented as a commitment to a targeting rule (a rule specifying operational objectives for monetary policy or a condition for the target variables), than as a commitment to a simple instrument rule (like a Taylor rule).

Szentes, Balazs

TI Optimal Information Disclosure in Auctions: The Handicap Auction. AU Eso, Peter; Szentes, Balazs.

TI The One Who Controls the Information Appropriates Its Rent. **AU** Eso, Peter; Szentes, Balazs.

Taber, Christopher

TI Direct Estimation of Policy Impacts. **AU** Ichimura, Hidehiko; Taber, Christopher.

Taksler, Glen B.

TI Equity Volatility and Corporate Bond Yields. **AU** Campbell, John Y.; Taksler, Glen B.

Tan, Ling Hui

TI Quantity Controls, License Transferability, and the Level of Investment. **AU** Krishna, Kala; Ranjan, Ram; Tan, Ling Hui.

Tandberg, E.

TI Treasury Reform in Kazakhstan: Lessons for Other Countries. **AU** Ramamurthy, S.; Tandberg, E.

Tanner, Sarah

TI The Abolition of the Earnings Rule for UK Pensioners. **AU** Disney, Richard; Tanner, Sarah.

Taylor, Alan M.

TI Testing Trade Theory in Ohlin's Time. **AU** Estevadeordal, Antoni; Taylor, Alan M.

TI Globalization and Capital Markets. **AU** Obstfeld, Maurice; Taylor, Alan M.

PD May 2002. **TI** A Century of Current Account Dynamics. **AA** University of California, Davis and NBER. **SR** National Bureau of Economic Research Working Paper: 8927; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 17. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, F30, F41, N10, N20. **KW** Capital Mobility. Globalization. Current Account Dynamics. Saving. Investment.

AB Recent globalization trends have refocused attention on the historical evolution of international capital mobility over the long run. The issue is examined here using time-series analysis of current account dynamics for fifteen countries since circa 1850. The inter-war period emerges as an era of low capital mobility and only recently can we observe a tentative return to the degree of capital mobility witnessed during the late nineteenth century. The analysis of saving and investment dynamics also helps make sense of the frequently observed high correlation of saving and investment rates in historical data.

Taylor, Curtis

TI Price Experimentation with Strategic Buyers. **AU** Loginova, Oksana; Taylor, Curtis.

Taylor, Lowell

TI Monitoring, Motivation and Management: The Determinants of Opportunistic Behavior in a Field Experiment. **AU** Nagin, Daniel; Rebitzer, James; Sanders, Seth; Taylor, Lowell.

Taylor, Mark P.

TI Non-Linear Equilibrium Correction in US Real Money Balances, 1869-1997. **AU** Peel, David; Sarno, Lucio; Taylor, Mark P.

TI The Out-of-Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond. **AU** Clarida, Richard; Sarno, Lucio; Taylor, Mark P.; Valente, Giorgio.

Temin, Peter

PD April 2002. **TI** Teacher Quality and the Future of America. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 8898; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I21, J45, N32. **KW** Education. Quality. US.

AB This paper argues that we do not pay teachers enough to get high-quality applicants. The reasons we find ourselves in this inferior equilibrium are rooted in our history. Most American teachers are and have been women; we have not accommodated to the increasing opportunities for women in the economy today. Schools are locally funded, and we also have not accommodated to the declining effectiveness of the property tax. The result of having low-quality teachers is that current reforms sub-optimize with the current stock of teachers and therefore result at best in only small gains in educational quality. We are in danger of losing the educational advantage that the United States enjoyed in the 20th century.

Teysriere, Gilles

TI Bootstrap Misspecification tests for ARCH Based on the Empirical Process of Squared Residuals. **AU** Horvath, Lajos; Kokoszka, Piotr; Teysriere, Gilles.

Thesmar, David

PD April 2002. **TI** Time Based Competition and Innovation. **AU** Thesmar, David; Thoenig, Mathias. **AA** Thesmar: INSEE. Thoenig: CERAS-ENPC. **SR** CEPR Discussion Paper: 3293; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** L16, L23, O32. **KW** Firm Organization. Reactivity. Innovation. Competition.

AB By choosing their organizations, firms trade-off productive efficiency and time spent in implementing innovation. We embed such a productivity/reactivity trade-off in a growth model with creative destruction. We first highlight the specific impact of time in firm competition: in addition to weighing costs and benefits of late adoption, firms use time as a strategic variable through the possibility of overtaking their competitors. Due to this very specificity of time competition, multiple equilibria may emerge: when firms adopt quickly, their stock market valuation is larger, and they innovate more and produce less. Moreover, the IT revolution is shown to favor quick implementation via a general equilibrium feedback on organizational choice.

Thisse, Jacques-Francois

TI Agglomeration and Economic Geography. **AU** Ottaviano, Gianmarco; Thisse, Jacques-Francois.

Thoenig, Mathias

TI Time Based Competition and Innovation.
 AU Thesmar, David; Thoenig, Mathias.

Thomas, Charles J.

PD July 2001. TI Collusion and Optimal Reserve Prices.
 AA FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 242; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 34. PR no charge.
 JE C72, D44. KW Auction. Procurement. Collusion. Optimal Reserve.

AB Previous research on collusion in procurement markets uses static mechanism design theory to address the limitations on collusive activity imposed by asymmetric information, but in most instances it does not address how to enforce the proposed mechanisms. This paper uses repeated game theory to examine the sustainability of two commonly reported collusive schemes that have been identified as optimal static mechanisms. If a buyer does not select its reserve price strategically, or if its value is large relative to the sellers' costs, then collusion may be sustainable for a wide range of plausible discount factors. However, even mildly sophisticated reserve price selection can dramatically shrink the set of discount factors for which collusion can be sustained. These findings provide a rationale for existing arguments that buyers are vulnerable to collusion, but suggest that buyers possess tools that may profitably induce sellers to act competitively. The analysis also reveals that collusion tends to be more easily sustained if the sellers' costs have a low mean or a high variance, or, in some instances, if the number of sellers increases.

PD November 2001. TI The Effect of Offer Verifiability on the Relationship Between Auctions and Multilateral Negotiations. AU Thomas, Charles J.; Wilson, Bart J.
 AA Thomas: FTC. Wilson: George Mason University.
 SR Federal Trade Commission Bureau of Economics Working Paper: 244; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 18. PR no charge.
 JE C78, C91, D44, L14. KW Multilateral Negotiations. Bargaining. Auctions. E-Commerce.

AB We use the experimental method to compare second-price auctions to "verifiable" multilateral negotiations in which the sole buyer can credibly reveal to sellers the best price offer it currently holds. We find that transaction prices are lower in verifiable multilateral negotiations than in second-price auctions, despite the two institutions' seeming equivalence. The difference occurs because low-cost sellers in the negotiations tend to submit initial offers that are less than the second-lowest cost. We also compare the two institutions to previously studied first-price auctions and multilateral negotiations with nonverifiable offers. Second-price auctions yield the highest prices, followed in order by verifiable negotiations, nonverifiable negotiations, and first-price auctions.

Thomas, Saji

TI Poverty in a Wealthy Economy: The Case of Nigeria.
 AU Canagarajah, Sudharshan; Thomas, Saji.

Thomasson, Melissa A.

TI Exploring the Racial Gap in Infant Mortality Rates, 1920-1970. AU Collins, William J.; Thomasson, Melissa A.

Thompson, Steve

TI Merger Activity and Executive Pay. AU Girma, Sourafel; Thompson, Steve; Wright, Peter.

Tower, Edward

TI Trade Protectionism. AU Kaempfer, William H.; Tower, Edward; Willett, Thomas D.

TI Predicting Equity Returns for 37 Countries: Tweaking the Gordon Formula. AU Reinker, Kenneth S.; Tower, Edward.

TI "Steeling" House Votes at Low Prices for the Steel Import Quota Bill of 1999. AU Fisher, Robert C.; Gokcekus, Omer; Tower, Edward.

TI School Choice: Money, Race and Congressional Voting Behavior. AU Phillips, Joshua J.; Gokcekus, Omer; Tower, Edward.

TI Rational Pessimism: Predicting Equity Returns Using Tobin's q and Price/Earnings Ratios. AU Hamey, Matthew; Tower, Edward.

TI Is Talk Cheap? Buying Congressional Testimony with Campaign Contributions. AU Gibbs, Ryan; Gokcekus, Omer; Tower, Edward.

TI An Efficiency Enhancing Minimum Wage. AU Gokcekus, Omer; Tower, Edward.

TI Index Fundamentalism Revisited. AU Reinker, Kenneth S.; Tower, Edward.

TI Sweetening the Pot: How American Sugar Buys Protection. AU Gokcekus, Omer; Knowles, Justin; Tower, Edward.

Trojanowski, Grzegorz

PD March 2002. TI Equity Block Transfers in Transition Economies: Evidence from Poland. AA Tilburg University.
 SR CEPR Discussion Paper: 3280; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE G32, G34. KW Agency Problems. Corporate Governance. Ownership Structure. Block Trades.

AB This paper investigates valuation effects of share block transfers and employs agency theory to explain the determinants of block premia. A sample of transactions from Poland is used to measure benefits and costs of ownership concentration. Block premia are found to be substantially lower than in well-developed markets, in spite of the insufficient minority shareholders' protection in transitional economies. Shareholder's opportunities to extract private benefits of control turn out to depend not only on the size of equity stake, but also on the relative power of other block holders. The expropriation threat appears to be most severe in the companies where the free float constitutes a substantial fraction of the shares outstanding. Moreover, the analysis reveals that liquidity costs considerably influence the level of block premia in Poland. Finally, the results document a positive role of the state as an institutional investor in listed companies.

Tsangarides, Charalambos

TI Is Growth Enough? Macroeconomic Policy and Poverty Reduction. **AU** Ghura, Dhaneshwar; Leite, Carlos A.; Tsangarides, Charalambos.

Tweedie, Sir David

PD October 2000. **TI** The Future of Accounting for Business Combinations. **AU** Tweedie, Sir David; Whittington, Geoffrey. **AA** Tweedie: UK Accounting Standards Board and International Accounting Standards Committee. Whittington: University of Cambridge and UK Accounting Standards Board. **SR** Cambridge Discussion Paper in Accounting and Finance: AF45; Publications Secretary, Department of Applied Economics, University of Cambridge, Sidgwick Avenue, Cambridge CB3 9DE, United Kingdom. Website: www.econ.cam.ac.uk/dae. **PG** 31. **PR** \$10.00/5 pounds/EUROS 8; make checks payable to University of Cambridge. **JE** G34, M41. **KW** Mergers. Acquisitions. Accounting. Pooling. Goodwill.

AB This paper explores the properties of pooling of interests (merger) accounting and purchase (acquisition) accounting as currently practised. It also compares these methods with variants of them that involve a greater use of fair values, the extent of valuation on a fair value basis and the treatment of different accounting methods. In particular, a greater use of fair values would reduce significantly the difference between the purchase and pooling methods and might also improve the extent to which the financial accounts reflect the economic reality of the business combination. However, the most consistent method of accounting for business combination, which would provide comparability across the full range of types of combination, is "fresh start" accounting which incorporates the recognition of all goodwill (and previously unrecognised intangible assets) in the combined group.

Uhlig, Harald

TI Should Smart Investors Buy Funds with High Returns in the Past? **AU** Palomino, Frederic; Uhlig, Harald.

PD April 2002. **TI** One Money, But Many Fiscal Policies in Europe: What Are the Consequences? **AA** Humboldt University and CEPR. **SR** CEPR Discussion Paper: 3296; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E52, E61, E62, H77. **KW** EMU. Monetary Policy. Fiscal Policy. Free-Riding. Monetary-Fiscal Policy. Interaction. Banking Crisis. Fiscal Crisis.

AB This paper outlines some issues regarding the interaction of independent fiscal authorities and one central bank in the European monetary union. It points out the possibilities for coordination failures, ranging everywhere from potentially excessive deficits and free-riding problems to coordination failures in European fiscal or banking crises. As policy conclusions, some suggestions for institutional improvements are made. In particular, the Growth and Stability Pact needs strengthening rather than weakening. Furthermore, a solution for EMU-wide banking regulation needs to be found.

Ui, Takashi

TI Best Response Equivalence. **AU** Morris, Stephen; Ui, Takashi.

TI Generalized Potentials and Robust Sets of Equilibria. **AU** Morris, Stephen; Ui, Takashi.

Unal-Kesenci, Deniz

TI China in the International Segmentation of Production Processes. **AU** Lemoine, Francoise; Unal-Kesenci, Deniz.

Uppal, Raman

PD April 2002. **TI** Model Misspecification and Under-Diversification. **AU** Uppal, Raman; Wang, Tan. **AA** Uppal: London Business School and CEPR. Wang: University of British Columbia. **SR** CEPR Discussion Paper: 3304; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** D81, G11. **KW** Portfolio Choice. Uncertainty. Ambiguity. Robust Control.

AB In this paper we develop a model of intertemporal portfolio choice where an investor accounts explicitly for the possibility of model misspecification. This work is motivated by the difficulty in estimating precisely the probability law for asset returns. Our contribution is to develop a framework that allows for ambiguity about the joint distribution of returns for all stocks being considered for the portfolio, and also for different levels of ambiguity in the marginal distribution of returns for any subset of these stocks. We then use this framework to derive in closed-form the optimal portfolio weights of an investor who accounts for model misspecification. We illustrate the model by calibrating it to data on international equity returns. The calibration shows that when the overall ambiguity about the joint distribution of returns is high, then small differences in ambiguity for the marginal return distribution will result in a portfolio that is significantly under-diversified relative to the standard mean-variance portfolio.

TI Systemic Risk and International Portfolio Choice. **AU** Das, Sanjiv Ranjan; Uppal, Raman.

TI Risk Aversion and Optimal Portfolio Policies in Partial and General Equilibrium Economies. **AU** Kogan, Leonid; Uppal, Raman.

Valente, Giorgio

TI The Out-of-Sample Success of Term Structure Models as Exchange Rate Predictors: A Step Beyond. **AU** Clarida, Richard; Samo, Lucio; Taylor, Mark P.; Valente, Giorgio.

Valimaki, Juuso

TI Bad Reputation. **AU** Ely, Jeffrey C.; Valimaki, Juuso.

Vamvakidis, Athanasios

TI Forecasting Inflation in Indonesia. **AU** Ramakrishnan, Uma; Vamvakidis, Athanasios.

van Damme, Eric

PD December 1999. **TI** Evolution and Refinement with Endogenous Mistake Probabilities. **AU** van Damme, Eric; Weibull, Jorgen W. **AA** van Damme: Tilburg University. Weibull: Stockholm School of Economics and Research Institute of Industrial Economics. **SR** Tilburg Center Discussion Paper: 99122; Center, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The

Netherlands. Website: center.uvt.nl. PG 20. PR no charge. JE C72, C73. KW Game Theory. Probability. Random Mutation.

AB Bergin and Lipman (1996) show that the refinement effect from the random mutations in the adaptive population dynamics in Kandori, Mailath and Rob (1993) and Young (1993) is due to restrictions on how these mutation rates vary across population states. We model mutation rates as endogenously determined mistake probabilities, by assuming that players with some effort can control the probability of implementing the intended strategy. This is shown to corroborate the results in Kandori-Mailath-Rob (1993) and, under certain regularity conditions, those in Young (1993). The approach also yields a new refinement of the Nash equilibrium concept that is logically independent of Selten's (1975) perfection concept and Myerson's (1978) properness concept.

van den Brink, Rene

PD December 1999. TI An Axiomatization of the Shapley Value Using a Fairness Property. AA Tilburg University. SR Tilburg CentER Discussion Paper: 99120; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: center.uvt.nl. PG 21. PR no charge. JE C71, C79. KW TU-Game. Shapley Value. Fairness. Simple Games.

AB In this paper we provide an axiomatization of the Shapley value for TU-games using a fairness property. This property states that if to a game we add another game in which two players are symmetric then their payoffs change by the same amount. We show that the Shapley value is characterized by this fairness property, efficiency and the null player property. These three axioms also characterize the Shapley value on important subclasses of games, such as the class of simple games or the class of apex games.

van Ours, Jan C.

PD April 2002. TI A Pint a Day Raises A Man's Pay; But Smoking Blows That Gain Away. AA CentER, Tilburg University and CEPR. SR CEPR Discussion Paper: 3308; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. PG not available. PR 5 pounds, \$5 or 8 euros + postage and handling. JE D12, I12, J31. KW Drinking. Smoking. Wages. Earnings Regressions.

AB This paper studies the wage effects of the use of alcohol and tobacco. The analysis based on a recent survey in the Netherlands shows that for males the use of tobacco has a negative wage effect of about 10% while the use of alcohol has a positive wage effect of about the same size. Smoking and drinking do not affect the wages of females.

TI The Effect of Benefit Sanctions on the Duration of Unemployment. AU Lalive, Rafael; van Ours, Jan C.; Zweimueller, Josef.

PD December 1999. TI The Netherlands; Old Emigrants -- Young Immigrant Country. AU van Ours, Jan C.; Veenman, Justus. AA van Ours: Tilburg University, Institute of Labor Studies, and CEPR. Veenman: Erasmus University Rotterdam, Institute for Sociological and Economic Research, and Tinbergen Institute. SR Tilburg CentER Discussion Paper: 99117; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website:

center.uvt.nl. PG 17. PR no charge. JE J15, J61. KW Immigration. Ethnic Minorities. Immigrant Workers.

AB Since the mid-1960s the Netherlands has experienced a net inflow of immigrants, mainly because of manpower recruitment from Turkey and Morocco and immigration from the former Dutch colony of Suriname. Immigrant workers have a weak labor market position, which is mainly related to their educational level and language skills. Children and grandchildren of immigrants are expected to have better chances to integrate into Dutch society. Nevertheless, specific policy measures are needed to avoid social exclusion of current immigrant workers.

PD December 1999. TI Fast Track or Failure: A Study of the Completion Rates of Graduate Students in Economics. AU van Ours, Jan C.; Ridder, Geert. AA van Ours: Tilburg University, OSA, and CEPR. Ridder: Johns Hopkins University. SR Tilburg CentER Discussion Paper: 99118; CentER, Tilburg University, Warandelaan 2, P.O. Box 90153, 5000 LE Tilburg, The Netherlands. Website: center.uvt.nl. PG 15. PR no charge. JE C41, I21. KW Duration Analysis. Education. Graduate Program.

AB This paper presents an analysis of the failure and completion rates of graduate students in economics at three universities in The Netherlands. The students leave the "Ph.D. production process" either because of completion of their thesis or because they quit the program. We find that an indicator of the research productivity of the supervisor is an important determinant of the completion and dropout rates. However, this effect seems due to the fact that supervisors with a good research record attract and select better students. There is no evidence of an independent effect of having a supervisor who is an active researcher.

TI The Netherlands and the United Kingdom: A European Unemployment Miracle? AU Nickell, Steve; van Ours, Jan C.

van Reenen, John

TI Who Gains When Workers Train? Training and Corporate Productivity in a Panel of British Industries. AU Dearden, Lorraine; Reed, Howard; van Reenen, John.

TI The Returns to Education: A Review of the Macro-Economic Literature. AU Sianesi, Barbara; van Reenen, John.

TI Patents, Productivity and Market Value in a Panel of British Firms. AU Bloom, Nicholas; van Reenen, John.

van Vyve, Mathieu

PD February 2003. TI Algorithms for Single Item Constant Capacity Lotsizing Problems. AA Universite Catholique de Louvain. SR CORE Discussion Paper: 2003/07; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. PG 27. PR \$5 per paper; \$100 per year. JE C65, D24. KW Lotsizing. Complexity. Constant Capacity. Backlogging.

AB The main result of this paper is to provide an $O(n^3)$ algorithm for the single item constant capacity lotsizing problem with backlogging and a general number of installable batches. That is, in each time period t we may install up to mt multiples of the batch capacity, where the mt are given and are

time-dependent. This generalizes earlier results as we consider backlogging and a general number of installable batches. We also give faster algorithms for three special cases of this general problem. When backlogging is not allowed and the costs satisfy the Wagner-Whitin property the problem is solvable in $O(n^2 \log n)$ time. In the discrete case it is possible to solve the problem with and without backlogging in $O(n^2)$ and $O(n \log n)$ time respectively.

PD February 2003. **TI** Lot-Sizing with Fixed Charges on Stocks: The Convex Hull. **AU** van Vyve, Mathieu; Ortega, Francisco. **AA** van Vyve: Universite Catholique de Louvain. Ortega: n-Side sa., Belgium. **SR** CORE Discussion Paper: 2003/14; CORE/Stat Library, Center for Operations Research and Econometrics, Universite Catholique de Louvain, Voie du Roman Pays, 34, B-1348 Louvain-la-Neuve, Belgium. Website: www.core.ucl.ac.be/services/DP.html. **PG** 19. **PR** \$5 per paper; \$100 per year. **JE** C61, D24, E22. **KW** Lot-Sizing. Fixed Charge. Stocks. Polyhedral Analysis.

AB In this paper we examine a variant of the uncapacitated lot-sizing model of Wagner-Whitin that includes fixed charges on the stocks. Such a model is natural in a production environment where stocking is a complex operation. The problem can also be seen as a single source uncapacitated fixed charge network flow problem on a simple graph. Extended formulations, a dynamic program, the convex hull of integer solutions and a separation algorithm are presented. All these turn out to be very natural extensions of the corresponding results of Barany, Van Roy and Wolsey (4) for the uncapacitated lot-sizing problem. The convex hull proof is based on showing that an extended facility location formulation is tight and by projecting it onto the original space of variables.

Vassalou, Maria

PD November 1999. **TI** Exchange Rate and Foreign Inflation Risk Premiums in Global Equity Returns. **AA** Columbia University. **SR** Columbia PaineWebber Working Paper Series in Money, Economics and Finance: PW/99/10; Joy Glazener, PaineWebber Series, 6N Uris Hall, Columbia University, New York, NY 10027. Website: www.columbia.edu/cu/business/wp/. **PG** 32. **PR** \$5.00 academics and non-profit institutions; \$6.00 corporations (add \$1.00 outside U.S., Canada and Puerto Rico); make checks payable to Columbia University/PaineWebber Series. **JE** F37, F41, G12. **KW** Foreign Inflation Risk. Premiums. Exchange Rate Risk. Home Bias.

AB We test for the pricing of exchange rate and foreign inflation risk in equities. Our tests are motivated by the empirical implications of the models of Solnik (1974b) as revised by Sercu (1980), Grauer, Litzenberger, and Stehle (1976), and Adler and Dumas (1983). Both exchange rate and foreign inflation risk factors can explain part of the within-country cross-sectional variation in returns. Our results have important implications for hedging exchange rate risk. They also demonstrate that home bias, at least in US equity portfolios, cannot be the result of US investors' efforts to hedge their domestic inflation.

TI Can Book-to-Market, Size and Momentum Be Risk Factors that Predict Economic Growth? **AU** Liew, Jimmy; Vassalou, Maria.

TI Do We Need Multi-Country Models to Explain Exchange Rate and Interest Rate Dynamics? **AU** Hodrick, Robert; Vassalou, Maria.

Veenman, Justus

TI The Netherlands; Old Emigrants -- Young Immigrant Country. **AU** van Ours, Jan C.; Veenman, Justus.

Vega, Clara

TI Micro Effects of Macro Announcements: Real-Time Price Discovery in Foreign Exchange. **AU** Andersen, Torben G.; Bollerslev, Tim; Diebold, Francis X.; Vega, Clara.

Vegh, Carlos A.

TI Modern Hyper- and High Inflation. **AU** Fischer, Stanley; Sahay, Ratna; Vegh, Carlos A.

Velasco, Andres

TI Dollarization: Analytical Issues. **AU** Chang, Roberto; Velasco, Andres.

Ventura, Jaume

TI Trade Integration and Risk Sharing. **AU** Kraay, Aart; Ventura, Jaume.

Verdonck, Magali

TI On the Core of an Economy with Multilateral and Multidimensional Environmental Externalities. **AU** Figueres, Charles; Verdonck, Magali.

Verner, Mette

TI Does the Gap in Family-Friendly Policies Drive the Family Gap? **AU** Nielsen, Helena Skyt; Simonsen, Marianne; Verner, Mette.

TI Do Children Stabilize Marriages? **AU** Svarer, Michael; Verner, Mette.

Veugelers, Reinhilde

TI Complementarity in the Innovation Strategy: Internal R&D, External Technology Acquisition and Cooperation. **AU** Cassiman, Bruno; Veugelers, Reinhilde.

Vieille, Nicolas

TI Stochastic Games with a Single Controller and Incomplete Information. **AU** Rosenberg, Dinah; Solan, Eilon; Vieille, Nicolas.

TI Deterministic Multi-Player Dynkin Games. **AU** Solan, Eilon; Vieille, Nicolas.

TI Continuous-Time Games of Timing. **AU** Laraki, Rida; Solan, Eilon; Vieille, Nicolas.

TI Equilibrium Uniqueness with Perfect Complements. **AU** Solan, Eilon; Vieille, Nicolas.

Vignoles, Anna

TI An Audit of the Data Needs of the DFEE Centres for the Economics of Education and the Wider Benefits of Learning. **AU** Desai, Tanvi; Montado, Estela; Vignoles, Anna.

TI Measuring and Assessing the Impact of Basic Skills on Labour Market Outcomes. **AU** McIntosh, Steven; Vignoles, Anna.

TI The Returns to Academic and Vocational Qualifications in Britain. **AU** Dearden, Lorraine; McIntosh, Steven; Myck, Michal; Vignoles, Anna.

Villa, Pierre

TI Le concept de cout d'usage Putty-Clay des biens durables (The Putty-Clay Concept of Durable Goods). **AU** Foggea, Marie-Gabriel; Villa, Pierre.

PD September 2002. **TI** Liquidite et passage de la valeur (Liquidity and Transmission of Value). **AA** CEPII. **SR** CEPII Working Paper: 2002/10; CEPII, Publications, 9, rue Georges Pitard, 75740 Paris Cedex 15, France. Website: www.cepii.fr. **PG** 51. **PR** no charge. **JE** B31, E10. **KW** Value Theory. Liquidity. Fiscal Theory. Price Level. Keynes-Wicksell Economy. Hicks.

AB These are a sort of prolegomena to the theory of absolute value. Rereading Hicks allows us to redefine liquidity in an economy without money. Stabilization policies according to the regimes of the real economy and expectations of prices, quantities and stock prices by agents, whether classical or Keynesian, are discussed. Another definition of the credibility of policies against financial markets is demonstrated. This paper is written in French.

Vissing-Jorgensen, Annette

TI The Returns to Entrepreneurial Investment: A Private Equity Premium Puzzle? **AU** Moskowitz, Tobias J.; Vissing-Jorgensen, Annette.

PD April 2002. **TI** Towards an Explanation of Household Portfolio Choice Heterogeneity: Nonfinancial Income and Participation Cost Structures. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8884; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 37. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D91, G12. **KW** Portfolio Choice. Transactions Costs. Market Participation Cost. PSID.

AB The paper uses micro data on income and asset holdings from the Panel Study of Income Dynamics and other US household level data sets to analyze reasons for nonparticipation in the stock market and for heterogeneity in portfolio choice within the set of stock market participants. I find evidence of a positive effect of mean nonfinancial income on the probability of stock market participation and on the proportion of wealth invested in stocks conditional on being a participant. The volatility of nonfinancial income is found to have a negative impact on these two quantities. However, there is no evidence of an effect of the correlation of nonfinancial income with the stock market return on portfolio choice. Three different costs of stock market participation are considered, a fixed transactions cost, a proportional transactions cost, and a per period participation cost. I find evidence of structural state dependence in the stock market participation decision supporting the importance of fixed transactions costs. Based on a simple model of the benefits of stock market participation I estimate that a per period stock market participation cost of just 50 dollars is sufficient to explain the choices of half of stock market nonparticipants.

PD April 2002. **TI** Limited Asset Market Participation and the Elasticity of Intertemporal Substitution. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 8896; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 17. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** E20, G10. **KW** Elasticity of Intertemporal Substitution.

Euler Equation. Stocks. Bonds. Non-Asseholders.

AB The paper presents empirical evidence, based on the US Consumer Expenditure Survey, that accounting for limited asset market participation is important for estimating the elasticity of intertemporal substitution (EIS). Differences in estimates of the EIS between asseholders and non-asseholders are large and statistically significant. This is the case whether estimating the EIS based on the Euler equation for stock index returns or the Euler equation for T-bills, in each case distinguishing between asseholders and non-asseholders as best as possible. Estimates of the EIS are around 0.3-0.4 for stockholders and around 0.8-1 for bondholders, and are larger for households with larger asset holdings within these two groups.

Vita, Michael

TI Demand System Estimation and its Application to Horizontal Merger Analysis. **AU** Hosken, Daniel; O'Brien, Daniel P.; Scheffman, David; Vita, Michael.

Vives, Xavier

TI Regulating Insider Trading when Investment Matters. **AU** Medrano, Luis Angel; Vives, Xavier.

Vogt, William B.

TI Competition Among Hospitals. **AU** Gaynor, Martin; Vogt, William B.

Vohra, Rakesh V.

TI Ascending Auctions and Linear Programming. **AU** Bikhchandani, Sushil; de Vries, Sven; Schummer, James; Vohra, Rakesh V.

TI Characterization of Additive Cost Sharing Methods. **AU** Moulin, Herve; Vohra, Rakesh V.

TI Polyhedral Properties of the K-Median Problem on a Tree. **AU** de Vries, Sven; Posner, Marc E.; Vohra, Rakesh V.

Vollrath, Dietrich

TI Land Inequality and the Origin of Divergence and Overtaking in the Growth Process: Theory and Evidence. **AU** Galor, Oded; Moav, Omer; Vollrath, Dietrich.

von Hagen, Juergen

PD March 2002. **TI** The Choice of Exchange Rate Regimes: An Empirical Analysis for Transition Economies. **AU** von Hagen, Juergen; Zhou, Jizhong. **AA** von Hagen: University of Bonn and CEPR. Zhou: University of Bonn. **SR** CEPR Discussion Paper: 3289; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E52, F31, F33, F41. **KW** Exchange Rate Regimes. Transition Economies.

AB We analyze the choice of exchange rate regimes of the 25 transition economies in Europe and the CIS after 1990. The empirical results show that the traditional Optimum Currency Area considerations provide relevant guidance for the exchange rate regime choices in these countries. Moreover, inflation rates, cumulative inflation differentials and the availability of international reserves influence regime choices. That is, macroeconomic stabilization and the ability to commit to a credible exchange rate peg play important roles in the

determination of exchange rate regime choices. Large government deficits have ambiguous effects; they increase the likelihood of moving from a flexible exchange rate to an intermediate peg as well as the likelihood of moving from a fixed to an intermediate peg.

Voth, Hans-Joachim

PD March 2002. **TI** Why was Stock Market Volatility so High During the Great Depression? Evidence from 10 Countries During the Interwar Period. **AA** Universitat Pompeu Fabra, MIT, and CEPR. **SR** CEPR Discussion Paper: 3254; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E66, G12, G14, G18, N12, N14, N22, N24. **KW** Stock Price Volatility. Political Uncertainty. Worker Militancy. Great Depression.

AB The extreme levels of stock price volatility found during the Great Depression have often been attributed to political uncertainty. This paper performs an explicit test of the Merton/Schwert hypothesis that doubts about the survival of the capitalist system were partly responsible. It does so by using a panel data set on political unrest, demonstrations and other indicators of instability in a set of 10 developed countries during the interwar period. Fear of worker militancy and a possible revolution can explain a substantial part of the increase in stock market volatility during the Great Depression.

PD March 2002. **TI** With a Bang, Not a Whimper: Pricking Germany's "Stock Market Bubble" in 1927 and the Slide into Depression. **AA** Universitat Pompeu Fabra, MIT, and CEPR. **SR** CEPR Discussion Paper: 3257; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** not available. **PR** 5 pounds, \$5 or 8 euros + postage and handling. **JE** E31, E43, E44, N14, N24. **KW** Stock Market. Foreign Lending. Fixed Exchange Rates. Asset Prices. Bubbles. Germany. Monetary Policy.

AB Asset price inflation presents central banks with a puzzle. I examine the case of Germany, 1925-7, when the Reichsbank intervened to bring down stock prices, rectify imbalances and curb speculation. Present value relations, comparisons with historical valuation measures and the time-series properties of the data suggest that there was no bubble in the German stock market. The German central bank under Hjalmar Schacht was therefore wrong to be concerned about stock prices, since no bubble can be discerned. I examine the effects of the misguided intervention by estimating a number of VARs. These suggest that a substantial part of the slowdown in the rate of capital formation after 1927 could have been avoided without the intervention.

Wagner, Helmut

TI Spreading Currency Crises: The Role of Economic Interdependence. **AU** Berger, Wolfram; Wagner, Helmut.

Wallerstein, Michael

TI Redistribution in a Divided Society. **AU** Austen-Smith, David; Wallerstein, Michael.

Wallis, John Joseph

TI Can the New Deal's Three R's Be Rehabilitated? A

Program-by-Program, County-by-County Analysis. **AU** Fishback, Price V.; Kantor, Shawn; Wallis, John Joseph.

Walter, Ingo

TI Rating Agencies: Is There an Agency Issue? **AU** Smith, Roy C.; Walter, Ingo.

Wang, Qing

TI Lithuania: History and Future of the Currency Board Arrangement. **AU** Alonso-Gamo, Patricia; Fabrizio, Stefania; Kramarenko, Vitali; Wang, Qing.

Wang, Tan

TI Model Misspecification and Under-Diversification. **AU** Uppal, Raman; Wang, Tan.

Ward, Michael R.

TI Generic Drug Industry Dynamics. **AU** Reiffen, David; Ward, Michael R.

Warneryd, Karl

TI Distributional Conflict in Organisations. **AU** Inderst, Roman; Mueller, Holger M.; Warneryd, Karl.

Weber, Guglielmo

TI What Do We Learn from Recall Consumption Data? **AU** Battistin, Erich; Miniaci, Raffaele; Weber, Guglielmo.

Weber, Shlomo

TI On Efficiency and Sustainability in a Collective Decision-Making Problem with Heterogeneous Agents. **AU** Haimanko, Ori; Le Breton, Michel; Weber, Shlomo.

Weder, Mark

TI Did Sunspot Forces Cause the Great Depression? **AU** Harrison, Sharon G.; Weder, Mark.

Wegkamp, Marten H.

TI Tests of Independence in Separable Econometric Models. **AU** Brown, Donald J.; Wegkamp, Marten H.

Wei, Min

TI Uncovered Interest Rate Parity and the Term Structure. **AU** Bekaert, Geert; Wei, Min; King, Yuhang.

Weibull, Jorgen W.

TI Evolution and Refinement with Endogenous Mistake Probabilities. **AU** van Damme, Eric; Weibull, Jorgen W.

Weil, David N.

TI How Much of Cross-Country Income Variation is Explained by Health? **AU** Shastri, Gauri Kartini; Weil, David N.

TI The Baby Boom and the Stock Market Boom. **AU** Lim, Kyung-Mook; Weil, David N.

Weisse, Bruce

TI Information Technology, Venture Capital and the Stock Market. **AU** Singh, Ajit; Singh, Alaka; Weisse, Bruce.

Welch, Ivo

TI A Review of IPO Activity, Pricing, and Allocations. AU Ritter, Jay; Welch, Ivo.

Werker, Bas J. M.

TI Currency Hedging for International Stock Portfolios: A General Approach. AU de Roon, Frans A.; Nijman, Theo E.; Werker, Bas J. M.

White, Eugene N.

TI Who Panics During Panics? AU Grada, Cormac O.; White, Eugene N.

White, Lawrence J.

TI The Diffusion of Financial Innovations: An Examination of the Adoption of Small Business Credit Scoring by Large Banking Organizations. AU Akhavein, Jalal; Frame, W. Scott; White, Lawrence J.

TI The Effects of Dynamic Changes in Bank Competition on the Supply of Small Business Credit. AU Berger, Allen N.; Goldberg, Lawrence G.; White, Lawrence J.

Whittington, Geoffrey

TI The Future of Accounting for Business Combinations. AU Tweedie, Sir David; Whittington, Geoffrey.

Wickelgren, Abraham

TI The Use of Exclusive Contracts to Deter Entry. AU Simpson, John D.; Wickelgren, Abraham.

Wickelgren, Abraham L.

TI A Critical Analysis of Critical Loss Analysis. AU O'Brien, Daniel P.; Wickelgren, Abraham L.

PD April 2003. TI Moral Hazard and Renegotiation: Multi-Period Robustness. AA FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 259; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 19. PR no charge. JE D23, D82. KW Moral Hazard. Agency. Renegotiation.

AB Is the second best outcome of static agency models renegotiation proof? In models with one period of renegotiation, Fudenberg and Tirole (1990) answer no when the principal makes the offer, while Ma (1994) and Matthews (1995) answer yes when the agent makes the offer. This paper analyzes the robustness of these two claims when there are more periods of renegotiation. With a known number of periods, if the principal makes at least one offer, even if the agent makes the offer in every other period, the equilibrium is identical to Fudenberg and Tirole equilibrium. With an uncertain number of periods, the agency problem is even more severe than in the Fudenberg and Tirole model.

Wigger, Berthold

TI National Minimum Wages, Capital Mobility and Global Economic Growth. AU Irmen, Andreas; Wigger, Berthold.

Wilhelm, William J., Jr.

TI IPO Pricing in the Dot-Com Bubble. AU Ljungqvist, Alexander P.; Wilhelm, William J., Jr..

Willett, Thomas D.

TI Trade Protectionism. AU Kaempfer, William H.; Tower, Edward; Willett, Thomas D.

Williamson, Jeffrey G.

TI From Malthus to Ohlin: Trade, Growth and Distribution Since 1500. AU O'Rourke, Kevin H.; Williamson, Jeffrey G.

Wilson, Bart J.

TI The Effect of Offer Verifiability on the Relationship Between Auctions and Multilateral Negotiations. AU Thomas, Charles J.; Wilson, Bart J.

Windmeijer, Frank

TI Estimation in Dynamic Panel Data Models: Improving on the Performance of the Standard GMM Estimator. AU Blundell, Richard; Bond, Stephen; Windmeijer, Frank.

PD November 2000. TI A Finite Sample Correction for the Variance of Linear Two-Step GMM Estimators. AA IFS. SR Institute for Fiscal Studies Working Paper: W00/19; Publications Department, IFS, 7 Ridgmount Street, London WC1E 7AE, England. Contact: mailbox@ifs.org.uk. Website: www.ifs.org.uk/workingpapers/index.shtml. PG 18. PR free from website; 3 pounds for hardcopies. JE C12, C23. KW GMM. Variance Correction. Panel Data. Monte Carlo.

AB Monte Carlo studies have shown that estimated asymptotic standard errors of the efficient two-step generalized method of moments (GMM) estimator can be severely downward biased in small samples. The weight matrix used in the calculation of the efficient two-step GMM estimator is based on initial consistent parameter estimates. In this paper we show that the extra variation due to the presence of these estimated parameters in the weight matrix accounts for much of the difference between the finite sample and the asymptotic variance of the two-step GMM estimator that utilizes moment conditions that are linear in the parameters. This difference can be estimated and a finite sample corrected estimate of the variance can then be obtained. In a Monte Carlo study of a panel data model it is shown that the corrected variance estimate approximates the finite sample variance well, leading to more accurate inference.

Winton, Andrew

TI Financial Intermediation. AU Gorton, Gary; Winton, Andrew.

Wiseman, Alan E.

PD March 2003. TI How Many Bottles Make a Case Against Prohibition? Online Wine and Virginia's Direct Shipment Ban. AU Wiseman, Alan E.; Ellig, Jerry. AA Wiseman: Ohio State University. Ellig: FTC. SR Federal Trade Commission Bureau of Economics Working Paper: 258; Bureau of Economics, FTC, 600 Pennsylvania Ave., NW, Room 4238, Washington, D.C. 20580. Contact Person: troundtree@ftc.gov. Website: www.ftc.gov/be/econwork.htm. PG 46. PR no charge. JE L22, L51, L66. KW Wine. Interstate. Alcohol. 21st Amendment. Federalism. Franchise.

AB This study investigates the effects of the Commonwealth of Virginia's ban on direct wine shipments from out-of-state sellers on wine prices and variety available to consumers in the

greater McLean, Virginia area. Our results indicate that Virginia's direct shipment ban reduces the varieties of wine available to consumers and prevents consumers from purchasing some premium wines at lower prices online. Using a sample of 83 wines judged to be "highly popular" in Wine and Spirits magazine's annual restaurant poll, we find that 15 percent of wines available online were not available from retail wine stores within 10 miles of McLean during the month the data were collected. The fact that local wine stores may not carry certain wines may result, in part, from other Virginia regulations that affect the structure of the wholesale market. We also find that the lowest quoted online price offered significant cost savings over the lowest local retail price in our survey for many types of wine during the month the data were collected. The extent of any cost savings depends on the price per bottle, the quantity of wine ordered, and the shipping method chosen.

Witt, Robert

TI The Policy Context and Infant and Toddler Care in the Welfare Reform Era. **AU** Witte, Ann Dryden; Queralt, Magaly; Witt, Robert; Griesinger, Harriet.

Witte, Ann Dryden

PD April 2002. **TI** Take-Up Rates and Trade Offs After the Age of Entitlement: Some Thoughts and Empirical Evidence for Child Care Subsidies. **AU** Witte, Ann Dryden; Queralt, Magaly. **AA** Witte: Wellesley College and NBER. Queralt: Wellesley Child Care Research Partnership. **SR** National Bureau of Economic Research Working Paper: 8886; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H42, I38, J12, J13, J22. **KW** Child Care Subsidies. Service Rate. Take-Up Rate. **AB** In this paper we develop a model of an eligible family's decision to take or not to take child care subsidies. We contend that a demand-side model for the take-up of child care subsidies and use of the term "take-up" rate are only appropriate for programs that guarantee services to all eligible applicants. For states that do not guarantee subsidies, the proportion of the eligible population that receives subsidies is better called a service rate than a take-up rate. Modeling service rates requires consideration of both governments' decisions (the supply side) and families' decisions (the demand side) regarding child care subsidies. Using administrative data and survey data for states that guarantee subsidies for all eligible families, we estimate the family-level take-up rate for child care subsidies to be around 40% in early 2000. For states that do not guarantee subsidies, service rates range from 14% in Minnesota to 50% in Massachusetts. Finally, we use the percent of federally eligible families that receive child care subsidies and public expenditures per subsidized child to discern the relative importance that states place on using child care subsidies to facilitate parental work and to improve services for low-income children.

PD April 2002. **TI** The Policy Context and Infant and Toddler Care in the Welfare Reform Era. **AU** Witte, Ann Dryden; Queralt, Magaly; Witt, Robert; Griesinger, Harriet. **AA** Witte: Wellesley College, Wellesley Child Care Research Partnership, and NBER. Queralt and Griesinger: Wellesley Child Care Research Partnership. Witt: University of Surrey and Wellesley Child Care Research Partnership. **SR** National Bureau of Economic Research Working Paper:

8893; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H42, I38, J13, J22. **KW** Child Care Subsidies. Miami-Dade County. Infants. Toddlers.

AB We provide descriptive evidence from Miami-Dade County (MDC), FL and from five representative areas in Massachusetts (MA) that government policies governing welfare reform, the child-care subsidy system, and minimum-standards regulation have had considerable impacts on the availability, price, and quality of infant and toddler care, as welfare reform progressed from 1996 to 2000. Among our more interesting findings are the following: (1) There has been more than a doubling of the number of low-income infants and toddlers with child care subsidies in formal care in MDC, an area where cash assistance recipients are required to be active when their youngest child is three years old; and (2) Child care centers in both MA and MDC appear to be subsidizing their infant and toddler programs; this helps to explain why it has been difficult to expand the amount of infant and toddler care available.

Wolf, Charles

PD 2002. **TI** Straddling Economics and Politics: Cross-Cutting Issues in Asia, the United States, and the Global Economy. **AA** RAND Corporation. **SR** RAND Corporation Report: MR/1571/RC; RAND Distribution Services, Attn: Dept. MK24, P.O. Box 2138, Santa Monica, CA 90407-2138. Website: www.rand.org. **PG** 211. **PR** \$20 plus postage \$4 first book/\$1 each additional book. **JE** D74, F02. **KW** Globalization. Free Enterprise. International Relations. Asian Financial Crises. Economic Policy. Economic Conditions. Politics and Government.

AB The essays in this book were written between the end of 1996 and the middle of 2001, and published in prominent newspapers and journals. The book is divided into three sections: The Global Economy, The U.S. Economy and Foreign Policy, and Asian Economics and Politics. The author is a strong, but not uncritical, adherent of free and competitive markets, and of market mechanisms rather than government intervention to address economic problems. He is skeptical and critical of U.S. efforts, however well intentioned, to intervene in a politically charged, ethnically complex, and murky conflict environment. He is inclined toward restarting cross-Strait discussions between Mainland China and Taiwan. Finally, he tries to envisage the economic and military directions in which particular countries or regions are moving, and what the movements portend for the future.

Wolsey, Laurence A.

TI Lifting, Superadditivity, Mixed Integer Rounding and Single Node Flow Sets Revisited. **AU** Louveaux, Quentin; Wolsey, Laurence A.

Wongswan, Jon

PD February 2003. **TI** Transmission of Information Across International Equity Markets. **AA** Board of Governors of the Federal Reserve System. **SR** Board of Governors of the Federal Reserve System, International Finance Discussion Paper: 759; Secretary, International Finance Discussion Papers, Mail Stop 16, Federal Reserve Board, Washington, DC 20551. Website: www.federalreserve.gov/pubs/ifdp. **PG** 56. **PR** no charge.

JE E44, G14, G15. **KW** Information. Volatility. Trading Volume. High-Frequency Data. Macroeconomic News. Announcements. Dispersion of Expectations.

AB This paper provides evidence of transmission of information from the U.S. and Japan to Korean and Thai equity markets during the period from 1995 through 2000. Information is defined as important macroeconomic announcements in the U.S., Japan, Korea, and Thailand. Using high-frequency intraday data, I focus the study on return volatility and trading volume because the implications of new information are much clearer than for returns. I find a large and significant association between emerging-economy equity volatility and trading volume and developed-economy macroeconomic announcements at short-time horizons. This is the first strong evidence of this sort of international information transmission. Previous studies' findings of at most weak evidence may be due to their use of lower frequency data and their focus on developed-economy financial market innovations as the measure of information.

Woo, Wing Thy

TI Geography, Economic Policy, and Regional Development in China. **AU** Demurger, Sylvie; Sachs, Jeffrey D.; Woo, Wing Thy; Bao, Shuming; Chang, Gene; Mellinger, Andrew.

Woodruff, Christopher

TI Property Rights and Finance. **AU** Johnson, Simon; McMillan, John; Woodruff, Christopher.

Wright, Peter

TI Merger Activity and Executive Pay. **AU** Girma, Sourafel; Thompson, Steve; Wright, Peter.

Wurgler, Jeffrey

TI Comovement. **AU** Barberis, Nicholas; Shleifer, Andrei; Wurgler, Jeffrey.

Wurtz, Allan H.

TI Testing the Semiparametric Box -- Cox Model with the Bootstrap. **AU** Savin, Nathan E.; Wurtz, Allan H.

Xiao, Zhijie

TI More Efficient Kernel Estimation in Nonparametric Regression with Autocorrelated Errors. **AU** Carroll, Raymond J.; Linton, Oliver B.; Mammen, Enno; Xiao, Zhijie.

Xing, Yuhang

TI Uncovered Interest Rate Parity and the Term Structure. **AU** Bekaert, Geert; Wei, Min; Xing, Yuhang.

Yalcin, Erkan

TI Endogenous Firm Objectives. **AU** Renstrom, Thomas I.; Yalcin, Erkan.

Yeaple, Stephen R.

TI Multinational Enterprises, International Trade, and Productivity Growth: Firm-Level Evidence from the United States. **AU** Keller, Wolfgang; Yeaple, Stephen R.

Yildirim, Huseyin

PD October 2002. **TI** Sequential Procurement of a Long-

Term Project. **AA** Duke University. **SR** Duke University Department of Economics Working Paper: 02/35; available only on website. Website: www.econ.duke.edu/Papers/wpindex.html. **PG** 36. **PR** no charge. **JE** D44, D82, H57. **KW** Long-Term Projects. Sequential Auctions. Dynamic Programming.

AB This paper deals with the optimal procurement of a long term project whose full return is to be received upon completion. The project consists of several subprojects to be auctioned off in a sequence. In equilibrium, this paper finds that: (1) Even though the procurer lacks long term commitment power, both the procurer and suppliers strictly prefer the project to move forward; (2) unlike the static setting, the procurer's optimal strategy depends on the number of suppliers and more importantly, it is nonmonotonic. As one more supplier participates in the procurement auction, the procurer softens competition in the initial stages by including more cost "types" while increasing competition in the mature stages; (3) this, in turn, implies that existing suppliers might favor participation of additional suppliers; (4) the procurer prefers to deal with long-sighted suppliers only if the project is sufficiently long. Otherwise, short-term projects are better matched with short-sighted suppliers.

TI Managing Switching Costs in Multiperiod Procurements with Strategic Buyers. **AU** Lewis, Tracy R.; Yildirim, Huseyin.

Young, Leslie

TI Imperfect Contract Enforcement. **AU** Anderson, James E.; Young, Leslie.

Yu, Jun

TI Jackknifing Bond Option Prices. **AU** Phillips, Peter C. B.; Yu, Jun.

Zamarripa, Guillermo

TI Related Lending. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio; Zamarripa, Guillermo.

Zettelmeyer, Jeromin

TI Bankruptcy Procedures for Sovereigns: A History of Ideas, 1976-2001. **AU** Rogoff, Kenneth S.; Zettelmeyer, Jeromin.

Zhou, Jizhong

TI The Choice of Exchange Rate Regimes: An Empirical Analysis for Transition Economies. **AU** von Hagen, Juergen; Zhou, Jizhong.

Zignago, Soledad

TI Skills, Technology and Growth: Is ICT the Key to Success? Part I: An Analysis of ICT Impact on French Growth. **AU** Melka, Johanna; Mulder, Nanno; Nayman, Laurence; Zignago, Soledad.

Zinde-Walsh, Victoria

TI Fractional Brownian Motion as a Differentiable Generalized Gaussian Process. **AU** Phillips, Peter C. B.; Zinde-Walsh, Victoria.

Zingales, Luigi

TI Does Local Financial Development Matter?

AU Guiso, Luigi; Sapienza, Paola; Zingales, Luigi.

TI Does Local Financial Development Matter?

AU Guiso, Luigi; Sapienza, Paola; Zingales, Luigi.

Zucker, Lynne G.

TI Growing by Leaps and Inches: Creative Destruction, Real Cost Reduction, and Inching Up. AU Darby, Michael R.; Zucker, Lynne G.

TI Going Public When You Can in Biotechnology.

AU Darby, Michael R.; Zucker, Lynne G.

Zweiman, Ari

TI Inefficient Local Regulation of Local Externalities.

AU Besharov, Gregory; Zweiman, Ari.

Zweimueller, Josef

TI Structural Change and the Kaldor Facts of Economic Growth. AU Foellmi, Reto; Zweimueller, Josef.

TI The Effect of Benefit Sanctions on the Duration of Unemployment. AU Lalive, Rafael; van Ours, Jan C.; Zweimueller, Josef.