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Discussion Papers

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No. 220

Foreign direct investment and exchange rate uncertainty in imperfectly competitive industries by Ray Barrell, Sylvia Gottschalk and Stephen Hall

This paper investigates the relationship between exchange rate uncertainty and the location of US foreign direct investment in Europe, adopting a mean-variance approach to the standard q theory of investment in order to highlight the impact of exchange rate volatility and exchange rate correlation on investment. A firm concerned with both maximising profits and minimising risk would exploit any correlation between exchange rate movements to reduce the variance of its total profit. US foreign investment in the UK and in Continental Europe are estimated in a panel of seven manufacturing industries, showing that US firms investing in Europe tend to be risk-averse and decrease their investments as exchange rate volatility rises. Market power does not seem to reduce the effects of exchange rate volatility on FDI. Strong evidence was found that the UK is the preferred European location for US investors, since an increase in the correlation between the sterling dollar exchange rate and the euro dollar exchange rate tends to relocate US investment from the Euro Zone to the UK.

No. 221

Education and economic growth by Philip Stevens and Martin Weale


This paper provides a survey of work on the link between education and economic growth. It shows that data from the early 20th century are coherent with conclusions about education and economic growth derived from the much more recent past. It also presents an analysis of the role of education in facilitating the use of best-practice technology. It is to be published in the *International Handbook on the Economics of Education* edited by G and J. Johnes and published by Edward Elgar.


No. 222

Skill heterogeneity and equilibrium unemployment by Rebecca Riley and Garry Young

A framework for the analysis of growth and unemployment is developed in a fully specified macroeconomic model, taking account of differences in skills across the workforce. Supply conditions in the labour market are reflected in separate wage equations for different skill groups, while the demand for labour of different skills is

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Evaluating Performance in Public Services, Thursday 19th November 2009
The New Deal: Economic Growth, International Migration and the Single Market, Tuesday 17th January 2010

News Publications
Research Release: Globalisation and Risk, edited by Martin Weale, 20th October 2008
Research Release: Economic Growth, last issue published 20th July 2008, currently available here. Next issue to be published 10th October 2009

News Research
Education and Economic Growth by Philip Stevens and Martin Weale
New Skills from Higher Education: Evidence on the Employment of Graduates? by Neil Hoxby, National Institute of Economic and Social Research, and David Watkins, City University and Trade Skills, Institute of Education, University of London
Foreign Trade Development and Exchange Rate Uncertainty in Inequality: Composite Indicator by Ray Barrell, Sylvia Gottschalk, Stephen Hall, 1999
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also allowed to vary across sectors. The framework enables us to outline the macroeconomic impact of shocks that impact particularly on one group rather than another. We find that a shock to productivity has a much larger adverse impact on aggregate employment if it is biased in favour of the high skilled. This is because the demand for labour shifts against the less skilled at the same time as their wage aspirations increase due to the rise in overall productivity, thus reducing their employment. We also show that increasing the skills of the workforce reduces equilibrium unemployment.



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The *Review* is the quarterly publication of the National Institute of Economic and Social Research – one of Britain's oldest and most prestigious independent research organisations. The Institute's objective is to promote, through quantitative research, a deeper understanding of the interaction of economic and social forces that affect people's lives so that they may be improved. It has no political affiliation, and receives no core funding from government. Its research programme is organised under the headings of Economic Modelling and Analysis; Productivity; Education and Training and the International Economy.

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