

## ABSTRACTS OF WORKING PAPERS IN ECONOMICS

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### Abel, Andrew B.

**PD** December 2000. **TI** An Exploration of the Effects of Pessimism and Doubt on Asset Returns. **AA** University of Pennsylvania, NBER and Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/01; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **Website:** [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 26. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** D84, G12. **KW** Pessimism. Doubt. Asset Returns.

**AB** The subjective distribution of growth rates of aggregate consumption is characterized by pessimism if it is first-order stochastically dominated by the objective distribution. Uniform pessimism is leftward translation of the objective distribution of the logarithm of the growth rate. The subjective distribution is characterized by doubt if it is mean-preserving spread of the objective distribution. Pessimism and doubt both reduce the risk-free rate and thus can help resolve the risk-free rate puzzle. Uniform pessimism and doubt both increase the average equity premium and thus can help resolve the equity premium puzzle.

**PD** January 2001. **TI** Will Bequests Attenuate the Predicted Meltdown in Stock Prices When Baby Boomers Retire? **AA** University of Pennsylvania, NBER and Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/02; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **Website:** [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 16. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E21, E22, G12. **KW** Baby Boomers. Asset Prices. Retirement.

**AB** Jim Poterba finds that consumers do not spend all of their assets during retirement, and he projects that the demand for assets will remain high when the baby boomers retire. Based on his forecast of continued high demand for capital, Poterba rejects the asset market meltdown hypothesis, which predicts a fall in stock prices when the baby boomers retire. I develop a rational expectations general equilibrium model with a bequest motive and an aggregate supply curve for capital. In this model, a baby boom generates an increase in stock prices, and stock prices are rationally anticipated to fall when the baby boomers retire, even though, as emphasized by Poterba, consumers do not spend all of their assets during retirement. This finding contradicts Poterba's conclusion that continued high demand for assets by retired baby boomers would prevent a fall in the price of capital.

### Acemoglu, Daron

**PD** June 2000. **TI** The Colonial Origins of Comparative Development: An Empirical Investigation. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A. **AA** Acemoglu: Massachusetts Institute of Technology, National Bureau of Economic Research, and Canadian Institute of Advanced Research. Johnson: Massachusetts Institute of Technology. Robinson: University of California, Berkeley. **SR** National Bureau of Economic Research Working Paper: 7771; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. **Website:** [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** O11, P16, P51. **KW** Colonialism. Economic Development.

**AB** This paper exploits differences in the mortality rates faced by European colonialists to estimate the effect of institutions on economic performance. Thus it is argued that Europeans adopted very different colonization policies in different colonies, with different associated institutions. The choice of colonization strategy was, at least in part, determined by whether Europeans could settle in the colony. In places where Europeans faced high mortality rates, they could not settle and they were more likely to set up worse (extractive) institutions. These early institutions persisted to the present. Evidence is documented supporting these hypotheses. Exploiting differences in mortality rates faced by soldiers, bishops and sailors in the colonies in the 17th, 18th and 19th centuries as an instrument for current institutions, large effects of institutions on income per capita are estimated. These estimates imply that differences in institutions explain approximately three-quarters of the income per capita differences across former colonies. By controlling for the effect of institutions, it is found that countries in Africa or those farther away from the equator do not have lower incomes.

**PD** June 2001. **TI** Evolution of Perceptions and Play. **AU** Acemoglu, Daron; Yildiz, Muhamet. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/36; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 34. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** B41, C72, D84. **KW** Common Prior. Evolution. Neutral Stability. Misperceptions. Perceptions. Rationality.

**AB** An agent with a misperception may have an evolutionary advantage when others recognize his misperception and its behavioral implications. In such situations evolutionary forces can lead to misperceptions, yielding "irrational behavior," such as the play of strictly dominated strategies. We point out that this reasoning relies on the assumption of subjective rationality -- agents are assumed to choose the behavior that maximizes

their perceived payoffs. However, subjective rationality does not have solid evolutionary foundations: in the presence of misperceptions, agents who do not maximize their perceived payoffs may have greater fitness than those who do. We show that relaxing the subjective rationality requirement, somewhat paradoxically, leads to effectively rational behavior: although agents may have systematic misperceptions, they will develop other biases to undo these misperceptions, and will act as if they are rational. As a result, systematic biases in experimental settings may not necessarily translate into irrational behavior. We also demonstrate that the same evolutionary forces, in the long run, lead agents to play as if they have a common prior, even though each agent will have different and possibly incorrect perceptions of payoffs and the rules of the game.

**PD** July 2001. **TI** An African Success Story: Botswana. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A. **AA** Acemoglu and Johnson: MIT. Robinson: UC Berkeley. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/37; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 33. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D78, F43, N47, O55, P47. **KW** Growth. Institutions. Africa. Economic Policy.

**AB** Botswana has had the highest rate of per-capita growth of any country in the world in the last 35 years. This rapid development was achieved by following orthodox economic policies. How Botswana sustained these policies is a puzzle because typically in Africa, "good economics" has proved not to be politically feasible. In this paper we suggest that good policies were chosen in Botswana because good institutions, which we refer to as institutions of private property, were in place. Botswana possessed relatively inclusive pre-colonial institutions, placing constraints on political elites. Second, the effect of British colonialism on Botswana was minimal, and did not destroy these institutions. Third, following independence, maintaining and strengthening institutions of private property were in the economic interests of the elite. Fourth, Botswana is very rich in diamonds, which created enough rents that no group wanted to challenge the status quo at the expense of "rocking the boat". Finally, we emphasize that this situation was reinforced by a number of critical decisions made by the post-independence leaders, particularly Presidents Khama and Masire.

**PD** August 2001. **TI** Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A. **AA** Acemoglu and Johnson: MIT. Robinson: UC Berkeley. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/38; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 35. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** F02, N10, O14, O57, P52. **KW** Geography. Institutions. Property Rights. Divergence. Industrialization. Urbanization. Population.

**AB** Among countries colonized by European powers during the past 500 years those that were relatively rich in 1500 are now relatively poor. We document this reversal using data on urbanization patterns and population density, which, we argue, proxy for economic prosperity. This reversal is inconsistent with a view that links economic development to geographic factors. According to the geography view, societies that were

relatively rich in 1500 should also be relatively rich today. In contrast, the reversal is consistent with the role of institutions in economic development. The expansion of European overseas empires starting in the 15th century led to a major change in the institutions of the societies they colonized. In fact, the European intervention appears to have created an "institutional reversal" among these societies, in the sense that Europeans were more likely to introduce institutions encouraging investment in regions that were previously poor. This institutional reversal accounts for the reversal in relative incomes. We provide further support for this view by documenting that the reversal in relative incomes took place during the 19th century, and resulted from societies with good institutions taking advantage of industrialization opportunities.

**PD** October 2001. **TI** Factor Prices and Technical Change: From Induced Innovations to Recent Debates. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/39; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 30. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** E25, J31, O31, O33. **KW** Biased Technical Change. Endogenous Technical Change. Distribution of Income. Growth. Innovation. Skill-Biased Technical Change. Technology.

**AB** This paper revisits the induced innovation literature of the 1960s to which Phelps was a major contributor (Drandakis and Phelps, 1965). This literature was the first systematic study of the determinants of technical change and also the first investigation of the relationship between factor prices and technical change. I present a modern reformulation of this literature based on the tools developed by the endogenous growth literature. This reformulation confirms many of the insights of the induced innovations literature, but reveals a new force, which I refer to as the market size effect: there will be more technical change directed at more abundant factors. I use this modern reformulation to shed light on two recent debates: (1) why is technical change often skill biased, and why has it become more skill biased during recent decades? (2) What is the role of human capital differences in accounting for income differences across countries? Interestingly, an application of this modern reformulation to these debates also reiterates some of the insights of another important paper by Phelps, Nelson and Phelps (1996).

**PD** December 1999. **TI** How Large are the Social Returns to Education? Evidence from Compulsory Schooling Laws. **AU** Acemoglu, Daron; Angrist, Joshua. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7444; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 22. **PR** \$5.00. **JE** D62, I21, J24, J31, O15. **KW** Returns to Schooling. Education.

**AB** Average schooling in U.S. states is highly correlated with state wage levels, even after controlling for the direct effect of schooling on individual wages. We use an instrumental variables strategy to determine whether this relationship is driven by social returns to education. The instruments for average schooling are derived from information on the child labor laws and compulsory attendance laws that affected men in our Census' samples, while quarter of birth is used as an instrument for individual schooling. This results in precisely estimated private returns to education of about seven percent, and small social returns, typically less than one percent, that are

not significantly different from zero.

#### Adams, James D.

**PD** March 2000. **TI** The Influence of Federal Laboratory R&D on Industrial Research. **AU** Adams, James D.; Jensen, Jeffrey L.; Chiang, Eric P. **AA** Adams: University of Florida and NBER. Jensen: Federal Reserve Bank of Cleveland. Chiang: University of Florida. **SR** National Bureau of Economic Research Working Paper: 7612; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C25, O31, O33, O38. **KW** CRADAs. Research Laboratories. Knowledge Spill-Over.

**AB** In this paper we study the influence of federal laboratory R&D on industrial research using a sample of industrial laboratories. In head-to-head comparisons with alternative measures, we find that Cooperative Research and Development Agreements or CRADAs, are the primary channel by which federal laboratories increase the patenting and R&D of industrial laboratories. With a CRADA industrial laboratories patent more, spend on company-financed R&D and spend more of their own money on federal laboratories. Without a CRADA patenting stays about the same and only federally funded R&D increases, mostly because of direct subsidies by government. These results are consistent with the literature on endogenous R&D spillovers, which emphasizes that knowledge spills over when recipients work at making it spill over. CRADAs are legal agreements between federal laboratories and firms to work together on joint research. They are backed by real budgets and accompanied by cost sharing that could bind the parties together in joint theory and in fact CRADAs may be more beneficial to firms than other public-private interactions, precisely because of the mutual effort that they require of firms and government laboratories.

#### Adda, Jerome

**PD** July 2000. **TI** The Dynamics of Car Sales: A Discrete Choice Approach. **AU** Adda, Jerome; Cooper, Russell. **AA** Adda: University College, London. Cooper: Boston University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7785; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D12, D91, E21. **KW** Automobiles, Purchasing, Consumer Choice.

**AB** Mankiw (1982) explores the Permanent Income Hypothesis implication that durable expenditures follow an ARMA (1,1) representation. He finds that durable expenditures are represented by an AR (1) process which implies that the rate of depreciation of durables, under the PIH model, is 100 percent. This finding presents a puzzle. Our paper builds on earlier work which attempts to explain this puzzle by considering the aggregation of the discrete dynamic choices of heterogeneous households. We implement this approach by estimating a dynamic discrete choice model of car replacement. We find that through aggregation we can explain both the AR and MA components of Mankiw's results. Further, we find that our model is able to match a VAR representation of car sales, prices and income. We find that most of the variation in car sales is due to shocks which influence the replacement probability.

#### Adsera, Alicia

**PD** March 1998. **TI** Sectoral Spillovers and the Price of Land: A Cost Analysis. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 413/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 31. **PR** no charge. **JE** R11, R12, R30. **KW** Local Externalities. Spillovers. Regional Growth. Cost Functions. Economic Geography.

**AB** If firms and workers are free to move within a country, they will choose to locate in areas where local attributes enhance their productivity. In equilibrium, however, differences in local productivity should be offset by higher local prices. In this paper, I estimate both local sectoral cost functions in the panel of US states for 1969-1992 and across MSAs in 1990, and rent and wage hedonic equations for individual households and workers to study, first, what determines different productivity advantages across areas and, second, the extent to which productivity gains from local attributes vary across sectors. I find robust evidence of productivity gains from sectoral and total concentration of activity, from human capital externalities and from sectoral diversity. Gains are larger in sectors with higher local land shares, finance and nondurables.

**PD** March 1998. **TI** Must We Choose? European Unemployment, American Inequality and the Impact of Education and Labor Market Institutions. **AU** Adsera, Alicia; Boix, Carles. **AA** Adsera: Universitat Autònoma de Barcelona. Boix: Ohio State University. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 414/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 42. **PR** no charge. **JE** D31, E24, E25, J23, J24. **KW** Unemployment. Income Distribution. Inequality. Education. Labor Markets.

**AB** In the last fifteen years two equilibria have arisen in the advanced world. On the one hand, wage dispersion has widened in those countries where unemployment has remained low (with cyclical variations). On the other hand, wherever income inequality has remained unchanged, unemployment has shot upwards. To account for these distinct patterns, a combination of current theories -- focusing separately on either technological and trade shocks or institutional arrangements -- is required. In a simple model, we show that, controlling for the skills of the population, the effects of exogenous shocks are contingent on the institutional rules in place. Economies with generous unemployment allowances adjust through subsidized unemployment. Lower social protection leads to less unemployment but wider inequality. The level of qualifications of the labor force determines the extent of the adjustment for a given institutional arrangement. Second, the empirical part successfully tests the hypothesis for the sample of European regions and US states.

#### Agenor, Pierre-Richard

**PD** December 1999. **TI** Financial Sector Inefficiencies and Coordination Failures Implications for Crisis Management. **AU** Agenor, Pierre-Richard; Aizenman, Joshua. **AA** Agenor: IMF and World Bank Institute. Aizenman: Dartmouth and NBER. **SR** National Bureau of Economic Research Working Paper: 7446; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138.

Website: [www.nber.org](http://www.nber.org). PG 16. PR \$5.00. JE E44, F36, I31. KW Crisis Management. Financial Intermediation. Highly Indebted Firms.

**AB** This paper analyzes the implication of inefficient financial intermediation for crisis management in a country where firms are highly-indebted. The analysis is based on a model in which firms rely on bank credit to finance their working capital needs and lenders face high state verification and enforcement costs of loan contracts. The analysis shows that higher contract enforcement and verification costs, lower expected productivity, or high volatility, may shift the economy to the wrong side of the debt Laffer curve, with potentially sizable employment and output losses. The main implication of this analysis for the current policy debate on crisis management is East Asia is that Debt reduction, in addition to debt rescheduling, may be required as part of the process of reducing financial sector inefficiencies.

### Aghion, Philippe

**PD** May 2000. **TI** A Model of Market-Enhancing Infrastructure. **AU** Aghion, Philippe; Schankerman, Mark. **AA** Aghion: University College London, Centre for Economic Policy Research, and EBRD. Schankerman: London School of Economics, Centre for Economic Policy Research, and EBRD. **SR** CEPR Discussion Paper: 2462; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$8 or 8 euros. JE L13, O12, P20. KW Infrastructure. Heterogeneity. Competition. Market Selection. Restructuring. **AB** This paper develops a framework for evaluating the social returns to infrastructure investments that intensify product market competition. A circular model with asymmetric production costs is used both for incumbent firms and potential entrants, where unit transport cost measures the intensity of competition (quality of infrastructure). The static and dynamic welfare effects of infrastructure investment that lowers unit transport cost are analyzed, focusing on market selection among asymmetric firms, restructuring, and entry. These welfare effects depend on the initial level of market development, as measured by the distribution of costs in the economy, the number of incumbent firms, the degree of market competition, and restructuring and entry costs. The model generates an endogenous demand for infrastructure investment, and the possibility of a low infrastructure trap that arises from cost heterogeneity rather than from any kind of non-convexities. The relative welfare effects of reducing transport, restructuring and entry costs is simulated, and in each case the fraction of social returns which traditional cost-benefit analysis would fail to capture is evaluated.

### Agresti, Anna-Maria

**PD** December 2001. **TI** Some Stylised Facts on the Euro Area Business Cycle. **AU** Agresti, Anna-Maria; Mojon, Benoit. **AA** European Central Bank. **SR** European Central Bank Working Paper: 95; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 16. PR no charge. JE E32, E42, E52. KW Euro Area. Business Cycle. Monetary Policy.

**AB** This paper presents stylised facts about the business cycle of the euro area. The results suggest that the stylised facts for the euro area economy and the US are very similar. The

magnitude of the fluctuations in consumption, investment, prices, inflation, interest rate, monetary aggregates relative to the fluctuations of GDP are very similar in the two monetary unions. There is also high synchronicity of the national cycles and the euro area aggregate cycle. This synchronicity is observed for the main GDP components as well as for interest rates and it is particularly high for the largest countries of the euro area and for countries of the core ERM. These results are not sensitive to a different aggregation method chosen to build euro area aggregates. However, we do find differences between the euro area and the member countries when looking at what variables are predicting inflation or GDP.

### Aizenman, Joshua

**TI** Financial Sector Inefficiencies and Coordination Failures Implications for Crisis Management. **AU** Agenor, Pierre-Richard; Aizenman, Joshua.

### Alesina, Alberto

**PD** March 2000. **TI** The Determinants of Trust. **AU** Alesina, Alberto; La Ferrara, Eliana. **AA** Alesina: Harvard University and NBER. La Ferrara: Universita' Bocconi and IGIER. **SR** National Bureau of Economic Research Working Paper: 7621; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 16. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D11, D63, D69. KW Trust. Trauma. Discrimination. Success.

**AB** Both individual experiences and community characteristics influence how much people trust each other. Using data drawn from US localities we find that the strongest factors that reduce trust are: i) a recent history of traumatic experiences, even though the passage of time reduces this effect fairly rapidly; ii) belonging to a group that historically felt discriminated against, such as minorities (black in particular) and, to a lesser extent, women; iii) being economically unsuccessful in terms of income and education; iv) living in a racially mixed community and/or in one with a high degree of result may be an indication that the American melting pot at least up to a point works, in terms of homogenizing attitudes of different cultures, even though racial cleavages leading to low trust are still quite high.

### Almond, Douglas V.

**PD** September 2001. **TI** Civil Rights, the War on Poverty, and Black-White Convergence in Infant Mortality in Mississippi. **AU** Almond, Douglas V.; Chay, Kenneth Y.; Greenstone, Michael. **AA** Almond: UC Berkeley. Chay: UC Berkeley and NBER. Greenstone: University of Chicago and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 43; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). PG 30. PR no charge. JE I11, I12, I18, J11, J15. KW Mississippi Delta. Infant Mortality. Segregation. Medical Care.

**AB** We document a large reduction in the black infant mortality rate (IMR) from 1965 to 1971 relative to pre-existing trends. While the black-white IMR gap narrowed in all regions of the U.S., the convergence was particularly large in the rural South. The large relative improvements in the rural South were driven by a reduction in deaths among black infants occurring

1-12 months after birth. Since the changes are largest in rural Mississippi, we further investigate the role of minority medical care access in Mississippi using unique county-level data. The data indicate that before 1965 there was severe racial segregation in medical care access in the predominantly black counties in the Mississippi Delta. After 1965, there appears to have been a dramatic integration of public hospitals and improvements in access for black mothers and infants. In the Mississippi Delta, while the black IMR increased from 5-in-100 to 6-in-100 from 1955-65, it was cut nearly in half by 1971. This change was driven by a remarkable decrease in causes of post-neonatal death considered preventable by medical treatment, such as diarrhea and pneumonia. We conclude that the integration of hospitals in Mississippi played a causal role.

#### Ambrose, Brent W.

**PD** March 2000. **TI** Pricing Upward-Only Adjusting Leases. **AU** Ambrose, Brent W.; Hendershott, Patric H.; Klosek, Malgorzata M. **AA** Ambrose: University of Kentucky. Hendershott: University of Aberdeen and NBER. Klosek: University of Wisconsin-Milwaukee. **SR** National Bureau of Economic Research Working Paper: 7622; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 15. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** G12, R14, R33. **KW** Lease Instruments. Upward-Only Adjustments.

**AB** This paper presents a stochastic pricing model of a unique, path-dependent lease instrument common in the United Kingdom and numerous commonwealth countries, the upward-only adjusting lease. In this lease, the rental rate is fixed at lease commencement but will be reset to the market rate at predetermined intervals (usually every five years) if it exceeds the contract rent. Numerical results indicate how the initial coupon rate should be set relative to that on a symmetric up-and-downward adjusting "variable rate" lease under various economic conditions (level of real interest rates and expected drift and volatility of the underlying rental service flow). We also consider the calculation of effective rents when free rent periods are given during either a market collapse or a steady-state drift.

#### Andersen, Torben M.

**PD** January 2000. **TI** Noisy Financial Signals and Persistent Effects of Nominal Shocks in Open Economies. **AU** Andersen, Torben M.; Beier, Niels C. **AA** University of Aarhus. **SR** CEPR Discussion Paper: 2360; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 48. **PR** 5 pounds, \$8 or 8 euros. **JE** E32, F41. **KW** Exchange Rates. Imperfect Information. Learning. Nominal Shocks. Persistence. Temporary Shocks. Permanent Shocks.

**AB** Floating exchange rates display substantial short-run volatility causing a nontrivial information problem in disentangling temporary from permanent changes. Although agents observe current market signals they are imperfectly informed about the future, but they accumulate information and learn over time. We analyze how this basic information problem in the presence of one-period nominal contracts affects the dynamic adjustment process to nominal shocks. Specifically we use a general equilibrium two-country model with specialized production and one-period nominal contracts and

consider the propagation of nominal shocks. Informational problems are shown to have important qualitative and potentially strong quantitative importance for the propagation of nominal shocks.

#### Anderson, James E.

**PD** May 2000. **TI** Trade Implies Law: The Power of the Weak. **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: 7702; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D23, F11. **KW** Hold Up. Rule of Law. Anarchic Trade. Trading Costs.

**AB** Without the rule of law, traders who incur trading costs can be held up by counter-parties who are stronger in anarchic bargaining. The favorable terms which the latter extract can overcrowd that side of the market, dissipating the benefits. We establish plausible necessary and sufficient conditions for a move from anarchy toward the rule of law to benefit all traders. The rule of law might be delayed, not only by the difficulties of setting up legal institutions, but by monopolistic traders that have meantime emerged to address the inefficiencies of anarchic trade. The monopolistic traders must also guarantee traders against holdup.

#### Anderson, Simon J.

**PD** December 1999. **TI** Market Provision of Public Goods: The Case of Broadcasting. **AU** Anderson, Simon J.; Coate, Stephen. **AA** Anderson: University of Virginia. Coate: Cornell University. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/017; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmppo/publications.htm](http://www.bris.ac.uk/cmppo/publications.htm). **PG** 51. **PR** no charge. **JE** D43, L13, L82. **KW** Public Goods. Broadcasting. Advertising. Market Failure.

**AB** The main focus of this paper is to explore the ability of the market to provide broadcasting efficiently, when broadcasters earn revenues by selling time to advertisers and advertisements provide information to consumers about new products. The paper shows that market provided broadcasts may feature too few or too many commercials, depending on the relative sizes of their social benefit and their nuisance cost to viewers. In addition, the market may provide too few or too many types of programs depending on the relative size of viewing benefits and the benefits to advertisers from contacting viewers. The possibility of both under and over-provision of advertisements and programming, means that there are ranges of the parameters for which the market provides broadcasting close to efficiency. The paper also considers whether the market performs better under monopoly or competition and studies how the ability to charge viewers subscription prices impacts market performance.

#### Anderton, Robert

**PD** May 2001. **TI** Exchange Rate Volatility and Euro Area Imports. **AU** Anderton, Robert; Skudelny, Frauke. **AA** European Central Bank. **SR** European Central Bank Working Paper: 64; European Central Bank, Eurotower,

Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 32. PR no charge. JE F15, F31. KW Import Demand. Exchange Rate Uncertainty. Monetary Union.

AB This paper estimates an import demand function for the euro area vis-a-vis its main extra-area trading partners which takes into account the possible impact of both intra- and extra-euro area exchange rate uncertainty. Our theoretical model captures various mechanisms by which exchange rate volatility may influence the demand for extra-euro area imports. If importers are risk averse, the model predicts not only a negative effect of exchange rate volatility, but also substitution possibilities between extra- and intra-area imports due to differences in the degree of extra- and intra-area exchange rate volatility. Using quarterly data for the past eleven years, panel estimates suggest that extra-area exchange rate volatility may have decreased extra-euro area imports by around 10 per cent. Finally, we also provide some limited evidence that differences in extra- and intra-area exchange rate volatility may have resulted in substitution between extra- and intra- area imports.

#### Ang, Andrew

PD July 2000. TI Why Stocks May Disappoint. AU Ang, Andrew; Bekaert, Geert; Liu, Jun. AA Ang: Columbia University. Bekaert: Columbia University and National Bureau of Economic Research. Liu: University of California, Los Angeles. SR National Bureau of Economic Research Working Paper: 7783; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 26. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE C11, D81, G11. KW Equity Premium. Risk Aversion. Disappointment Aversion. Portfolio Choice.

AB Recently much progress has been made in developing optimal portfolio choice models accommodating time-varying opportunity sets, but unless investors are unreasonably risk averse, optimal holdings include unreasonably large equity positions. One reason is that most studies assume treatment of both static and dynamic portfolio choice using the Disappointment Aversion preferences of Gul (1991). While different from the Kahneman-Tversky (1979) loss aversion utility, these preferences imply asymmetric aversion to gains versus losses and are consistent with the tendency of some people to like lottery-type gambles but dislike stock investments. By calibrating a number of data generating processes to actual US data on stock and bond returns, very reasonable portfolios for moderately disappointment-averse investors with utility functions exhibiting low curvature are found. Disappointment aversion preferences affect intertemporal hedging demands and the state dependence of asset allocation in such a way as to not be replicable by standard expected utility functions with higher curvature. Furthermore, it is easy to reconcile the large equity premium observed in the data with disappointment aversion utility of low curvature and reasonable disappointment aversion.

#### Angeletos, George-Marios

TI Rent Seeking/Corruption and Growth: A Simple Model. AU Kollintzas, Tryphon; Angeletos, George-Marios.

#### Angelini, Elena

PD April 2001. TI A Multi-Country Trend Indicator for Euro Area Inflation: Computation and Properties.

AU Angelini, Elena; Henry, Jerome; Mestre, Ricardo. AA European Central Bank. SR European Central Bank Working Paper: 60; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 40. PR no charge. JE E52, E58. KW Inflation. Euro Area. Dynamic Factors. Forecast.

AB This paper applies the "diffusion indices" approach proposed by Stock and Watson [1998] to the euro area. Following their methodology a set of factors are extracted from a balanced and unbalanced panel dataset comprising nominal variables for 11 countries of the euro area. The estimated factors appear to be fairly stable over time. It is also shown that the first factor is cointegrated with area wide HICP and private consumption deflator supporting the idea that it represents "a common trend of inflation" for the euro area. The other factors, which are stationary instead, seem to capture dispersion of inflation across countries. There is moreover evidence of unilateral causality from the first factor with respect to HICP, suggesting that this factor could be valuably employed in forecasting euro area inflation.

PD April 2001. TI Diffusion Index-Based Inflation Forecasts for the Euro Area. AU Angelini, Elena; Henry, Jerome; Mestre, Ricardo. AA European Central Bank. SR European Central Bank Working Paper: 61; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 46. PR no charge. JE C53, E31, E37. KW Forecast. Euro Area. Dynamic Factors. Inflation.

AB Diffusion indexes based on dynamic factors have recently been advocated by Stock and Watson (1998), and further used to perform forecasting tests by the same authors on US data. This technique is explored for the euro area using a multi-country data set and a broad array of variables, in order to test the inflation forecasting performance of extracted factors at the aggregate euro area level. First, a description of factors extracted from different data sets is performed using a number of different approaches. Conclusions reached are that nominal phenomena in the original variables might be well captured in-sample using the factor approach. Out-of-sample tests have more ambiguous interpretation, as factors seem to be good leading indicators of inflation, but the comparative advantage of the factors is less clear. Nevertheless, alternative indicators such as unemployment or money growth do not outperform them.

#### Angeloni, Ignazio

PD May 1999. TI From the ERM to the Euro: New Evidence on Economic and Policy Convergence among EU Countries. AU Angeloni, Ignazio; Dedola, Luca. AA Angeloni: European Central Bank. Dedola: Banca d'Italia, Roma. SR European Central Bank Working Paper: 04; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 33. PR no charge. JE E32, E52, F02. KW EMU. Optimum Currency Areas. Monetary Policy Rules.

AB Skeptical views on EMU are usually cast around three arguments. First, the EU does not satisfy "Optimum Currency Area" (OCA) conditions. Second, heterogeneous economic and financial structures will produce differences in monetary transmission. Third, the shift from domestic to area-wide considerations may give rise to conflicts in the decision making

of the European Central Bank (ECB). While we do not address the second of these concerns, we present some evidence that goes in the direction of mitigating the first and the third. First, we show that cross-country correlation of cycles and inflation have risen significantly in recent years among EMU participants, implying a tendency towards a fulfillment of the OCA conditions. Second, we provide evidence that the monetary policy rules followed by the EMU participating central banks have tended to converge. The introduction of the euro is a step in a gradual process, not a one-time regime change.

### Angrist, Joshua

**PD** August 2001. **TI** Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments. **AU** Angrist, Joshua; Krueger, Alan B. **AA** Angrist: MIT and NBER. Krueger: Princeton University and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/33; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 20. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** B23, C13, C21, C22, C23, J31. **KW** Simultaneous Equations. Two-Stage Least Squares. Causal Inference.

**AB** The method of instrumental variables was first used in the 1920s to estimate supply and demand elasticities, and later used to correct for measurement error in single-equation models. Recently, instrumental variables have been widely used to reduce bias from omitted variables in estimates of causal relationships such as the effect of schooling on earnings. Intuitively, instrumental variables methods use only a portion of the variability in key variables to estimate the relationships of interest: if the instruments are valid, that portion is unrelated to the omitted variables. We discuss the mechanics of instrumental variables, and the qualities that make for a good instrument, devoting particular attention to instruments that are derived from "natural experiments." A key feature of the natural experiments approach is the transparency and refutability of identifying assumptions. We also discuss the use of instrumental variables in randomized experiments.

**PD** November 1999. **TI** New Evidence on Classroom Computers and Pupil Learning. **AU** Angrist, Joshua; Lavy, Victor. **AA** Angrist: MIT and NBER. Lavy: Hebrew University. **SR** National Bureau of Economic Research Working Paper: 7424; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 18. **PR** \$5.00. **JE** H41, I28, J24. **KW** Classroom Learning. School Technology.

**AB** The question of how technology affects learning has been at the center of recent debates over educational inputs. In 1994, the Israeli State Lottery sponsored the installation of computers in many elementary and middle schools. This program provides an opportunity to estimate the impact of computerization on both the instructional use of computers and on pupils' test scores. Results from a survey of Israeli school-teachers show that the influx of new computers increased teachers' use of computer-aided instruction (CAI) in the 4th grade, with a smaller effect on CAI in 8th grade. CAI does not appear to have had educational benefits that translated into higher test scores. Results for 4th graders show sharply lower Math scores in the group that was awarded computers, with smaller (insignificant) negative effect on verbal scores. Results for 8th graders' tests

scores are very imprecise, probably reflecting the much weaker first-stage relationship between program funding and the use of CAI in 8th grade. The estimates for 8th grade Math scores are also negative, however.

**TI** How Large are the Social Returns to Education? Evidence from Compulsory Schooling Laws. **AU** Acemoglu, Daron; Angrist, Joshua.

### Aoyagi, Masaki

**PD** May 2000. **TI** Bid Rotation and Collusion in Repeated Auctions. **AA** University of Pittsburgh. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/29; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 25. **PR** no charge. **JE** D44. **KW** Auction Markets. Independent Private Value (IPV).

**AB** This paper studies bidder collusion with communication in repeated auctions when no side transfer is possible. It presents a simple dynamic bid rotation scheme which coordinates bids based on communication history and enables intertemporal transfer of bidders' payoffs. The paper derives a sufficient condition for such a dynamic scheme to be an equilibrium and characterizes the equilibrium payoffs in a general environment with affiliated signals and private or interdependent values. With independent private value (IPV), it is shown that this dynamic scheme yields a strictly higher payoff to the bidders than any static collusion scheme which coordinates bids based only on the current reported signals.

### Athey, Susan

**PD** June 2000. **TI** Single Crossing Properties and the Existence of Pure Strategy Nash Equilibria in Games of Incomplete Information. **AA** MIT and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 97/11R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 39. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C72, C73, D82. **KW** Incomplete Information. Nash Equilibrium. Auctions. Pricing Games. Signaling Games. Supermodular Games. Single Crossing Property.

**AB** This paper analyzes a class of games of incomplete information where each agent has private information about her own type, and the types are drawn from an atomless joint probability distribution. The main result establishes existence of pure strategy Nash equilibria (PSNE) under a condition we call the single crossing condition (SCC), roughly described as follows: whenever each opponent uses a nondecreasing strategy (in the sense that higher types choose higher actions), a player's best response strategy is also nondecreasing. When the SCC holds, a PSNE exists in every finite-action game. Further, for games with continuous payoffs and a continuum of actions, there exists a sequence of PSNE to finite-action games that converges to a PSNE of the continuum-action game. These convergence existence results also extend to some classes of games with discontinuous payoffs, such as first-price auctions, where bidders may be heterogeneous and reserve prices are permitted. Finally, the paper characterizes the SCC based on properties of utility functions and probability distributions over types. Applications include first-price, multi-unit, and all-pay auctions; pricing games with incomplete information about

costs; and noisy signaling games.

**PD** June 2000. **TI** The Value of Information in Monotone Decision Problems. **AU** Athey, Susan; Levin, Jonathan. **AA** Athey: MIT and NBER. Levin: Yale University and Stanford University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 98/24R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 24. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C44, C61, D81. **KW** Bayesian Decision Problems. Value of Information. Stochastic Dominance. Stochastic Orderings. Uncertainty.

**AB** This paper studies decision problems under uncertainty where a decision-maker observes an imperfect signal about the true state of the world. We analyze the information preferences and information demand of such decision-makers, based on properties of their payoff functions. We restrict attention to "monotone decision problems," whereby the posterior beliefs induced by the signal can be ordered so that higher actions are chosen in response to higher signal realizations. Monotone decision problems are frequently encountered in economic modeling. We provide necessary and sufficient conditions for all decision makers with different classes of payoff functions to prefer one information structure to another. We also provide conditions under which two decision-makers in a given class can be ranked in terms of their marginal value for information and hence information demand. Applications and examples are given.

**PD** June 2000. **TI** Information and Competition in U.S. Forest Service Timber Auctions. **AU** Athey, Susan; Levin, Jonathan. **AA** Athey: MIT and NBER. Levin: Yale University and Stanford University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 99/12R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 26. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D44, D81, D82, L73. **KW** Forest Service. Timber Auctions.

**AB** This paper studies strategic bidding in U.S. Forest Service (FS) timber auctions. We analyze the equilibrium of these auctions. The theory predicts that each bidder will strategically distort, or "skew," its bid based on its private estimates of the species proportions, bidding a higher profit margin on species that it believes to be underestimated by the FS. Using a dataset that includes both the public ex ante FS estimates and the ex post realizations of the tract characteristics, we show that empirically: (i) ex ante bids are correlated with ex post tract characteristics, (ii) in oral auctions, higher bids incorporate more information, (iii) higher bids are more skewed, and (iv) while skewing leads to systematic gaps between the calculated bids and the revenue received by the FS, firms anticipate this and bid more aggressively when there is potential for profitable skewing. This evidence supports the hypothesis that bidders do possess private information and that this private information plays a role in determining the winner of the auction, but competition prevents the firms from capturing large rents. Finally, we show that bidder behavior is consistent with risk aversion.

**PD** June 2000. **TI** Optimal Collusion With Private Information. **AU** Athey, Susan; Bagwell, Kyle. **AA** Athey: MIT and NBER. Bagwell: Columbia University and NBER. **SR** Massachusetts Institute of Technology, Department of

Economics Working Paper: 99/17R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 44. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C73, L13, L41. **KW** Collusion. Cartel Design. Repeated Games. Private Information. Mechanism Design. Auctions. Information-Sharing. Communication.

**AB** We consider an infinitely-repeated Bertrand game, in which prices are publicly observed and each firm receives a privately-observed, i.i.d. cost shock in each period. Productive efficiency is possible only if high-cost firms are willing to relinquish market share. In the most profitable collusive schemes, firms implement productive efficiency, and high-cost firms are favored with higher expected market share in future periods. If types are discrete, there exists a discount factor strictly less than one above which first-best profits can be attained purely through history-dependent reallocation of market share between equally-efficient firms. We provide further characterizations and several computational examples. We next examine different institutional features. We find that firms may find explicit communication (smoke-filled rooms) as to costs beneficial after some histories but not others. We show that if firm-level behavior is not publicly observable, the best collusive scheme sacrifices all productive efficiency. Finally, if firms can make explicit side-payments and these entail any inefficiency (e.g., if they are illegal and bear some risk of detection), then optimal collusive equilibria are non-stationary and thus involve the use of future market-share favors.

**PD** September 2000. **TI** Characterizing Properties of Stochastic Objective Functions. **AA** MIT and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 96/01R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 28. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C61, D81. **KW** Stochastic Dominance. Supermodularity. Quasi-Supermodularity. Single Crossing Properties. Concavity. Uncertainty. Investment. Comparative Statics.

**AB** This paper develops tools for analyzing properties of stochastic objective functions. The relationship between properties of the primitive functions, the utility function  $u$  and probability distribution  $F$ , and properties of the stochastic objective are analyzed. The methods apply when the utility function is restricted to lie in a set of functions which is a "closed convex cone" (e.g., nondecreasing functions, concave functions, or supermodular functions). Approaches previously applied to characterize monotonicity of  $V$  (that is, stochastic dominance theorems) can be used to establish other properties of  $V$  as well. The first part of the paper establishes necessary and sufficient conditions for  $V$  to satisfy "closed convex cone properties," such as supermodularity, in the parameter  $\theta$ . Then, we consider necessary and sufficient conditions for monotone comparative statics predictions. A new property of payoff functions is introduced, called  $l$ -supermodularity, which is shown to be necessary and sufficient for comparative statics predictions. The results are illustrated with applications.

### Atkinson, Adele

**TI** The Implementation of the Performance Threshold in UK Secondary Schools. **AU** Croxson, Bronwyn; Atkinson, Adele.



**TI** Incentives in Secondary Schools: The Impact of the Performance Threshold. **AU** Croxson, Bronwyn; Atkinson, Adele.

### Attanasio, Orazio P.

**PD** May 2000. **TI** Credit Constraints in the Market for Consumer Durables: Evidence from Micro Data on Car Loans. **AU** Attanasio, Orazio P.; Goldberg, Pinelopi K.; Kyriazidou, Ekaterini. **AA** Attanasio: University College London and NBER. Goldberg: Columbia University and NBER. Kyriazidou: University of California, Los Angeles. **SR** National Bureau of Economic Research Working Paper: 7694; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 24. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D12, E22, G21. **KW** Credit Constraints. Car Loans. Consumer Loans.

**AB** We investigate the empirical significance of borrowing constraints in the market for consumer loans. We set up a theoretical model of consumer loan demand, which in the presence of credit rationing implies restrictions on the elasticities of loan demand with respect to the interest rate and the maturity of the loan. We estimate these elasticities and test the theoretical implications using micro data from the Consumer Expenditure Survey (1984-1995) on auto loan contracts. The econometric specification that we employ accounts for important features of the data: selection, censoring, and simultaneity. Our results suggest that credit constraints are binding for some groups in the population, in particular for young and low-income households.

### Autor, David H.

**PD** April 2000. **TI** Why Do Temporary Help Firms Provide Free General Skills Training? **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7637; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 38. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** D82, J31. **KW** Worker Quality. Training. Temporary Help Supply.

**AB** Nominally free, unrestricted training in portable computer skills is offered by the majority of U.S. temporary help supply (THS) establishments, a practice that is inconsistent with the competitive model of training. This paper asks why temporary help firms provide free general skills training. The answer proposed is that in addition to skills formation, training plays an informational role at THS firms by eliciting private information about worker ability. The model is built on the premise that training is more productive and therefore valuable to high ability workers. Firms offer a package of training and initially lower wages that induces self-selection. Workers of high-perceived ability choose training in anticipation of a steeper wage profile while low ability workers are deterred by limited expected gains. Firms profit from their sunk training investment via their short-run informational advantage about ability and thereby limited monopsony power. The analysis demonstrates that beyond providing spot market labor, THS firms gather and sell information about worker quality to clients. The rapid growth of THS as a labor market information broker implies that the demand for worker screening is rising.

**PD** May 2001. **TI** The Rise in Disability Reciprocity and the Decline in Unemployment. **AU** Autor, David H.;

Duggan, Mark G. **AA** Autor: MIT and NBER. Duggan: University of Chicago and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/15; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 41. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** H53, I12, J68. **KW** Disability. Social Security. Unemployment. Inequality. Low Skilled Workers.

**AB** Between 1984 and 2000, the share of non-elderly adults receiving benefits from the Social Security Disability Insurance (DI) and Supplemental Security Income (SSI) programs rose from 3.1 to 5.3 percent. We trace this growth to reduce screening stringency and, due to the interaction between growing wage inequality and a progressive benefits formula, a rising earnings replacement rate. We explore the implications of these changes for the level of labor force participation among the less skilled and their employment responses to adverse employment shocks. Following program liberalization in 1984, DI application and reciprocity rates became two to three times as responsive to plausibly exogenous labor demand shocks. Contemporaneously, male and female high school dropouts became increasingly likely to exit the labor force rather than enter unemployment in the event of an adverse shock. The liberalization of the disability program appears to explain both facts. Accounting for the role of disability in inducing labor force exit among the low-skilled unemployed, we calculate that the U.S. unemployment rate would be two-thirds of a percentage point higher at present were it not for the liberalized disability system.

**PD** June 2001. **TI** The Skill Content of Recent Technological Change: An Empirical Exploration. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J. **AA** Autor: MIT and NBER. Levy: MIT and Russell Sage Foundation. Murnane: Harvard University and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/22; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 34. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** E23, J23, J31, O31, O33. **KW** Technological Change. Inequality. Computerization. Labor Demand. Skill Demand.

**AB** We apply an understanding of what computers do -- the execution of procedural or rules-based logic -- to study how computer technology alters job skill demands. We contend that computer capital (1) substitutes for a limited and well-defined set of human activities, those involving routine (repetitive) cognitive and manual tasks; and (2) complements activities involving non-routine problem solving and interactive tasks. Provided these tasks are imperfect substitutes, our model implies measurable changes in the task content of employment, which we explore using representative data on job task requirements over 1960-1998. Computerization is associated with declining relative industry demand for routine manual and cognitive tasks and increased relative demand for non-routine cognitive tasks. Shifts are evident within detailed industries, within detailed occupations, and within education groups within industries. Translating observed task shifts into educational demands, the sum of within-industry and within-occupation task changes explains thirty to forty percent of the observed relative demand shift favoring college versus non-college labor during 1970 to 1998, with the largest impact felt after 1980. Changes in task content within nominally identical

occupations explain more than half of the overall demand shift induced by computerization.

**PD** August 2001. **TI** Outsourcing at Will: The Contribution of Unjust Dismissal Doctrine to the Growth of Employment Outsourcing. **AA** MIT and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/32; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 27. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** J24, J32, J41, K31, L22. **KW** Temporary Help. Employment. Contingent Work. Employment Outsourcing. Wrongful Discharge Law. Employment Protection. Non-Wage Labor Costs. Labor Unions. Contracts. Specific Human Capital.

**AB** Over the past three decades, the U.S. Temporary Help Services (THS) industry grew five times more rapidly than overall employment. Contemporaneously, courts in 46 states adopted exceptions to the common law doctrine of employment at will that limited employers' discretion to terminate workers and opened them to litigation. This paper assess the contribution of "unjust dismissal" doctrine to THS employment and finds that it is substantial -- explaining 20 percent of the growth of THS between 1973 and 1995 and contributing a half million workers to THS in 2000. States with smaller declines in unionization also saw substantially more THS growth.

**PD** March 2002. **TI** The Rise in Disability Rolls and the Decline in Unemployment. **AU** Autor, David H.; Duggan, Mark G. **AA** Autor: UC Berkeley, MIT, and NBER. Duggan: University of Chicago and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 44; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: violet.berkeley.edu/~ir/cle/index.html. **PG** 32. **PR** no charge. **JE** H53, H55, I12, J21, J64, J68. **KW** Disability Insurance Income.

**AB** Between 1984 and 2001, the share of non-elderly adults receiving Social Security Disability Insurance income (DI) rose by 60 percent to 5.3 million beneficiaries. Rapid program growth despite improving aggregate health appears explained by reduced screening stringency, declining demand for less skilled workers, and an unforeseen increase in the earnings replacement rate. We estimate that the sum of these forces doubled the labor force exit propensity of displaced high school dropouts after 1984, lowering measured U.S. unemployment by more than half a percentage point. Steady state calculations augur a further 40 percent increase in the rate of DI receipt.

### Aziz, Jahangir

**PD** January 2001. **TI** China's Provincial Growth Dynamics. **AU** Aziz, Jahangir; Duenwald, Christoph. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/03; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** C21, O38, O49, O53. **KW** Provincial Growth. Convergence. Twin Peaks.

**AB** China's rapid overall growth since 1978 masks significant differences in relative economic performance across its provinces. This paper finds that, while per capita income of poor provinces are catching up with those in the rich, the relative income distribution appears to be stratifying into a bimodal distribution -- the coastal provinces gravitating toward

one mode, and the remaining provinces toward the other -- with economic structure and policies playing important roles in the growth dynamics.

### Azoulay, Pierre

**TI** Consumption Externalities and Diffusion in Pharmaceutical Markets: Anti-ulcer Drugs. **AU** Berndt, Ernst R.; Pindyck, Robert S.; Azoulay, Pierre.

### Bagwell, Kyle

**TI** Optimal Collusion With Private Information. **AU** Athey, Susan; Bagwell, Kyle.

### Baker, George P.

**PD** April 2000. **TI** Contractibility and Asset Ownership: On-Board Computers and Governance in U.S. Trucking. **AU** Baker, George P.; Hubbard, Thomas N. **AA** Baker: Harvard University and NBER. Hubbard: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 7634; 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** D23, L14, L22, L92. **KW** On Board Computer. Truck Ownership. Contractibility.

**AB** We investigate how the contractibility of actions affecting the value of an asset affects asset ownership. We examine this by testing how on-board computer (OBC) adoption affects truck ownership. We develop and test the proposition that adoption should lead to less ownership by drivers, particularly for hauls where drivers have the greatest incentive to drive in non-optimal ways or engage in rent-seeking behavior. We find evidence in favor: OBC adoption leads to less driver ownership, especially for long hauls and hauls that use specialized trailers. We also find that non-owner drivers with OBCs drive better than those without them. These results suggest that technology-enabled increases in contractibility may lead to less independent contracting and larger firms.

### Ball, Laurence

**PD** August 2001. **TI** Expectations and the Effects of Monetary Policy. **AU** Ball, Laurence; Croushore, Dean. **AA** Ball: Johns Hopkins University. Croushore: Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/12; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 20. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** D84, E52. **KW** Monetary Policy. Expectations.

**AB** This paper examines the predictive power of shifts in monetary policy, as measured by changes in the real federal funds rate, for output, inflation and survey expectations of these variables. We find that policy shifts have larger effects on actual output than on expected output; thus policy predicts errors in output expectations, a violation of rational expectations. Policy shifts do not predict errors in inflation expectations. We explain these results with a model in which agents systematically underestimate the effects of policy on aggregate demand. This model helps to explain the real effects of policy.

**Banerjee, Abhijit V.**

**PD** March 2000. **TI** The Two Poverities. **AA** MIT and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/16; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 23. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D31, I32, I38. **KW** Poverty. Credit. Insurance. Vulnerability. Desperation.

**AB** There are at least two distinct and inconsistent views of poverty. These views, which can be called "poverty as desperation" and "poverty as vulnerability", have different implications about anti-poverty policy. It is important to confront the conflict between them before data can be applied to tell us whether any of the views are right or even interesting.

**PD** July 2000. **TI** Inequality and Growth: What Can the Data Say? **AU** Banerjee, Abhijit V.; Duflo, Esther. **AA** Banerjee: Massachusetts Institute of Technology. Duflo: Massachusetts Institute of Technology and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7793; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D31, O41, P16. **KW** Growth Models.

**AB** This paper describes the correlations between inequality and the growth rates in cross-country data. Using non-parametric methods, it is shown that the growth rate is an inverted U-shaped function of net changes in inequality; changes in inequality (in any direction) are associated with reduced growth in the next period. The estimated relationship is robust to variations in control variables and estimation methods. This inverted U-curve is consistent with a simple political economy model, although efforts to interpret this model causally run into difficult identification problems. This non-linearity is sufficient to explain why previous estimates of the relationship between the level of inequality and growth are so different from one another.

**Barros Luis, Jorge**

**TI** A Two-Factor Model of the German Term Structure of Interest Rates. **AU** Cassola, Nuno; Barros Luis, Jorge.

**Barros, Pedro P.**

**PD** June 1999. **TI** Public and Private Provision of Health Care. **AU** Barros, Pedro P.; Martinez-Giralt, Xavier. **AA** Universidade Nova de Lisboa and Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 438/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 32. **PR** no charge. **JE** D43, I11, I18, L13. **KW** Mixed Oligopoly. Health Care.

**AB** An issue present in (nearly) all policy discussions of the past two decades is cost containment. The rise of health care expenditures to unpredicted levels has led to a general concern about costs. The introduction of market (or market-like) mechanisms has been advocated as one of the ways to keep costs under control. However, there is not much knowledge on the working of such markets, applied to the specific features and institutions of health care. Here, we compare the performance of different reimbursement schemes in a mixed public-private market structure. This allows for a discussion of

attractiveness of different regimes to a cost-concerned health authority.

**Basu, Kaushik**

**PD** October 2001. **TI** Efficiency Pricing, Tenancy Rent Control and Monopolistic Landlords. **AU** Basu, Kaushik; Emerson, Patrick M. **AA** Basu: Cornell University and MIT. Emerson: University of Colorado at Denver. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/40; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 16. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D42, K11, L12, L51, R31. **KW** Rent Control. Rent Regulation. Asymmetric Information. Adverse Selection. Monopoly.

**AB** We consider a model of "tenancy rent control" where landlords are not allowed to raise the rent on sitting tenants nor to evict them, though they are free to set the nominal rent when taking on a new tenant. If there is any inflation in the economy, landlords prefer to take short-staying tenants. Assuming that there is no way for landlords to tell a tenant's type, an adverse selection problem arises. If in this context, landlords have monopoly power -- which, as we argue, is indeed pervasive -- then the housing market equilibria can exhibit some unexpected properties. Most strikingly, landlords may prefer not to raise the rent even when there is excess demand for housing. Such rents are labeled "efficiency rents" in this paper and their existence shows that tenancy rent control can give rise to equilibria that look as if there were traditional rent control in which the rent of each unit has a flat ceiling. In other words, tenancy rent control may not achieve the flexibility, which it was expected to impart, to the system of traditional rent control.

**PD** October 2001. **TI** Is Literacy Shared Within Households? Theory And Evidence From Bangladesh. **AU** Basu, Kaushik; Narayan, Ambar; Ravallion, Martin. **AA** Basu: MIT and Cornell University. Narayan and Ravallion: The World Bank. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/44; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 24. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D19, J24, J31. **KW** Household Behavior. Literacy. Externalities. Earnings. Bangladesh.

**AB** A member of a collective-action household may or may not share the benefits of literacy with others in that household; the shared gains from doing so may well be offset by a shift in the balance of power within the family. Using household survey data for Bangladesh we find strong external effects of education on individual earnings. Holding a range of personal attributes constant, an illiterate adult earns significantly more in the non-farm economy when living in a family with at least one literate member. These effects are strongest, and most robust, for women. Omitted-variable bias cannot be ruled out, but would also be consistent with an intra-household externality of literacy.

**Bauer, Thomas**

**PD** May 2000. **TI** Employer Learning and the Returns to Schooling. **AU** Bauer, Thomas; Haisken-DeNew, John P. **AA** Bauer: IZA. Haisken-DeNew: GSOEP. **SR** CEPR Discussion Paper: 2445; Centre for Economic Policy Research,

Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$8 or 8 euros. JE J21, J24, J31. KW Employer Learning. Returns to Education. Tenure. Experience. On-the- Job Training.

AB This paper examines the dynamic role of education and experience as determinants of wages. It is hypothesized that an employee's education is an important signal to the employer initially. Over time, the returns to schooling should decrease with labor market experience and increase with initially unobserved ability, since the employer gradually obtains better information on the productivity of an employee. Replicating US studies using data from a large German panel data set (GSOEP), we find no evidence for the employer learning hypothesis for Germany. Differentiating blue-collar and white-collar workers and estimating quantile regressions, however, leads to the conclusion that employer learning takes place for blue-collar workers at the lower end of the wage distribution. We further show that information on the productivity of an employee is to a large extent private.

#### Beaudry, Paul

PD May 2000. TI The Changing Structure of Wages in the US and Germany: What Explains the Differences? AU Beaudry, Paul; Green, David. AA Beaudry: University of British Columbia and NBER. Green: University of British Columbia. SR National Bureau of Economic Research Working Paper: 7697; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 26. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE J31, O33. KW Technology Adoption. Wages. Education. U. S. Germany. Endogenous Adoption.

AB Over the last twenty years the wage-education relationships in the US and Germany have evolved very differently, while the education composition of employment has evolved in a surprisingly parallel fashion. In this paper, we propose and test an explanation to these conflicting patterns. The model we present has two important elements: (1) technological change arises in the form of an alternative production process as opposed to being in the factor augmenting form, which renders technological adoption endogenous, (2) aggregate production depends on three factors (physical capital, human capital and labor). Based on this framework, we show why imbalances in the accumulation of human versus physical capital will be especially detrimental to low skill workers when the new technology is skill-biased and exhibits capital-skill complementarity. Using matched files from the PSID (US) and the GSOEP (Germany), we demonstrate how factor movements within these countries are associated with wage changes that are strongly supportive of our endogenous technological adoption model. Our conclusion is that the difference in the US and German experiences appear driven by the US having under-accumulated physical capital relative human capital over the 1979-96 period, while Germany accumulated factors in a more balanced manner.

#### Bebchuk, Lucian Arye

PD March 2000. TI Using Options to Divide Value in Corporate Bankruptcy. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 7614; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org).

PG 19. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE G33, K22. KW Bankruptcy. Options. Black-Scholes.

AB this paper revisits the proposal to use options in corporate bankruptcy that was put forward in Bebchuk (1988). According to the proposed procedure, corporate bankruptcy should be implemented through the distribution to participants of appropriately designed options. The paper starts by discussing the goals that should guide the design of bankruptcy procedures. The paper then explains how the options procedure can improve both ex post efficiency and ex ante efficiency. The paper offers a refined version of the procedure, and it also responds to questions that have been raised regarding the execution and desirability of procedure. The paper concludes by explaining the relationship between the options approach to corporate bankruptcy and the Black-Scholes characterization of all corporate securities as options.

#### Beeby, M.

PD November 2001. TI Rational Expectations and Near Rational Alternatives: How Best to Form Expectations. AU Beeby, M.; Hall, S. G.; Henry, S. B. AA Beeby and Henry: Oxford University. Hall: Oxford University and Imperial College of Science Technology and Medicine. SR European Central Bank Working Paper: 86; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 23. PR no charge. JE C53, E43, F33. KW Learning. Rational Expectations. Bounded Expectations. Kalman Filter.

AB Learning rules are increasingly being used in macroeconomic models. However one criticism that has been leveled at this assumption is that the choice of variables for inclusion in the learning rule, and the actual specification of the learning rule itself, is arbitrary. In this paper we test how important the particular learning rule specification is by incorporating a battery of learning rules into a large-scale macro model. The model's dynamics are then compared to those from a version of the model simulated under rational expectations (RE). The results indicate that although there are large differences between the RE solution and each of the solutions under learning, differences amongst the learning rule solutions are minor.

#### Beier, Niels C.

TI Noisy Financial Signals and Persistent Effects of Nominal Shocks in Open Economies. AU Andersen, Torben M.; Beier, Niels C.

#### Bekaert, Geert

PD March 2000. TI Expectations Hypotheses Tests. AU Bekaert, Geert; Hodrick, Robert J. AA Bekaert: Columbia Business School, NBER, and Stanford University. Hodrick: Columbia Business School and NBER. SR National Bureau of Economic Research Working Paper: 7609; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 27. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE C51, C52, E43, F31. KW Expectations Hypotheses. Term Structure. Asymptotic Inference.

AB We investigate the Expectations Hypotheses of the term structure of interest rates and of the foreign exchange market using vector autoregressive methods for the U.S. dollar,

Deutsche mark, and British pound interest rates and exchange rates. In addition to standard Wald tests, we formulate Lagrange Multiplier and Distance Metric tests which require estimation under the non-linear constraints of the null hypotheses. Estimation under the null is achieved by iterating on approximate solutions that require only matrix inversions. We use a bias-corrected, constrained vector autoregression as a data generating process and construct extensive Monte Carlo simulations of the various test statistics under the null hypotheses. Wald tests suffer from severe size distortions and use of the asymptotic critical values in gross over-rejection of the null. The Lagrange Multiplier tests slightly under-reject the null, and the Distance Metric test over-reject. Use of the small sample distributions of the different tests leads to a common interpretation of the validity of the Expectations Hypotheses. The evidence against the Expectations Hypotheses for these interest rates and exchange rates is much less strong than under asymptotic inference.

**TI** Why Stocks May Disappoint. **AU** Ang, Andrew; Bekaert, Geert; Liu, Jun.

### Belaisch, Agnes

**PD** March 2001. **TI** Euro-Area Banking at the Crossroads. **AU** Belaisch, Agnes; Kodres, Laura; Levy, Joaquim; Ubide, Angel. **AA** Belaisch, Kodres and Ubide: International Monetary Fund. **Levy**: Brazilian Ministry of Finance. **SR** International Monetary Fund Working Paper: WP/01/28; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 74. **PR** not available. **JE** G21, G28, G34. **KW** Banking Mergers. Too Big To Fail. Banking Supervision.

**AB** This paper analyses the process of disintermediation, the progress in consolidation, the impact of new technologies, and the role of ownership and control structures for the euro-area banking sector. The impact of these trends on competition policy, "too big to fail" concerns, and financial stability is investigated. In this setting, the paper endorses stronger cross-border coordination among supervisory authorities but notes that more formal cross-border arrangements through supranational agencies seem, at this stage, premature. However, an increased capacity to perform centralized market surveillance, building on domestic supervisory information, is needed to ensure the efficiency and stability of euro-area financial markets.

### Benabou, Roland

**PD** May 2000. **TI** Tax and Education Policy in a Heterogeneous Agent Economy: What Levels of Redistribution Maximize Growth and Efficiency? **AA** Princeton University. **SR** CEPR Discussion Paper: 2446; 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, \$8 or 8 euros. **JE** D31, D63, E62, I22. **KW** Income Distribution. Heterogeneous Agents. Growth. Redistribution Taxation. Education Finance.

**AB** This paper studies the effects of progressive income taxes and education finance in a dynamic heterogeneous agent economy. Such redistributive policies entail distortions to labor supply and savings, but also serve as partial substitutes for missing credit and insurance markets. The resulting tradeoffs for growth and efficiency are explored, both theoretically and quantitatively, in a model that yields complete analytical

solutions. Progressive education finance always leads to higher income growth than taxes and transfers, but at the cost of lower insurance. Overall efficiency is assessed using a new measure which properly reflects aggregate resources and idiosyncratic risks but, unlike a standard social welfare function, does not reward equality per se. Simulations using empirical parameter estimates show that the efficiency costs and benefits of redistribution are generally of the same order of magnitude, resulting in reasonable values for the optimal rates. Aggregate income and aggregate welfare provide only very crude lower and upper bounds around the true efficiency tradeoff.

### Benkard, C. Lanier

**PD** May 2000. **TI** A Dynamic Analysis of the Market for Wide-Bodied Commercial Aircraft. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 7710; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 48. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** L11, L13, L62. **KW** Commercial Aircraft Industry. Dynamic Model.

**AB** This paper develops a multi-agent dynamic model of the commercial aircraft industry and then uses that model to analyze industry pricing, industry performance, and optimal industry policy. In the model, firms are differentiated in their products and cost structure, and entry, exit, prices, and quantity sold are endogenously determined in dynamic equilibrium. Demand and supply are modeled structurally, while investment is modeled in reduced form. The model utilizes a cost model of commercial aircraft production developed and estimated in a previous paper (Benkard (2000)), and a discrete choice model of commercial aircraft demand to determine static profits. I find that many unusual aspects of the aircraft data, such as high concentration and pricing below the level of static marginal cost, are explained by this model. The model also replicates the stochastic evolution of the industry well. Finally, I provide simulation evidence that an anti-trust policy in the form of a concentration restriction would be welfare reducing with high probability.

### Bentz, Andreas

**PD** June 2001. **TI** Information Acquisition and Crowding Out in Regulatory Hierarchies. **AA** Dartmouth College and University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/31; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www/bris.ac.uk/cmmpo/publications.htm. **PG** 26. **PR** no charge. **JE** D83, H11, K23, L40, L51. **KW** Regulatory Policy. Regulatory Capture. Hierarchies. Competition Law. Multi-Principals.

**AB** This paper studies an externality common to all policy setting hierarchies in which information acquisition is essential to making policy decisions. The paper analyses the regulation of a monopolist with unknown cost both by state and federal agencies with overlapping jurisdictions. When the objectives of the two tiers in the regulatory hierarchy differ, and the federal agency relies at least in part on the information acquired by the state regulator, the state agency has the incentive to acquire less than full information about the monopolist in order to prevent interference by the federal regulator. In this sense, the

possibility of intervention by a higher level agency in the hierarchy crowds out information, and forces an apparently collusive ("regulatory capture") outcome in which the state regulator aligns itself with the interests of the monopolist. When crowding out is significant, policy decisions in a hierarchy may be worse than those made by single-tier organizations. The overlap of jurisdictions in hierarchical decision-making wastes information.

**PD** August 2001. **TI** What Should the State Buy? **AU** Bentz, Andreas; Grout, Paul A.; Halonen, Maija. **AA** Bentz: Dartmouth College and CMPO. Grout and Halonen: CMPO, University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/040; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmipo/publications.htm](http://www/bris.ac.uk/cmipo/publications.htm). **PG** 33. **PR** no charge. **JE** D82, H11, H57, L33. **KW** Privatization. Public-Private Partnerships. Contracts. Procurement.

**AB** This paper is concerned with what the state buys and in particular the decision to shift from the purchase of assets toward final services, leaving the design, build and ownership to those who commit to supply the service. The approach emphasizes the information and contractual nature of the problem, rather than residual control, and identifies when the government will buy services rather than assets. An implication of the model is that the government will strictly wish to buy services when costs of delivery and build are low. This suggests that cross section studies of private versus public ownership may be subject to a sample selection bias (i.e., if there is no control for project characteristics, private ownership may appear overly efficient).

**PD** October 2001. **TI** Is Commission-Based Financial Advice Always Bad Advice? **AA** CMPO, University of Bristol and Dartmouth College. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/042; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmipo/publications.htm](http://www/bris.ac.uk/cmipo/publications.htm). **PG** 23. **PR** no charge. **JE** D28, G24, L14, L15, M37. **KW** Financial Advice. Sales Commission. Signaling.

**AB** For many financial products, quality is not obvious to the buyer on purchase (experience goods). Financial advisers who provide advice about the quality of financial products are often rewarded on a commission basis. This may create incentives for the mis-selling of financial products. This paper shows that, under certain plausible modeling assumptions on the behavior of financial (savings) products, commission payments to the retailer act as signals of quality to the purchaser: high commissions are attached to high-quality products. There is reason to believe that commission-based financial advice is not always bad advice.

### Ber, Hedva

**TI** Conflict of Interest in Universal Banking: Bank Lending, Stock Underwriting, and Fund Management. **AU** Yafeh, Yishay; Yosha, Oved; Ber, Hedva.

### Bergemann, Dirk

**PD** April 2001. **TI** Entry and Vertical Differentiation. **AU** Bergemann, Dirk; Valimaki, Juuso. **AA** Bergemann:

Yale University. Valimaki: University of Southampton. **SR** Yale Cowles Foundation Discussion Paper: 1302; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 24. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, C73, D43, D83. **KW** Entry. Duopoly. Quantity Competition. Vertical Differentiation. Bayesian Learning. Experimentation. Experience Goods.

**AB** This paper analyzes the entry of new products into vertically differentiated markets where an entrant and an incumbent compete in quantities. The value of the new product is initially uncertain and new information is generated through purchases in the market. We derive the (unique) Markov perfect equilibrium of the infinite horizon game under the strong long run average payoff criterion. The qualitative features of the optimal entry strategy are shown to depend exclusively on the relative ranking of established and new products based on current beliefs. Superior products are launched relatively slowly and at high initial prices whereas substitutes for existing products are launched aggressively at low initial prices. The robustness of these results with respect to different model specifications is discussed.

### Berger, Allen N.

**PD** April 2001. **TI** Explaining the Dramatic Changes in Performance of U.S. Banks: Technological Change, Deregulation, and Dynamic Changes in Competition. **AU** Berger, Allen N.; Mester, Loretta J. **AA** Berger: Board of Governors of the Federal Reserve System and University of Pennsylvania. Mester: Federal Reserve Bank of Philadelphia and University of Pennsylvania. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/06; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 31. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E58, E61, F33, G21, G28. **KW** Bank. Productivity. Efficiency. Cost. Profit.

**AB** We investigate the effects of technological change, deregulation, and dynamic changes in competition on the performance of U.S. banks. Our most striking result is that during the 1991-1997, cost productivity worsened while profit productivity improved substantially, particularly for banks engaging in mergers. The data are consistent with the hypothesis that banks tried to maximize profits by raising revenues as well as reducing costs. Banks appeared to provide additional or higher quality services that raised costs but also raised revenues by more than the cost increases. The results suggest that methods that exclude revenues when assessing performance may be misleading.

### Berges-Sennou, Fabian

**PD** August 2001. **TI** Competition Policy and Agreements Between Firms. **AU** Berges-Sennou, Fabian; Loss, Frederic; Malavolti, Estelle; Verge, Thibaud. **AA** Berges-Sennou: INRA-ESR and Universite des Sciences Sociales, Toulouse. Loss and Malvoti: GREMAQ and Universite des Sciences Sociales, Toulouse. Verge: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/034; CMPO, Department of Economics, University of Bristol, Mary Paley

Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). PG 38. PR no charge. JE D80, L40. KW Competition Policy. Agreements. Imperfect Auditing.

AB The European Commission recently considered abolishing the notification system and focusing on a regime of ex post investigations. Our objective is to show that a better understanding of markets can justify this reform. When the precision of the competition authority's analysis is not high enough, an ex ante control, like the notification system, is preferable. On the other hand, if the decision accuracy improves, an ex post investigation regime achieves a higher social welfare.

### Berk, Jan Marc

PD February 2000. TI Is the Yield Curve a Useful Information Variable for the Eurosystem? AU Berk, Jan Marc; van Bergeijk, Peter. AA De Nederlandsche Bank, Amsterdam. SR European Central Bank Working Paper: 11; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 24. PR no charge. JE E43, E52. KW Yield Curve. Monetary Policy.

AB The focus of this paper is on the use of the yield curve in monetary policy making. Theoretical arguments and a multi-country empirical analysis with an explicit focus on the euro area suggest the need for caution in case the Eurosystem uses the yield curve as an information variable for monetary policy, because multiple theoretical explanations exist for an observed movement in the yield curve, suggesting that policy reactions cannot be prescribed unambiguously. In addition, the empirical analysis shows that, in contrast with earlier findings of, for example, Hardouvelis (1994) and Bernard and Gerlach (1996), the information content of the yield curve is fairly limited. For the individual European countries participating in the Eurosystem as well as for the euro area as a whole, the yield spread possesses only very limited information relating to future movements in the inflation rate and output growth, over-and-above the information contained in the history of the latter variables.

### Bernardo, Antonio E.

PD March 2001. TI On the Evolution of Overconfidence and Entrepreneurs. AU Bernardo, Antonio E.; Welch, Ivo. AA Bernardo: University of California, Los Angeles. Welch: Yale University. SR Yale Cowles Foundation Discussion Paper: 1307; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 52. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D81, D83. KW Evolution. Overconfidence. Behavioral Economics.

AB This paper explains why seemingly irrational overconfident behavior can persist. Information aggregation is poor in groups in which most individuals herd. By ignoring the herd, the actions of overconfident individuals ("entrepreneurs") convey their private information. However, entrepreneurs make mistakes and thus die more frequently. The socially optimal proportion of entrepreneurs trades off the positive information externality against high attrition rates of entrepreneurs, and depends on the size of the group, on the degree of overconfidence, and on the accuracy of individuals' private information. The stationary distribution trades off the

fitness of the group against the fitness of overconfident individuals.

### Berndt, Ernst R.

PD June 2000. TI Consumption Externalities and Diffusion in Pharmaceutical Markets: Anti-ulcer Drugs. AU Berndt, Ernst R.; Pindyck, Robert S.; Azoulay, Pierre. AA Berndt and Pindyck: Massachusetts Institute of Technology and National Bureau of Economic Research. Azoulay: Massachusetts Institute of Technology. SR National Bureau of Economic Research Working Paper: 7772; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 29. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D12, I11, L65. KW Consumer Demand. Pharmaceuticals. Herd Behavior.

AB This paper examines the role of consumption externalities in the demand for pharmaceuticals at both the brand level and over a therapeutic class of drugs. These effects emerge when use of a drug by others affects its value, and/or conveys information about efficacy and safety to patients and physicians. This can affect that rate of market diffusion for a new entrant, and can lead to herd behavior whereby a particular drug can dominate the market despite the availability of close substitutes. Data for H2-antagonist anti-ulcer drugs is used to estimate a dynamic demand model and quantify these effects. The model has three components: an hedonic price equation that measures how the aggregate usage of a drug, as well as conventional attributes, affect brand valuation; equations relating equilibrium market shares to quality-adjusted prices and marketing levels; and diffusion equations describing the dynamic adjustment process. It is found that consumption externalities influence both valuations and rates of diffusion, but that they operate at the brand and not the therapeutic class level.

### Bernheim, B. Douglas

PD July 2000. TI Bequests as Signals: An Explanation for the Equal Division Puzzle. AU Bernheim, B. Douglas; Severinov, Sergei. AA Bernheim: Stanford University and National Bureau of Economic Research. Severinov: University of Wisconsin. SR National Bureau of Economic Research Working Paper: 7791; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 60. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE D10, H31. KW Intergenerational Transfers. Unigeniture. Puzzles.

AB In the United States, more than two-thirds of descendants with multi-child families divide their estates exactly equally among their children. In contrast, intra vivos gifts are usually unequal. These findings challenge the validity of existing theories regarding the determination of intergenerational transfers. This paper develops a theory that accounts for this puzzle, based on the notion that the division of bequests provides a signal about a parent's altruistic preferences. The theory can also explain the norm of unigeniture, which prevails in other societies.

### Bertrand, Marianne

PD March 2001. TI Public Policy and Extended Families: Evidence from South Africa. AU Bertrand, Marianne; Mullainathan, Sendhil; Miller, Douglas. AA Bertrand: University of Chicago GSB, CEPR, and NBER. Mullainathan:

MIT and NBER. Miller: UC Berkeley. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/31; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 39. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D13, H55, I38, J22, O10. **KW** Families. Pension. Labor Supply. South Africa.

**AB** How are resources allocated within extended families in developing countries? To investigate this question, we use a unique social experiment: the South African pension program. Under that program, the elderly receive a cash transfer that represents roughly twice the per capita African income. We ask how this transfer affects the labor supply of working-age individuals living with these elderly. We find a sharp drop in the working hours of the prime-age individuals in these households when elder men and women reach the respective ages for pension eligibility. We also find that a drop in labor supply is much larger when the pensioner is a woman, suggesting an imperfect pooling of resources. The large labor supply response we observe raises important issues for the design of social policy programs in developing countries and also leads us to be wary of any model of intra-household allocation of resources that does not fully account for the endogeneity of earned income.

**PD** October 2001. **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** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/34; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 24. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C13, C22, C23, J31. **KW** Serial Correlation. Estimated Standard Errors. Placebo Laws. Female Wages. Randomized Inference. Inference Testing.

**AB** Most Difference-in-Difference (DD) papers rely on many years of data and focus on serially correlated outcomes yet ignore the bias in the estimated standard errors that serial correlation introduces. This is especially troubling because the independent variable of interest in DD estimation is itself very serially correlated, which will exacerbate the bias in 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. Two very simple techniques can solve this problem for large sample sizes. The first consists in 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. This technique uses the empirical distribution of estimated effects for placebo laws to form the test distribution.

### Besanko, David

**TI** A Multi-Task Principal-Agent Approach to Organizational Form. **AU** Rockett, Katharine; Besanko, David; Regibeau, Pierre.

### Besley, Timothy

**PD** February 2000. **TI** Elected Versus Appointed Regulators: Theory and Evidence. **AU** Besley, Timothy; Coate, Stephen. **AA** Besley: London School of Economics. Coate: Cornell University. **SR** CEPR Discussion Paper: 2381; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 56. **PR** 5 pounds, \$8 or 8 euros. **JE** H11, L51, P16. **KW** Regulation. Elections. Electricity.

**AB** See the abstract for Besley, Timothy; Coate, Stephen. December 1999, "Elected versus Appointed Regulators: Theory and Evidence". University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/18; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm).

**PD** December 1999. **TI** Elected versus Appointed Regulators: Theory and Evidence. **AU** Besley, Timothy; Coate, Stephen. **AA** Besley: London School of Economics. Coate: Cornell University. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/18; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 50. **PR** no charge. **JE** K23, L51, R38. **KW** Regulators, Elected. Regulators, Appointed. Regulatory Policy.

**AB** This paper contrasts direct election with political appointment of regulators. When regulators are appointed, regulatory policy becomes bundled with other policy issues for which the appointing politicians are responsible. Since regulatory issues are not salient for most voters, regulatory policy outcomes reflect the preferences of party elites and special interests. Direct election of regulators strengthens the power of voters by ensuring the salience of regulatory issues. Using panel data on regulatory outcomes from US states, we find evidence in favor of the idea that elected states are more pro-consumer in their regulatory policies.

### Bianchi, Marco

**PD** January 2000. **TI** Iceland's Natural Experiment in Supply-Side Economics. **AU** Bianchi, Marco; Zoega, Gylfi; Gudmundsson, Bjorn R. **AA** Bianchi: SSB Citi. Zoega: Birkbeck College. Gudmundsson: Ministry of Finance. **SR** CEPR Discussion Paper: 2367; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 40. **PR** 5 pounds, \$8 or 8 euros. **JE** E65, J22. **KW** Supply-Side Economics. Labor Supply.

**AB** The move to a pay-as-you-earn income tax system in Iceland in 1987-1988 made income earned in 1987 tax-free. Using a sample of 9,274 individuals for the years 1986, 1987 and 1988, we calculate the labor-supply response of this change and find that total labor supply rose by 6.7 percent in 1987 over the average of 1986 and 1988 when we correct for entry in 1988. This consists of an 8.6 percent increase in weeks supplied by those already in the labor market in 1986 and a 1.9 percent decline due to entry/exit. The elasticity of weeks worked to the rise in after-tax wages was 0.41 for men and 0.11 for women. While the participation rate of women increased somewhat in our sample, participation by men fell.



**Bils, Mark**

**PD** May 2000. **TI** Quantifying Quality Growth. **AU** Bils, Mark; Klenow, Peter J. **AA** Bils: University of Rochester and NBER. Klenow: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 7695; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** O33, O47. **KW** Consumer Goods. Quality Growth. Quality Upgrading.

**AB** We introduce an instrumental variables approach to estimate the importance of unmeasured quality growth for a set of 66 durable consumer goods. Our instrument is based on predicting which of these 66 goods will display rapid quality growth. Using pooled cross-relatively sections of households in the 1980 through 1996 U.S. Consumer Expenditure Surveys, we estimate "quality Engel curves" for 66 durable consumer goods based on the extent richer households pay more for a good, conditional on purchasing. We use the slopes of these curves to predict the rate of quality-upgrading. Just as if households are ascending these quality Engel curves over time, we find that the average price paid rises faster for goods with steeper quality slopes. BLS prices likewise increase more quickly for goods with steeper quality slopes, suggesting the BLS does not fully net out the impact of quality-upgrading on prices paid. We estimate that quality growth averages about 3.7 percent per year for our goods, with about 60 percent of this, or 2.2 percent per year, showing up as higher inflation rather than higher real growth.

**Bindseil, Ulrich**

**PD** February 2001. **TI** The Supply and Demand for Eurosystem Deposits the First 18 Months. **AU** Bindseil, Ulrich; Seitz, Franz. **AA** Bindseil: European Central Bank. Seitz: University of Applied Sciences Amberg-Weiden, Germany. **SR** European Central Bank Working Paper: 44; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 54. **PR** no charge. **JE** E52, E58. **KW** Monetary Policy Instruments. Money Markets. Money Market Rate.

**AB** This paper describes the demand and supply factors affecting the amounts of deposits held by banks with the Eurosystem in the first 18 months of Stage Three of EMU and differences to the years before. The paper starts from the methodology adopted in a recent study by James Hamilton on "The supply and demand for Federal Reserve deposits". While the treatment of the autonomous liquidity factors is in principle similar, the modelling of open market operations and of the recourse to standing facilities diverge. These differences stem from different institutional settings, but also from somewhat different views on the accurate model. In a second part, the paper turns to prices by providing a simple econometric model capturing a large part of the variability of the difference between the EONIA rate (the price for daily funds) and the rate charged for the main refinancing operations.

**PD** July 2001. **TI** Central Bank Forecasts of Liquidity Factors: Quality, Publication and the Control of the Overnight Rate. **AA** European Central Bank. **SR** European Central Bank Working Paper: 70; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 41. **PR** no charge. **JE** D84, E52. **KW** Monetary Policy Instruments. Money Market. Signal Extractions.

**AB** A simple model of the interaction between central bank liquidity management and the inter-bank overnight rate is suggested which helps understanding the effects of the publication of forecasts of liquidity factors by the European Central Bank adopted in June 2000. The paper argues that the main practical advantage of the publication of these forecasts is that it makes the signal extraction problem with regard to the central bank's operational intentions trivial and hence allows establishing a superior behavioral equilibrium between the central bank and the money market participants. In this equilibrium, the central bank can achieve a better steering of overnight rates than under private autonomous factor forecasts, depending of course also on the quality of liquidity forecasts. It is furthermore shown that the publication of an average of autonomous factors, such as adopted by the ECB, is, at least within the model presented, superior to the separate publication of autonomous factors for each single day.

**Black, Stanley W.**

**PD** March 2001. **TI** Obstacles to Faster Growth in Transition Economies: The Mongolian Case. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/37; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 19. **PR** not available. **JE** P27, O55. **KW** Transition. Growth. Mongolia.

**AB** The obstacles to economic growth in Mongolia are modeled with a supply-side growth model calibrated to represent inefficient use of resources and intermediation. Progressive removal of inefficiencies over time by means of privatization of banks and industrial enterprises potentially leads to increased productivity and increased capital accumulation, raising economic growth and per capita output.

**Blanchard, Olivier J.**

**PD** March 2000. **TI** Federalism with and without Political Centralization: China versus Russia. **AU** Blanchard, Olivier J.; Shleifer, Andrei. **AA** Blanchard: MIT and NBER. Shleifer: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7616; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 12. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H11, H71, P21, P26, P31. **KW** China. Russia. Political Centralization.

**AB** In China, local governments have actively contributed to the growth of new firms. In Russia, local governments have typically stood in the way, be it through taxation, regulation, or corruption. There appears to be two main reasons behind the behavior of local governments in Russia. First, capture by old firms, leading local governments to protect them from competition by new entrants. Second, competition for rents by local officials, eliminating incentives for new firms to enter. The question then is why this has not happened in China. We argue that the answer lies in the degree of political centralization present in China, but not in Russia. Transition in China has taken place under the tight control of communist party. As a result, the central government has been in a strong position both to reward and to punish local administrations, reducing both the risk of local capture and the scope of competition for rents. Based on the experience of China, a number of researchers have argued that federalism could play a central role in development. We agree, but with an important caveat.

We believe the experience of Russia indicates that another ingredient is crucial, namely political centralization.

**PD** April 2000. **TI** The Long and Large Decline in U.S. Output Volatility. **AU** Blanchard, Olivier J.; Simon, John A. **AA** Blanchard: MIT. Simon: Reserve Bank of Australia. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/29; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 27. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** E31, E32. **KW** Output Volatility. Recession. Expansion. Fluctuations. Amplitude.

**AB** The last two U.S. expansions have been unusually long. One view is that this is the result of luck, of an absence of major adverse shocks over the last twenty years. Instead, we argue that there has been a large underlying decline in output volatility, starting in the 1950s, interrupted in the 1970s and early 1980s, with a return to trend in the late 1980s and the 1990s. The standard deviation of quarterly output growth has declined by a factor of 3 over the period. This is more than enough to account for the increased length of expansions. We reach two other conclusions. First, the trend decrease can be traced to a number of proximate causes, from a decrease in the volatility in government spending early on, to a decrease in consumption and investment volatility throughout the period, to a change in the sign of the correlation between inventory investment and sales in the last decade. Second, there is a strong relation between movements in output volatility and inflation volatility. This association accounts for the interruption of the trend decline in output volatility in the 1970s and early 1980s.

**PD** November 2001. **TI** Dynamic Efficiency, the Riskless Rate and Debt Ponzi Games Under Uncertainty. **AU** Blanchard, Olivier J.; Weil, Philippe. **AA** Blanchard: MIT and NBER. Weil: Universite Libre de Bruxelles, CEPR and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/41; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 18. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D51, D52, D61, E44, H61. **KW** Dynamic Efficiency. Pareto Optimality. Bubbles. Ponzi Games. Public Debt. Riskless Rate.

**AB** In a dynamically efficient economy, can a government roll its debt forever and avoid the need to raise taxes? In a series of examples of production economies with zero growth, this paper shows that such Ponzi games may be infeasible even when the average rate of return on bonds is negative, and may be feasible even when the average rate of return on bonds is positive. The paper then reveals the structure which underlies these examples.

### **Blanden, Jo**

**PD** October 2001. **TI** Changes in Intergenerational Mobility in Britain. **AU** Blanden, Jo; Goodman, Alissa; Gregg, Paul; Machin, Stephen. **AA** Blanden and Machin: University College, London and CEP, London School of Economics. Goodman: Institute for Fiscal Studies. Gregg: CMPO, University of Bristol and CEP, London School of Economics. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/043; CMPO, Department of Economics, University of

Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmppo/publications.htm](http://www.bris.ac.uk/cmppo/publications.htm). **PG** 14. **PR** no charge. **JE** D31, I20, J62. **KW** Intergenerational Mobility. Earnings. Family Income. Education.

**AB** This paper compares and contrasts estimates of the extent of intergenerational income mobility over time in Britain. Estimates based on two British birth cohorts show that mobility appears to have fallen in a cross-cohort comparison of people who grew up in the 1960s and 1970s (the 1958 birth cohort) as compared to a cohort who grew up in the 1970s and 1980s (the 1970 birth cohort). The sensitivity of labor market earnings to parental income rises, thereby showing less intergenerational mobility for the more recent cohort. This supports theoretical notions that the widening wage and income distribution that occurred from the late 1970s onwards slowed down the extent of mobility up or down the distribution across generations.

### **Blank, Rebecca M.**

**TI** What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty, and Family Structure. **AU** Schoeni, Robert F.; Blank, Rebecca M.

### **Blass, Asher A.**

**PD** December 1999. **TI** The Choice of Organizational Form in Gasoline Retailing and the Costs of Laws Limiting That Choice. **AU** Blass, Asher A.; Carlton, Dennis W. **AA** Blass: Bank of Israel. Carlton: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 7435; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$5.00. **JE** L11, L22. **KW** Gasoline Retailing. Organizational Form.

**AB** This paper uses a new data source to analyze the choice of organizational form of retail gasoline stations. In recent years, gasoline stations have tended to be less likely to be owned and operated by a lessee dealer and more likely to be owned and operated by the refiner. Critics have alleged that company-operated stations are used to drive lessee dealer stations out of business in order to restrict competition. We examine the determinants of organizational form and find them to be based on efficiency not predatory concerns. We estimate the costs of recent laws prohibiting company ownership of gasoline stations.

### **Blejer, Mario I.**

**PD** March 2001. **TI** Inflation Targeting in the Context of IMF-Supported Adjustment Programs. **AU** Blejer, Mario I.; Leone, Alfredo M.; Rabanal, Pau; Schwartz, Gerd. **AA** Blejer, Leone, and Schwartz: International Monetary Fund. Rabanal: New York University. **SR** International Monetary Fund Working Paper: WP/01/31; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 24. **PR** not available. **JE** E17, E31, E52. **KW** Inflation Targeting. Monetary Policy. Monetary Policy Rules. Brazil.

**AB** This paper argues that the IMF's traditional monetary conditionality -- a ceiling on net domestic assets of the central bank and a floor on its net international reserves -- should be adapted in IMF-supported adjustment programs with countries which have a framework of explicit inflation targets for the implementation of monetary policy. This adaptation should aim at enhancing correspondence and consistency between the

monetary objectives of the central bank and the targets established under the IMF-supported adjustment program, as well as between the different instruments used to achieve the policy objectives and targets. The paper reviews various general options in this regard, and, using the case of Brazil as an example, demonstrates how these options may be implemented in practice.

### Blomstrom, Magnus

**TI** Outward FDI and Parent Exports and Employment: Japan, the United States, and Sweden. **AU** Lipsey, Robert E.; Ramstetter, Eric D.; Blomstrom, Magnus.

**PD** May 2000. **TI** FDI in the Restructuring of the Japanese Economy. **AU** Blomstrom, Magnus; Konan, Denise; Lipsey, Robert E. **AA** Blomstrom: Stockholm School of Economics and NBER. Konan: University of Hawaii at Manoa. Lipsey: NBER and CUNY. **SR** National Bureau of Economic Research Working Paper: 7693; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 23. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F21, F23. **KW** Foreign Direct Investment. Japan. Multinational Corporations.

**AB** This paper examines how inward and outward foreign direct investment (FDI) have influenced the restructuring of the Japanese economy and can be expected to continue to do so in the future. We find that outward investment has helped Japanese firms to sustain foreign market shares and contributed to the restructuring of the Japanese economy away from older industries. By shifting from exporting to affiliate production, there has been a geographical reallocation of the activities of Japanese firms, particularly those of multinational manufacturing firms. However, Japanese outward FDI is still not very large relative to the Japanese economy, despite the rapid growth since the mid-1980s, and there is still scope for significant increase when compared with the levels of most other OECD countries. Inward FDI will presumably have an even stronger impact on the restructuring of the Japanese economy. Although the stock of inward foreign direct investment is still very small, there are important changes under way. Deregulation as opened up much of the industrial and service sectors to foreign multinationals.

### Blonigen, Bruce A.

**PD** July 2000. **TI** Tariff-Jumping Antidumping Duties. **AA** University of Oregon and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7776; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F13, F23. **KW** Tariffs. Anti-Dumping Investigation. United States. Protectionism.

**AB** Using a newly constructed database, this paper examines the tariff-jumping response of all firm and product combinations subject to U.S. Anti-dumping (AD) investigations from 1980-1990. The results strongly support the hypothesis that tariff-jumping is only a realistic option for multinational firms from industrialized countries. Because many firms subject to U.S. AD investigations and eventual duties do not have these characteristics, tariff-jumping of U.S. AD protection is relatively modest. It may also explain why developing countries have been more concerned about

addressing AD protection in the WTO than industrialized countries. While the raw numbers show a high tariff-response rate for Japanese firms, this is due almost solely to the fact that many of these firms have substantial multinational experience, not due to any Japanese-specific response per se. There is also little evidence that U.S. Department of Commerce procedures using information from the domestic petitioners (rather than the foreign firms) to calculate dumping margins have any impact on tariff-jumping responses.

### Blume, Lawrence

**PD** August 2001. **TI** If You're So Smart, Why Aren't You Rich? Belief Selection in Complete and Incomplete Markets. **AU** Blume, Lawrence; Easley, David. **AA** Cornell University. **SR** Yale Cowles Foundation Discussion Paper: 1319; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 38. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D46, D51, D52, D81. **KW** Market Selection. Subjective Beliefs. General Equilibrium. Incomplete Markets. Complete Markets.

**AB** This paper provides an analysis of the asymptotic properties of consumption allocations in a stochastic general equilibrium model with heterogeneous consumers. In particular, we investigate the market selection hypothesis, that markets favor traders with more accurate beliefs. We show that in any Pareto optimal allocation whether each consumer vanishes or survives is determined entirely by discount factors and beliefs. Since equilibrium allocations in economies with complete markets are Pareto optimal, our results characterize the limit behavior of these economies. We show that, all else equal, the market selects for consumers who use Bayesian learning with the truth in the support of their prior and selects among Bayesians according to the size of their parameter space. Finally, we show that in economies with incomplete markets these conclusions may not hold. Payoff functions can matter for long run survival, and the market selection hypothesis fails.

### Boeri, Tito

**PD** February 2000. **TI** Social Europe: Dramatic Visions and Real Complexity. **AA** Universita Bocconi. **SR** CEPR Discussion Paper: 2371; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 52. **PR** 5 pounds, \$8 or 8 euros. **JE** H53, I38, J68. **KW** Social Europe. Race to the Bottom. Monetary Union.

**AB** Many social policy reforms have been carried out in Europe in the last fifteen years. Most of these reforms are marginal. Often they are mutually inconsistent. Yet, something is changing in the European social policy landscape and not in the direction implied by the presence of a "race to the bottom" in social welfare provision. There are no signs of convergence of social policy models across Europe. Imposing the same pattern of reforms to the different European social policy models would pose the risk of jeopardizing reform efforts altogether. All this makes a strong case for maintaining EU-level decision-making on social policy reforms under unanimity rule. Majority voting on these issues is likely to involve strong pressures to harmonize institutions, while some countries will always be in a minority. One country may receive the worst of each welfare system and make the

furthering and broadening of the scope of reforms even more difficult.

### **Bofinger, Peter**

**PD** February 2000. **TI** Options for the Exchange Rate Policies of the EU Accession Countries (and Other Emerging Market Economies). **AU** Bofinger, Peter; Wollmershaeuser, Timo. **AA** Universitat Wurzburg. **SR** CEPR Discussion Paper: 2379; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 40. **PR** 5 pounds, \$8 or 8 euros. **JE** E42, F33, F36, F41. **KW** EU Accession Countries. Monetary Integration. Emerging Markets. Flexible Exchange Rates. Open-Economy Taylor Rule. UIP. Risk Premium. Monetary Pressure Index. Capital Flows.

**AB** We develop an institutional framework for central banks that try to pursue a stability-oriented monetary policy with the strategy of exchange rate targeting. Recent experience shows that a crucial element of this approach is to avoid destabilizing capital inflows. Policy makers can exert monetary pressure by two different but interrelated channels: the interest rate and the exchange rate. We introduce an open-economy Taylor Rule that determines the domestic interest rate of a central bank targeting a depreciation of its exchange rate. The interrelation of the two channels is taken into account by a risk premium adjusted uncovered interest parity condition. In our view sustained violations of this constraint provide an important explanation for the problem of speculative capital inflows. We distinguish between two basically different types of pegs: fixed nominal exchange rate targets and flexible nominal exchange rate targets. With the lessons that we draw from the past experiences of these regimes in Asia, Latin America, Eastern and Central Europe and the ERM, we develop a framework for the exchange rate strategies of the accession countries during their path towards EMU entry.

### **Boissay, Frederic**

**PD** November 2001. **TI** Credit Rationing, Output Gap, and Business Cycles. **AA** European Central Bank. **SR** European Central Bank Working Paper: 87; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 29. **PR** no charge. **JE** D32, E44. **KW** Business Fluctuations. Credit Rationing. Financial Accelerator.

**AB** The cost-of-financing channel version of the financial accelerator proposed by Bernanke & Gertler (1989) is prominent in the literature. Yet, this particular channel has not been validated by empirical work. This paper presents an alternative version of the accelerator. This new accelerator, based on quantity credit rationing, is shown to be more powerful than the traditional accelerator. By causing factor under-utilization credit rationing generates an output gap persistent and sensitive to technology shocks. This accelerator is not a substitute to the traditional mechanism though, but rather a complement. My model helps improve the understanding of financial transmission mechanisms. It considers several types of collaterals. Financial frictions generate persistence when collaterals take the form of tangible assets. They generate amplification when collaterals take the form of tangible assets. They generate amplification when collaterals take the form of cash flows or when asset prices are variable.

### **Boix, Carles**

**TI** Must We Choose? European Unemployment, American Inequality and the Impact of Education and Labor Market Institutions. **AU** Adsera, Alicia; Boix, Carles.

### **Bolton, Gary E.**

**PD** August 1997. **TI** Measuring Motivations for the Reciprocal Responses Observed in a Simple Dilemma Game. **AU** Bolton, Gary E.; Brandts, Jordi; Ockenfels, Axel. **AA** Bolton: Penn State University. Brandts: Institut d'Analisi Economica, CSIC. Ockenfels: University of Magdeburg. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 400/97; Departament d'Economia i d'Historia Economica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 19. **PR** no charge. **JE** C70, C92. **KW** Experiments. Reciprocity. Intentions. Dilemma Games.

**AB** We report on an experiment that uses a simple dilemma game to compare two characterizations of reciprocal behavior, differing on whether it is necessary to account for intentions in order to accurately predict and measure reciprocal actions. The design of the experiment allows us to study both positive and negative reciprocity in a single framework. We find little evidence that intentions matter. Knowing the preferences for relative payoffs is sufficient to predict nearly all the reciprocity we observe.

### **Bonaccorsi di Patti, Emilia**

**PD** February 2001. **TI** Bank Competition and Firm Creation. **AU** Bonaccorsi di Patti, Emilia; Dell'Ariccia, Giovanni. **AA** Bonaccorsi di Patti: Bank of Italy. Dell'Ariccia: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/21; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 38. **PR** not available. **JE** E51, G21. **KW** Bank Competition. Asymmetric Information. Growth.

**AB** This paper investigates the empirical relationship between competition in the financial sector and the creation of firms in the non-financial sector. It finds that bank competition has an overall positive effect on firm creation. However, consistent with theories of banking arguing that competition may reduce the availability of credit to informationally opaque firms, it also finds that asymmetric information limits the overall positive effect of bank competition on firm creation. Indeed, bank competition is less favorable to the emergence of new firms in industrial sectors where informational asymmetries are more important, and in extreme cases has a negative effect.

### **Boone, Jan**

**TI** Modeling Financial Incentives to Get Unemployed Back to Work. **AU** van Ours, Jan C.; Boone, Jan.

### **Bordo, Michael D.**

**PD** May 2000. **TI** Measuring Real Economic Effects of Bailouts: Historical Perspectives on How Countries in Financial Distress Have Fared With and Without Bailouts. **AU** Bordo, Michael D.; Schwartz, Anna J. **AA** Bordo: Rutgers University and NBER. Schwartz: NBER. **SR** National Bureau of Economic Research Working Paper: 7701; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 61. **PR** \$10.00 per copy (plus \$10.00

per order for shipping outside the U.S.). **JE** F31, F33, F34, G21. **KW** Financial Crises. Bailouts. Banking Crises. Currency Crises. Rescue Loans.

**AB** In this paper, we first trace the changing nature of banking, currency and debt crises from the last century to the present. Each type of crisis has transmogrified in the presence of official intervention and the creation of a safety net. A similar pattern is observed for international rescue loans. We then present evidence suggesting that the incidence has increased and the severity of financial crises has changed little in emerging markets from the pre- 1914 era to the present. Finally we assess the impact of IMF loans on the macro performance of the recipients. A simple with-without comparison of countries receiving IMF assistance during crises in the period 1973-98 with countries in the same region not receiving assistance suggests that the real performance of the former group was possibly worse than the latter. Similar results obtain adjusting for self-selection bias and counterfactual policies.

### **Borensztein, Eduardo**

**PD** January 2001. **TI** Monetary Independence in Emerging Markets: Does the Exchange Rate Regime Make a Difference? **AU** Borensztein, Eduardo; Zettelmeyer, Jeromin; Philippon, Thomas. **AA** Borensztein and Zettelmeyer: International Monetary Fund. Philippon: MIT. **SR** International Monetary Fund Working Paper: WP/01/01; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 49. **PR** not available. **JE** E52, E58, F31. **KW** Monetary Policy. Exchange Rates. Interest Rates. Risk Premium.

**AB** This paper compares the impact of shocks to U.S. interest rates and emerging market bond spreads on domestic interest rates and exchange rates across several emerging market economies with different exchange rate regimes. Consistent with conventional priors, the results indicate that interest rates in Hong Kong react much more to U.S. interest rate shocks and shocks to international risk premia than interest rates in Singapore. The results are less clearcut in the comparison of Argentina and Mexico: while interest rates (and the exchange rate) in Mexico seem to react less to U.S. interest rate shocks, they react about the same to bond spread shocks, in addition to a significant impact on the exchange rate.

### **Borjas, George J.**

**PD** April 2000. **TI** Foreign-Born Teaching Assistants and the Academic Performance of Undergraduates. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7635; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 10. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I21, I22. **KW** Teaching Assistants. Immigration. American Universities.

**AB** The large literature that analyzes the impact of immigration on the United States typically focuses on measuring the labor market and fiscal consequences. This literature, however, has ignored the impact of immigration on other sectors of society. One sector that is of great interest is the American university, where the share of nonresident aliens in the graduate student population rose from 5.5 percent in 1976 to 10.5 percent in 1996. Despite the rapid growth in the number of foreign students, little is known about their impact

on the education process. Nevertheless, undergraduates frequently complain that the lack of English language proficiency among many foreign-born Teaching Assistants affects adversely their understanding of them material. This paper addresses the question that is at the heart of these complaints: Do foreign-born teaching assistants have an adverse impact on the scholastic achievement of American undergraduates? To provide empirical evidence on this issue, I use data drawn from a survey of undergraduates enrolled in economics principles classes at a large public university. The data suggest that foreign-born Teaching Assistants have an adverse impact on the class performance of undergraduate students.

### **Borreo, Alberto Musalem**

**PD** February 2001. **TI** On the Long and Short of Central Bank Independence, Policy Coordination, and Economic Performance. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/19; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 24. **PR** not available. **JE** E58, E61, E63, H63. **KW** Policy Objectives. Central Bank Independence. Institutional Arrangements. Policy Coordination. Bargaining. Economic Performance.

**AB** This paper examines the implications of central bank independence for equilibrium macroeconomic performance. The focus is on institutional arrangements governing financial relationships between central banks and ministries of finance, in the presence of competing objectives and constraints across institutions. Abstracting from long-run considerations, higher central bank independence increases fiscal discipline and results in lower inflation and growth, generating a short-run institutional Phillips curve. In the presence of sufficiently strong negative long-run externalities of inflation onto growth, higher CBI also increases fiscal discipline and generates lower inflation, however, it also yields higher growth and generates an inverted institutional Phillips curve. Strikingly, higher central bank independence is found to be frequently sub-optimal for a wide set of stylized economies. Whether these economies are empirically relevant is an open question.

### **Boughton, James M.**

**PD** January 2001. **TI** Different Strokes? Common and Uncommon Responses to Financial Crises. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/12; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 18. **PR** not available. **JE** E62, F33. **KW** Financial Crises. Macroeconomic Models.

**AB** Much of the debate about the management of financial crises has focused on structural and psychological issues regarding the conditions that are supposed to be necessary to restore investor confidence. Nonetheless, the paramount requirement in the short term is for countries in crisis to adopt correct macroeconomic policies. An analysis of conventional macroeconomic models reveals that countries can afford to run expansionary policies to restore internal balance only if they can afford to ignore the requirements for external balance. This arithmetic does not depend on whether macroeconomic policies were inappropriate before the crisis hit.

### **Bound, John**

**PD** December 1999. **TI** Going to War and Going to

College: Did World War II and the G.I. Bill Increase Educational Attainment for Returning Veterans? **AU** Bound, John; Turner, Sarah E. **AA** Bound: University of Michigan and NBER. Turner: University of Virginia. **SR** National Bureau of Economic Research Working Paper: 7452; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$5.00. **JE** I21, I22, J24. **KW** College Education. World War II. Veterans Education.

**AB** The end of World War II brought a flood of returning veterans to America's colleges and universities. Yet, despite widespread rhetoric about the "democratization" of higher education that came with this large pool of students, there is little evidence about the question of whether military service, combined with the availability of post-war educational benefits, led these men to increase their investments in education - particularly at the college and university level. This paper uses the structure of the draft during the World War II period and the changing manpower requirements in the armed forces to address the effects of selection in comparisons of the educational attainment of veterans and non-veterans in this era. Using census data, our results indicate that the net effects of military service and the widely available funding for college through the G.I. Bill led to a moderate gain in the postsecondary educational attainment of World War II veterans.

#### **Bouthevillain, Carine**

**PD** September 2001. **TI** Cyclically Adjusted Budget Balances: An Alternative Approach. **AU** Bouthevillain, Carine; Cour-Thimann, Philippine; Van Den Dool, Gerrit; Hernandez de Cos, Pablo; Langenus, Geert; Mohr, Matthias; Momigliano, Sandro; Tujula, Mika. **AA** Bouthevillain: Banque de France, Paris. Cour-Thimann and Tujula: European Central Bank. Van Den Dool: De Nederlandsche Bank, Amsterdam. Hernandez de Cos: Banco de Espana, Madrid. Langenus: National Bank of Belgium, Brussels. Mohr: Deutsche Bundesbank. Momigliano: Banca d'Italia. **SR** European Central Bank Working Paper: 77; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 44. **PR** no charge. **JE** E32, E62. **KW** Fiscal Policy. Government Budget. Cyclical Adjustment. Business Cycles.

**AB** Estimates of cyclically-adjusted budget balances, correcting actual government budget balances for business cycle fluctuations, are produced by many institutions. This paper presents an alternative approach for the cyclical adjustment of budget balances. The approach is based on a disaggregated method for the calculation of the cyclical component of the budget balance. In this approach, the effects of changes in the structure of demand and national income on government revenue and expenditure are captured. Cases where the various macroeconomic bases are in different phases of the cycle or exhibit fluctuations of different magnitude are taken into account in this way. The computation of the cyclical components of these macroeconomic bases is based on the Hodrick-Prescott filter and takes into account the latest evidence presented in the literature about the properties of this filter. The paper also presents new estimates of the elasticities of individual budget items with respect to the relevant macroeconomic variables.

#### **Braconier, Henrik**

**PD** June 2000. **TI** Does FDI Work as a Channel for R&D

Spillovers? Evidence Based on Swedish Data. **AU** Braconier, Henrik; Ekholm, Karolina; Midelfart Knarvik, Karen-Helene. **AA** Braconier: Universita Bocconi. Ekholm: Stockholm School of Economics. Midelfart Knarvik: Norwegian School of Economics and Business Administration and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2469; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F20, F23, O40. **KW** Multinationals. Productivity Growth. Spillovers. Technology Transfer.

**AB** Multinational enterprise (MNE) is important in transmitting technology across national borders. Not only do they allow for transfer of technology within the firm, but they are important channels for international R&D spillovers as well. This paper analyses empirically whether inward and outward foreign direct investment (FDI) works as channels for international R&D spillovers. This paper utilizes firm-level as well as industry-level data for Swedish manufacturing in the analysis. It finds no evidence of FDI-related R&D spillovers -- neither at the firm-level nor at the industry-level in Swedish manufacturing. The only variable that consistently affects total factor productivity is a firm's own investment in R&D.

#### **Brand, Klaus**

**PD** November 2000. **TI** A Money Demand System for Euro Area M3. **AU** Brand, Klaus; Cassola, Nuno. **AA** European Central Bank. **SR** European Central Bank Working Paper: 39; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 48. **PR** no charge. **JE** C32, E41. **KW** Money Demand. Fisher Hypothesis. Term Structure. Structural Cointegrated VAR. Response Profiles.

**AB** In order to assess the importance of monetary and financial developments for key macroeconomic variables in the euro area a money demand system for M3 is estimated adopting a structural cointegrating VAR approach. While maintaining a good statistical representation of the data, long-run relationships are based on economic theory. By using generalized response profiles the dynamics of the money demand system is investigated without any further identifying assumptions. Error bounds of the profiles are derived using bootstrap simulations.

#### **Brandts, Jordi**

**TI** Measuring Motivations for the Reciprocal Responses Observed in a Simple Dilemma Game. **AU** Bolton, Gary E.; Brandts, Jordi; Ockenfels, Axel.

**PD** November 1997. **TI** An Exploration of Reputation Formation in Experimental Games. **AU** Brandts, Jordi; Figueras, Neus. **AA** Brandts: Institut d'Anàlisi Econòmica (CSIC). Figueras: Universitat de Girona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 404/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 43. **PR** no charge. **JE** C72, C90, D82. **KW** Experiments. Reputation Formation. Repeated Games. Incomplete Information. Sequential Equilibrium.

**AB** This paper presents results from experiments with finitely repeated games with complete and incomplete information. We

use two treatment variables, the number of rounds the game is played and the value of the probability that reflects the presence of incomplete information. We explore whether shorter games lead to results closer to the sequential equilibrium prediction than longer games. The behavior we observe deviates from the precise rules of behavior implied by the notion of sequential equilibrium. Behavior in some of the shorter games deviates even more from the sequential equilibrium prediction than that in longer games. A very general notion of reputation formation does capture most of the qualitative features of the data.

### Brav, Alon

**PD** October 1999. **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: 7406; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$5.00. **JE** D91, E21, G12. **KW** Equity Premium. Asset Pricing. Limited Participation. Heterogenous Consumers.

**AB** The Euler equations of consumption are tested on the household consumption of non-durables and services, reconstructed from the CEX database. The estimated relative risk aversion coefficient of the representative household decreases, and the estimated unexplained mean equity premium decreases, as infra marginal asset holders are eliminated from the sample. These results provide evidence of limited capital market participation. The estimated unexplained mean equity premium decreases when the assumption of complete consumption insurance is relaxed. The estimated correlation between the equity premium and the cross-sectional variance of the households' consumption growth is negative, as required, if the relaxation of market completeness is to contribute towards the explanation of the premium. The overall evidence from asset prices in favor of relaxing the assumption of complete consumption insurance is weak. An extensive Monte Carlo investigation highlights the relationship between the economic implications of limited participation and the resulting statistical properties of commonly used test statistics. The simulation results provide direct evidence relating observation error in consumption and the resulting small-sample of the test statistics.

### Brixiova, Zuzana

**PD** January 2001. **TI** Growth Slowdown in Bureaucratic Economic Systems: An Issue Revisited. **AU** Brixiova, Zuzana; Bulir, Ales. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/06; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** D73, O41, P21. **KW** Bureaucracy. Planning. Growth.

**AB** Bureaucratically organized systems tend to be less efficient than economies in which agents are free to choose their output targets, as well as the means to meet them. This paper presents a simple model of planner-manager interactions and shows how bureaucratic economies can end up in a low-effort, low-growth equilibrium even though they may have started in a high-effort, high-growth equilibrium. The empirical evidence from eight Central and Eastern European countries

during 1948- 89 is consistent with our model results, namely, that the growth decline was systemic in nature. The results are applicable to countries in other regions with heavy bureaucratic involvement in the economy.

### Brooks, Robin

**PD** December 2000. **TI** The New Economy and Global Stock Returns. **AU** Brooks, Robin; Catao, Luis. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/00/216; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 38. **PR** not available. **JE** F36, G11, G15. **KW** Stock Markets. Portfolio Diversification. International Integration. Financial Integration. New Economy.

**AB** This paper revisits the relative importance of global versus country-specific factors underlying stock returns. It constructs a new firm level data set covering emerging and developed markets and estimates a simple factor model, which breaks down stock returns into a global business cycle factor, global industry factors, country-specific factors and firm-level effects. The results indicate that the share of variation in stock returns explained by global industry factors has grown sharply since the mid-1990s, at the expense of country-specific factors. Foremost among the global factors is a "new economy" factor, which has become a key determinant of global stock returns.

### Brousseau, Vincent

**PD** June 2001. **TI** Can Short-Term Foreign Exchange Volatility be Predicted by the Global Hazard Index? **AU** Brousseau, Vincent; Scacciavillani, Fabio. **AA** European Central Bank. **SR** European Central Bank Working Paper: 66; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 49. **PR** no charge. **JE** F01, F31. **KW** Exchange Rates. Currency Options. Market Turbulence. Implied Volatility. Risk. Forecasting.

**AB** This paper examines the predictive properties of risk indicators for the foreign exchange markets. In particular it considers the predictive properties of historical volatilities and implied volatilities for movements in various bilateral exchange rates and compares them with the analogous properties of a composite indicator of risk, the Global Hazard Index (GHI). The GHI is a function of the implied volatility derived from currency options on the three major exchange rates, i.e. the euro-US dollar, the US dollar-yen and the euro-yen. For the empirical analysis this paper employs the concept of kernel volatility, which, loosely speaking, expresses the volatility of one variable conditional on the level of another. Simple regressions show that the levels of all the indicators on a particular day have a strong link to the variance of the nominal bilateral exchange rate on the next day. A strong overall influence is displayed by the GHI, especially for the currencies of small open economies.

**PD** November 2001. **TI** Monetary Policy and Fears of Financial Instability. **AU** Brousseau, Vincent; Detken, Carsten. **AA** European Central Bank. **SR** European Central Bank Working Paper: 89; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 25. **PR** no charge. **JE** C61, C62, E52, E58. **KW** Financial Stability. Price Stability. Optimal Monetary Policy. Sunspot Equilibria. Bellman Principle. Time Inconsistency.

**AB** Exploiting a specific sunspot equilibrium in a standard

forward-looking New Keynesian model, we present an example of a possible conflict between short-term price stability and financial stability. We find a conflict because the sunspot process consists of a self-fulfilling belief linking the stability of inflation to the smoothness of the interest rate path. A policy focusing only on a fixed-horizon inflation forecast neglects the potential effects of this belief on the variance of inflation. The nature of the conflict case is interpreted as evidence for the occasional relevance as well as the general tenuousness of the conflict case. The implementation of our example has led us, furthermore, to illustrate the lack of general applicability of the Bellman principle in dynamic programming for forward-looking models. Our result holds with respect to a more general (Nash-type) concept of optimality.

**PD** May 1999. **TI** A Global Hazard Index for the World Foreign Exchange Markets. **AU** Brousseau, Vincent; Scacciavillani, Fabio. **AA** European Central Bank. **SR** European Central Bank Working Paper: 01; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 31. **PR** no charge. **JE** F01, F31. **KW** Currency Markets. Exchange Rates. Wild Risk. Currency Options. Implied Volatility.

**AB** This paper proposes a forward-looking indicator of risk in the foreign exchange markets calculated from the implied volatilities of currency options according to the Garman-Kohlhagen model. It discusses the properties of such an indicator and stresses that it is related to a notion of risk that does not coincide with that of Gaussian risk underlying most mainstream models. This is associated with a broader definition of risk, which is called hazard in order to avoid confusion. The properties of the Global Hazard Indicator (GHI) are assessed against the background of the market turbulence in 1998. This period has been characterized by abnormal fluctuations in the exchange rate markets spurred by a sequence of shocks in some emerging economies and in South East Asia, which have raised fear of contagion in developed countries.

### Brown, J. David

**TI** Competition and Firm Performance: Lessons from Russia. **AU** Earle, John S.; Brown, J. David.

### Bruno, Giovanni

**PD** June 2000. **TI** Multinational Corporations, Wages and Employment: Do Adjustment Costs Matter? **AU** Bruno, Giovanni; Falzoni, Anna M. **AA** Universita Bocconi. **SR** CEPR Discussion Paper: 2471; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F23, J23. **KW** Adjustment Costs. Dynamic Duality. Labor Demand. Multinationals.

**AB** This paper investigates the extent to which expansion of international production by US multinationals reduces labor demand at home and at other foreign locations in the presence of labor adjustment costs. The adjustment-cost model of the firm is applied to estimate short-run and long-run price elasticities between home and foreign labor, using dynamic panel data techniques. Evidence is found of significant adjustment costs for employment in Latin American and Canadian affiliates. Also, due to slow adjustments, the relationship between employment in US parents and in Latin American affiliates is reversed from the short- to the long-run,

changing from substitution into complementarity. Finally, labor substitution prevails both in the short- and long-run between locations in the Western Hemisphere and in Europe.

### Buchmuller, Thomas C.

**PD** March 2001. **TI** Union Effects on Health Insurance Provision and Coverage in the United States. **AU** Buchmuller, Thomas C.; DiNardo, John; Valletta, Robert G. **AA** Buchmuller and DiNardo: UC Irvine. Valletta: Federal Reserve Bank of San Francisco. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 30; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 23. **PR** no charge. **JE** G22, I11, I31, J18, J28, J51. **KW** Unions. Employee Benefits. Health Insurance.

**AB** During the past two decades, union density has declined in the United States and employer provision of health benefits has undergone substantial changes in extent and form. Using individual data spanning the years 1983-1997, combined with establishment data for 1993, we update and extend previous analyses of private-sector union effects on employer-provided health benefits. We find that the union effect on health insurance coverage rates has fallen somewhat but remains large, due to an increase over time in the union effect on employee "take-up" of offered insurance, and that declining unionization explains 20-35 percent of the decline in employee health coverage. The increasing union take-up effect is linked to union effects on employees' direct costs for health insurance and the availability of retiree coverage.

### Buiter, Willem H.

**PD** January 2000. **TI** Optimal Currency Areas: Why Does the Exchange Rate Regime Matter? **AA** Bank of England. **SR** CEPR Discussion Paper: 2366; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 72. **PR** 5 pounds, \$8 or 8 euros. **JE** F31, F33, F41, F42. **KW** European Union. EMU. Asymmetric Shocks. National Sovereignty.

**AB** Microeconomic efficiency and market transparency argue in favor of UK membership in EMU and for Scotland's membership in the UK monetary union and also in EMU. UK seigniorage (government revenues from money issuance) would be boosted by EMU membership. Lender of last resort arrangements would not be substantially affected by UK membership in EMU. The UK is too small and too open to be an optimal currency area. The same point applies even more emphatically to Scotland. The economic arguments for immediate UK membership in EMU, at an appropriate entry rate, are overwhelming. Monetary union raises important constitutional and political issues. It involves a further surrender of national sovereignty to a supranational institution, the ECB/ESCB. It is essential that this transfer of national sovereignty be perceived as legitimate by those affected by it. In addition, the citizens of the UK have become accustomed to a high standard of openness and accountability of their central bank since it gained operational independence in 1997. The ECB/ESCB must be held to the same high standard, and, while there are grounds for optimism, there still is some way to go there.

**PD** February 2000. **TI** Monetary Misconceptions: New



and Old Paradigmata and Other Sad Tales. AA Bank of England. SR CEPR Discussion Paper: 2365; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG 64. PR 5 pounds, \$8 or 8 euros. JE E31, E32, E52, E58, E61, F31, F41, F43. KW Monetary Policy. Inflation Targeting. New Paradigm. Stabilization Policy.

AB Several recent studies imply that the response of national saving to fiscal policy is non-monotonic. In this paper, we use two data sets to search for the circumstances in which such non-monotonic responses arise: one refers to a sample of OECD countries, as in previous studies, and one to a sample of developing countries, using recent World Bank data. We find that in both samples non-monotonic effects tend to be associated with large and persistent fiscal impulses. In the OECD such responses are stronger for fiscal contractions than for fiscal expansions: during large fiscal contractions an increase in net taxes has no effect on national saving. High or rapidly growing public debt does not appear to be a good predictor of non-monotonic effects. Using the World Bank data, the situations in which the non-monotonic response of national saving to fiscal policy is not limited to large fiscal contractions. They also occur during large fiscal expansions, and in periods in which debt is accumulating rapidly, regardless of its initial level.

#### Bulir, Ales

TI Growth Slowdown in Bureaucratic Economic Systems: An Issue Revisited. AU Brixiova, Zuzana; Bulir, Ales.

#### Burchardt, Tania

TI Does the UK Have a Private Welfare Class? AU Propper, Carol; Burchardt, Tania.

#### Burgess, Simon

TI Does Competition Between Hospitals Improve the Quality of Care? Hospital Death Rates and the NHS Internal Market. AU Propper, Carol; Burgess, Simon; Green, Katherine.

PD December 2000. TI Incentive Pay and Product Market Competition. AU Burgess, Simon; Metcalfe, Paul. AA Burgess: University of Bristol, Centre for Economic Policy Research, and CMPO. Metcalfe: CMPO. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/28; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). PG 19. PR no charge. JE D21, J33. KW Incentives. Pay Variation. Competition.

AB This paper examines the influence that product market competition has on the use of incentive payment schemes. Data from a large representative cross-section survey is used which allows control for other influences. The degree of product market competition that an establishment faces has a significantly positive effect on the likelihood that it will use a performance-related pay system. This relates to earlier theoretical results of Holmstrom and Hart among others. Interestingly, this effect holds for non-managers as well as managers.

TI Team-Based Incentives in the NHS: An Economic

Analysis. AU Ratto, Marisa; Burgess, Simon; Croxson, Bronwyn; Jewitt, Ian; Propper, Carol.

PD July 2001. TI The Intricacies of the Relationship Between Pay and Performance for Teachers: Do Teachers Respond to Performance Related Pay Schemes? AU Burgess, Simon; Croxson, Bronwyn; Gregg, Paul; Propper, Carol. AA Burgess: CMPO, University of Bristol, and Centre for Economic Policy Research. Croxson: CMPO, University of Bristol. Gregg: CMPO, University of Bristol, CEP, LSE, and HM Treasury. Propper: CMPO, University of Bristol, CASE, LSE and Centre for Economic Policy Research. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/035; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). PG 27. PR no charge. JE I22, J45. KW Performance Related Pay. Financial Incentives. Public Sector.

AB Performance related pay (PRP) has been introduced for teachers in the UK, as part of a drive to improve the outcome of public service and teaching in particular. For the introduced individual PRP scheme to be effective, teachers must have an effect on pupil attainment, must respond to financial incentives, must respond to performance based pay and within this to individual PRP schemes. This review examines evidence on these issues, drawing in particular from the experience of the USA. It concludes that individual PRP schemes can result in small positive gains in pupil attainment, but that the current operation of the UK scheme is more akin to a general pay rise for eligible teachers than a PRP scheme.

PD August 2001. TI The Impact of Teacher Pay Reform on Pupil Attainment: An Outline of the CMPO Research Project on the Performance Threshold. AU Burgess, Simon; Croxson, Bronwyn. AA Burgess: CMPO, University of Bristol and Centre for Economic Policy Research. Croxson: CMPO, University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/036; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). PG 22. PR no charge. JE J33, J44, J45. KW Performance Related Pay. Teacher Effectiveness.

AB In 2000 the government introduced a nationwide reform of teacher pay in England, which linked increases in salary to the performance of individual teachers. This paper outlines a research project which evaluates the impact of the new pay regime on pupil attainment. The paper provides a brief summary of the nature of the new pay regime and relevant aspects of the reforms, an outline of the method and econometric strategy, a description of the various sources of data and the strategy for obtaining data from schools, and an outline of progress to date in obtaining this data.

PD October 1999. TI The Class of '81: The Effects of Early-Career Unemployment on Subsequent Unemployment Experiences. AU Burgess, Simon; Propper, Carol; Rees, Hedley; Shearer, Arran. AA Burgess and Propper: University of Bristol, CASE, and Centre for Economic Policy Research. Rees and Shearer: University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/011; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12

Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). PG 25. PR no charge. JE J64. KW Unemployment. Scarring. Pseudo-Cohort.

AB This paper examines whether unemployment early in an individual's career influences her later employment prospects. It uses six years of the LFS (Labor Force Survey) to create pseudo-cohorts and exploit cross-cohort variation in unemployment at school-leaving age to identify this. Heterogeneous responses are found: for the unskilled, there is evidence of a small enduring adverse effect; for the more skilled, there is a small beneficial effect.

PD November 1999. TI The Use of Incentive Schemes in the Public and Private Sectors: Evidence from British Establishments. AU Burgess, Simon; Metcalfe, Paul. AA Burgess: University of Bristol, CMPO, and Centre for Economic Policy Research. Metcalfe: CMPO. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/015; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). PG 45. PR no charge. JE J32, J33. KW Incentives. Variable Pay. Public Sector.

AB This paper investigates the use of incentive schemes in the public and private sectors in Britain, using a large representative cross-sectional survey. It confirms that incentive schemes are far less widespread in the public sector than the private sector. This poses the question of whether this is optimal or whether the public sector is run inefficiently. The approach taken in this paper exploits a three-dimensional cut through the data, looking across sector, occupation and type of scheme. The findings support the importance of measurability and multi-tasking. The results also suggest that it is difficult to rationalize the lack of incentives in the public sector as optimal.

PD December 1999. TI Incentives in Organisations: A Selective Overview of the Literature with Application to the Public Sector. AU Burgess, Simon; Metcalfe, Paul. AA Burgess: University of Bristol, CMPO, and Centre for Economic Policy Research. Metcalfe: CMPO. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/016; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). PG 88. PR no charge. JE J32, J33. KW Incentives. Variable Pay. Public Sector.

AB This paper provides a brief overview of the theoretical literature on how organizations provide employees with incentives to act in its interest and on the suitability of incentive schemes in different environments. Attention is drawn to areas that are appropriate to public sector organizations. A selection of relevant empirical literature is reviewed and related to the theory.

### Burguet, Roberto

PD June 1998. TI Auction Theory: A Guided Tour. AA Universitat Autònoma de Barcelona. SR Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 422/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. PG 49.

PR no charge. JE D44. KW Auctions. Market Design. Price Formation.

AB I present an overview of what has been the theoretical analysis of auctions in the last two decades. The goal is to offer a systematic exposition of the main issues addressed by this literature with more emphasis on why than on what. For that, I present a unified framework that takes the reader through the analysis of both design questions and positive ones dealing with the working of several standard institutions. At the end of the tour, the reader will find him or herself inside the realm of market design and the theory of price formation.

PD April 1999. TI Right to Choose in Oral Auctions. AA Institute for Economic Analysis (CSIC). SR Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 439/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. PG 22. PR no charge. JE D44. KW Right-to-Choose. Oral Auctions. Risk Aversion.

AB Oral, right-to-choose auctions raise higher revenue when buyers are risk averse. When standard sequential and right-to-choose auctions allocate the objects in the same fashion, this means that sellers prefer the latter, which is consistent with normal practice in sales of real estate, for instance. Prices follow a declining pattern, as has also been observed.

### Butler, Matthew J.

TI Are Politicians Accountable to Voters? Evidence from U.S. House Roll Call Voting Records. AU Lee, David S.; Moretti, Enrico; Butler, Matthew J.

### Caballero, Ricardo J.

PD July 2000. TI Macroeconomic Volatility in Latin America: A View and Three Case Studies. AA Massachusetts Institute of Technology and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 7782; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 42. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE F30, F40, G00, O54. KW Latin America.

AB After decades of trial, error, and occasional regress the pieces of a successful Latin American economic model can be seen scattered among the leading economies of the region. The most traditional macroeconomic maladies of the emerging world -- such as chronic fiscal imbalances and monetary gimmicks -- are gradually being left behind. Many of these economies have made significant progress in their regulatory and supervisory frameworks and, at times, have been leaders beyond Latin American boundaries in allowing private sector co-participation in a wide array of ex-public sector activities. Despite these significant efforts, several structural sources of volatility remain, and new ones have emerged as a result of the new and otherwise better economic environment. This paper reviews these sources through the recent experiences of Argentina, Chile and Mexico.

PD July 2000. TI Dollarization of Liabilities: Underinsurance and Domestic Financial Underdevelopment. AU Caballero, Ricardo J.; Krishnamurthy, Arvind. AA Caballero: Massachusetts Institute of Technology and National Bureau of Economic Research. Krishnamurthy:

Northwestern University. **SR** National Bureau of Economic Research Working Paper: 7792; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** F31, F34, G15, G38. **KW** Foreign Exchange. Dollar Debt.

**AB** While there is still much disagreement on the causes underlying recent emerging markets' crises, one factor that most observers have agreed upon is that contracting "dollar" (foreign currency) denominated external debt -- as opposed to domestic currency debt -- created balance sheet mismatches that led to bankruptcies and dislocations that amplified downturns. Much of the analysis of the "currency-balance sheet channel" hinges on the assumption that companies contract dollar denominated debt. Yet there has been little systematic inquiry into why companies must or choose to take on dollar debt. This paper casts the problem as one of microeconomic underinsurance with respect to country-wide aggregate shocks. Denominating external debt in domestic currency is equivalent to contracting the same amount of dollar-debt, complemented with insurance against shocks that depreciate the equilibrium exchange rate. The presence of country-level international financial constraints justifies the purchase of such insurance even if all agents are risk neutral. However, if domestic financial constraints also exist, domestics will undervalue the social contribution of contracting insurance against country-wide shocks. Foreign traders will reinforce the underinsurance problem by reducing their participation in domestic financial markets.

**PD** May 2001. **TI** Coping With Chile's External Vulnerability: A Financial Problem. **AA** MIT and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/23; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 26. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** E51, E52, F32, F34, F36, F41, G15, G18, G38. **KW** Financial Underdevelopment. External Shocks. Capital Flows. Segmented Financial Markets. Hedging. Illiquid Markets. Underinsurance. Contingent Bonds.

**AB** Chile's external vulnerability is primarily a financial problem. A decline in the Chilean terms-of-trade, for example, is associated with a decline in real GDP that is many times larger than one would predict in the presence of perfect financial markets. The financial nature of this excessive sensitivity has two central dimensions: a sharp contraction in Chile's access to international financial markets when it needs it the most; and an inefficient reallocation of this scarce access across borrowers during external crises. In this paper I characterize this financial mechanism and argue that Chile's aggregate volatility can be reduced significantly by fostering the private sector's development of financial instruments that are contingent on Chile's main external shocks. As a first step, the Central Bank or IRIs should issue a benchmark instrument contingent on these shocks. I also advocate a countercyclical monetary policy but mainly for incentive -- that is, as a substitute for taxes on capital inflows and equivalent measures -- rather than for ex-post liquidity purposes.

**PD** July 2001. **TI** A "Vertical" Analysis of Crises and Intervention: Fear of Floating and Ex-Ante Problems. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind. **AA** Caballero: MIT and NBER. Krishnamurthy:

Northwestern University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/25; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 31. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** E51, E52, F32, F34, F36, F41, G15, G18, G38. **KW** External Shocks. Domestic Liquidity. International Liquidity. Monetary Policy. Interest Parity Departures. Exchange Rate Systems. Overshooting.

**AB** Emerging economies are prone to crises triggered by external shocks. During these crises, should the central bank stabilize the currency or domestic interest rates? We argue that these questions are best analyzed in a "vertical" framework, where the supply of external funds faced by the country is inelastic during the crisis and monetary policy affects mostly the domestic cost of scarce international liquidity. In the vertical view, raising domestic interest rates during a crisis has relatively limited output consequences, while not doing so causes a sharp exchange rate overshooting. This asymmetry naturally leads to the widely observed fear of floating. However, while this response is ex- post rationalizable, it has negative ex-ante consequences as it exacerbates the structurally insufficient private sector incentives to insure against crises. Ex-ante, optimal monetary policy is counter- cyclical, and increasingly so as financial development falls. The silver lining for countries with limited financial development that cannot (or should not) overcome this conservative-central-bank time inconsistency problem is that since the main role of monetary policy in the vertical view is one of incentives, it can be substituted by ex- ante measures to induce the private sector to insure against crises.

**PD** July 2001. **TI** Smoothing Sudden Stops. **AU** Caballero, Ricardo J.; Krishnamurthy, Arvind. **AA** Caballero: MIT and NBER. Krishnamurthy: Northwestern University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/26; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 22. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** E51, E52, F32, F34, F36, F41, G15, G18, G38. **KW** External Shocks. Domestic Collateral. International Collateral. Underinsurance. Credit Lines. Liquidity Requirements. Asset Market Intervention.

**AB** Emerging economies are exposed to severe and sudden shortages of international financial resources. Yet domestic agents seem not to undertake enough precautions against these sudden stops. Following our previous work, we highlight in this paper the central role played by limited domestic development in ex-ante (insurance) and ex-post (spot) financial markets in generating this collective undervaluation of external resources and insurance. Within this structure, this paper studies several canonical policies to counteract the external underinsurance. We do this by first solving for the optimal mechanism given the constraints imposed by limited domestic financial development, and then considering the main -- in terms of the model and practical relevance -- implementations of this mechanism.

### Calderon, Cesar

**PD** January 2001. **TI** Are African Current Account Deficits Different? Stylized Facts, Transitory Shocks, and Decomposition Analysis. **AU** Calderon, Cesar; Chong, Alberto; Zanolini, Luisa. **AA** Calderon: University of Rochester. Chong: World Bank and Georgetown University.

Zanforlin: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/04; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 39. **PR** not available. **JE** F32, F41, F42. **KW** Current Account. Dynamic Panels. Decomposition Analysis.

**AB** This paper analyzes the behavior of current account deficits in Africa and estimates whether the deficits are excessive with respect to fundamentals. The findings are that deficits are (i) not very persistent; (ii) positively linked with domestic growth; (iii) strongly linked with public (and private) savings, suggesting that fiscal consolidation in IMF-supported programs may be relatively effective; (iv) linked with aid flows, so as to close the external gap, and (v) linked with currency depreciation and the terms of trade. The deficit is "excessive," as it is almost 3 percent of the gross national disposable income above the equilibrium level.

### Calomiris, Charles W.

**PD** May 2000. **TI** Can Emerging Market Bank Regulators Establish Credible Discipline? The Case of Argentina, 1992-1999. **AU** Calomiris, Charles W.; Powell, Andrew. **AA** Calomiris: Columbia University and NBER. Powell: Central Bank of Argentina. **SR** National Bureau of Economic Research Working Paper: 7715; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 42. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G21, N26. **KW** Argentina. Credible Discipline. Bank Regulators. Emerging Markets.

**AB** In the early 1990s, after decades of high inflation and financial repression, Argentina embarked on a course of macroeconomic and bank regulatory reform. Argentina's bank regulatory system now is widely regarded as one of the two or three most successful among emerging market economies. This paper traces the evolution of the regulatory policy changes of the 1990s and shows that the reliance on market discipline has played an important role in prudential regulation by encouraging proper risk management by banks. There is substantial heterogeneity among banks in the interest rates they pay for debt and the rate of growth of their deposits, and that heterogeneity is traceable to fundamental attributes of banks that affect the riskiness of deposits (i.e. asset risk and leverage). Moreover, market perceptions of default risk are mean-reverting, indicating that market discipline encourages banks to respond to increases in default risk by limiting asset risk or lowering leverage.

### Calzo, Alessandro

**PD** April 2001. **TI** Modeling the Demand for Loans to the Private Sector in the Euro Area. **AU** Calzo, Alessandro; Gartner, Christine; Sousa, Joao. **AA** European Central Bank. **SR** European Central Bank Working Paper: 55; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 34. **PR** no charge. **JE** C32, C51. **KW** Credit Demand. Euro Area. Cointegration. Error-Correction Model.

**AB** This paper studies the determinants of loans to the private sector in the euro area. Using the Johansen methodology, the study identifies one cointegrating relationship linking real loans, GDP and interest rates. This relationship implies that in the long-run real loans are positively related to real GDP and negatively to real short-term and long-term

interest rates. Both the signs and the magnitude of the coefficients suggest that the cointegrating vector describes a long-run demand equation. The short-run dynamics of the demand for euro area real loans is subsequently modelled by means of a Vector Error Correction Model (VECM). A number of specification tests performed on the VECM produced satisfactory results, with tests of stability of the model's parameters showing no signs of structural breaks during the sample period (1980 Q1-1999 Q2). All of this suggests that the model can reasonably explain developments in real loans to the private sector in the euro area.

### Camacho, Maximo

**PD** August 2000. **TI** This is What the US Leading Indicators Lead. **AU** Camacho, Maximo; Perez-Quiros, Gabriel. **AA** Camacho: Universitat Autònoma de Barcelona. Perez-Quiros: European Central Bank. **SR** European Central Bank Working Paper: 27; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 36. **PR** no charge. **JE** C32, C53. **KW** Leading Indicators. Turning Points. Optimal Forecasting Rule.

**AB** This paper proposes an optimal filter to transform the Conference Board Composite Leading Index (CLI) into recession probabilities in the US economy. It also analyzes the CLI's accuracy at anticipating US output growth. By comparing the predictive performance of linear, VAR extensions of smooth transition regression and switching regimes, probit, nonparametric models, the conclusion is that a combination of the switching regimes and nonparametric forecasts is the best strategy at predicting both the NBER business cycle schedule and GDP growth. This confirms the usefulness of CLI, even in a real-time analysis.

### Camba-Mendez, Gonzalo

**PD** March 2001. **TI** Testing the Rank of the Hankel Matrix: A Statistical Approach. **AU** Camba-Mendez, Gonzalo; Kapetanios, George. **AA** Camba-Mendez: European Central Bank. Kapetanios: National Institute of Economic and Social Research, London. **SR** European Central Bank Working Paper: 45; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 26. **PR** no charge. **JE** C12, C15, C32. **KW** Tests of Rank. Model Reduction. Hankel Operator. Monte Carlo.

**AB** The rank of the Hankel matrix, corresponding to a system transfer function, is equal to the order of its minimal state space realization. The computation of the rank of the Hankel matrix is complicated by the fact that its block elements are rarely given exactly but are estimated instead. In this paper, new statistical tests to determine the rank of the Hankel matrix are proposed. A Monte Carlo study on the reliability of these tests compared to existing procedures is also provided.

**PD** April 2001. **TI** Assessment Criteria for Output Gap Estimates. **AU** Camba-Mendez, Gonzalo; Rodriguez-Palenzuela, Diego. **AA** European Central Bank. **SR** European Central Bank Working Paper: 54; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 42. **PR** no charge. **JE** C32, E32, E37. **KW** Output Gap. Forecasting Inflation. Time Series Models.

**AB** This paper assesses the statistical reliability of different measures of the output gap for the Euro-11 area and the US

using output, inflation and unemployment systems. In order to assess the reliability of an output gap estimate two criteria are adopted. Firstly, the estimate should have forecasting power over inflation. Secondly, the ex post statistical revisions of the output gap should not differ significantly from previously computed measures. As an additional check on reliability, we find out whether the estimate of the output gap is positively correlated with standard measures of capacity utilization. We find that under our multivariate specification, unobservable components (UC) type models of the output gap show temporal consistency between sequential and final estimates and are consistent with known cyclical indicators. On the other hand, our UC models for the output gap have limited forecasting power for inflation, since they underperform an arbitrary autoregressive model.

**PD** April 2001. **TI** Spectral Based Methods to Identify Common Trends and Common Cycles. **AU** Camba-Mendez, Gonzalo; Kapetanios, George. **AA** European Central Bank. **SR** European Central Bank Working Paper: 62; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 18. **PR** no charge. **JE** C12, C15, C32. **KW** Tests of Rank. Spectral Density Matrix. Canonical Correlations.

**AB** The rank of the spectral density matrix conveys relevant information in a variety of modeling scenarios. Phillips (1986) showed that a necessary condition for cointegration is that the spectral density matrix of the innovation sequence at frequency zero is of a reduced rank. In a recent paper Forni and Reichlin (1998) suggested the use of generalized dynamic factor model to explain the dynamics of a large set of macroeconomic series. Their method relied also on the computation of the rank of the spectral density matrix. This paper provides formal tests to estimate the rank of the spectral density matrix at any given frequency. The tests of rank at frequency zero are tests of the null of "cointegration," complementary to those suggested by Phillips and Ouliaris (1988) which test the null of "no cointegration."

### Card, David

**PD** June 2000. **TI** Estimating the Return to Schooling: Progress on Some Persistent Econometric Problems. **AA** University of California, Berkeley and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7769; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 36. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I20, J31. **KW** Education. Wage Differentials.

**AB** This paper reviews a set of recent studies that have attempted to measure the causal effect of education on labor market earnings by using institutional features of the supply side of the education system as exogenous determinants of schooling outcomes. A simple theoretical model that highlights the role of comparative advantage in the optimal schooling decision is presented and used to motivate an extended discussion of econometric issues, including the properties of ordinary least squares and instrumental variables estimators. A review of studies that have used compulsory schooling laws, differences in the accessibility of schools, and similar features as instrumental variables for completed education reveals that the resulting estimates of the return to schooling are typically as big or bigger than the corresponding ordinary least squares estimates. One interpretation of this finding is that marginal

returns to education among the low- education subgroups typically affected by supply-side innovations tend to relatively high, reflecting their high marginal costs of schooling, rather than low ability that limits their return to education.

**PD** February 2001. **TI** The Measurement of Medicaid Coverage in the SIPP: Evidence from California, 1990-1996. **AU** Card, David; Hildreth, Andrew K. G.; Shore-Sheppard, Lara D. **AA** Card: UC Berkeley and NBER. Hildreth: UC Berkeley. Shore-Sheppard: Williams College and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 32; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 24. **PR** no charge. **JE** I11, I18. **KW** Medicaid. SIPP. California.

**AB** This paper studies the accuracy of reported Medicaid coverage in the Survey of Income and Program Participation (SIPP) using a unique data set formed by matching SIPP survey responses to administrative records from the State of California. Overall, we estimate that the SIPP underestimates Medicaid coverage in the California population by about 10 percent. We estimate that the probability someone reports Medicaid coverage in a month when they are actually covered is around 85 percent. The corresponding probability for low-income children is even higher -- at least 90 percent. These estimates suggest that the SIPP does a good job of measuring the coverage of those who are actually in the Medicaid system. On the other hand, our estimate of the rate of reported coverage for those who are not covered in the administrative records is relatively high: 2.5 percent for the sample as a whole, and up to 20 percent for poor children. Examination of the administrative records suggests that some of this may be due to errors in the recording of Social Security numbers in the administrative system, rather than to problems in the SIPP.

**PD** September 2001. **TI** Using Discontinuous Eligibility Rules to Identify the Effects of the Federal Medicaid Expansions. **AU** Card, David; Shore-Sheppard, Lara D. **AA** Card: UC Berkeley. Shore-Sheppard: Williams College. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 36; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 25. **PR** no charge. **JE** I11, I18, I31, I32. **KW** Medicaid. Health Insurance. Poverty Line.

**AB** This paper exploits the discrete nature of the eligibility criteria for two major federal expansions of Medicaid to discern the effects of the expansions on Medicaid coverage, overall health insurance coverage, and coverage by private and other non-Medicaid sources. Graphical and conventional difference-in-differences methods suggest that the 100 percent program led to a 10-15 percentage point rise in Medicaid coverage among the targeted group, with a small decline in non-Medicaid coverage and a rise in the incidence of dual coverage. The newly covered group includes children in families further from the AFDC income cutoffs and closer to the poverty line than the traditional Medicaid caseload, and includes more children in dual-headed families. By comparison, we are unable to find much evidence that the 133 percent program had any effect on Medicaid coverage of children in families with incomes from 100 to 133 percent of the poverty line. This negative finding is confirmed in data from the March Current Population Survey.

**PD** February 2002. **TI** Did Draft Avoidance Raise College Attendance During the Vietnam War? **AU** Card, David; Lemieux, Thomas. **AA** Card: UC Berkeley. Lemieux: University of British Columbia. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 46; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. **Website:**

violet.berkeley.edu/~ir/cle/index.html. **PG** 12. **PR** no charge. **JE** I21, I28, J24. **KW** Vietnam War. Draft Avoidance. College Attendance.

**AB** The rise in college attendance rates in the mid-1960s is often attributed to draft avoidance behavior. Throughout most of the Vietnam war men who were enrolled in college could obtain deferments that delayed their eligibility for conscription. Anecdotal and quantitative evidence suggests that these deferments were an effective though imperfect way to avoid military service. We use data on enrollment and completed education of cohorts of men and women born between 1935 and 1959 to estimate the effect of draft avoidance behavior on the schooling choices of men who faced the highest risk of service during the Vietnam-era draft. We assume that in the absence of the draft the relative schooling outcomes of men and women would have followed a smooth inter-cohort trend. We find a strong link between the risk of induction faced by a cohort of men and their enrollment and completed education relative to women. We estimate that draft avoidance raised college attendance rates by 4-6 percentage points in the late 1960s, and raised the fraction of men born in the late 1940s with a college degree by up to 2 percentage points.

**PD** March 2002. **TI** Estimating the Dynamic Treatment Effects of an Earnings Subsidy For Welfare-Leavers. **AU** Card, David; Hyslop, Dean R. **AA** Card: UC Berkeley. Hyslop: New Zealand Treasury. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 47; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. **Website:** violet.berkeley.edu/~ir/cle/index.html. **PG** 26. **PR** no charge. **JE** C33, I38, J22, J33. **KW** Self Sufficiency Program. Endogeneity. Logistic Regression.

**AB** In the Self Sufficiency Program (SSP) welfare demonstration, members of a randomly assigned treatment group could receive a generous earnings subsidy for full time work. The subsidy was available for up to three years, but only to those who initiated payments within a year of random assignment. We use logistic regression models with state dependence and unobserved heterogeneity to measure the effects of the subsidy program on welfare transitions. Because of the eligibility rules, members of the treatment group who qualified for the subsidy were a selective subset of these experimental populations, confounding the measurement of SSP's treatment effects in the post-eligibility period. Moreover, the eligibility process had a direct effect on welfare participation, since those who received SSP payments become ineligible for welfare. We incorporate these features by modeling the endogeneity of eligibility status and estimating separate treatment effects for the pre-eligibility period, the post-eligibility status and estimating separate treatment effects for the pre-eligibility period, the post-eligibility period, and a transitional period. Our estimates suggest that SSP had both a short-run effect, associated with the establishment of eligibility, and a longer-run effect on welfare entry and exit rates, with a

bigger long-run impact on exit flows.

### Carey, Mark

**PD** March 2000. **TI** Dimensions of Credit Risk and Their Relationship to Economic Capital Requirements. **AA** Federal Reserve Board and NBER. **SR** National Bureau of Economic Research Working Paper: 7629; 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** G21, G28, G33. **KW** Capital Arbitrage. Capital Regulations. Credit Risk. Bank Failure.

**AB** Now in prospect is a major revision of international bank capital regulations that would embody recent advances in credit risk measurement and management. Previous regulations have been simpler in structure, with a primary goal of getting capital requirements right on average, and thus have largely ignored the difference between average and marginal. This paper presents evidence that explicit treatment in new regulations of several important dimensions of credit risk is necessary. If such dimensions are compressed or ignored, capital arbitrage activities by banks are likely to continue, leading to an increase in bank failure rates over time.

### Carlino, Gerald A.

**PD** August 2000. **TI** Regional Income Fluctuations: Common Trends and Common Cycles. **AU** Carlino, Gerald A.; Sill, Keith. **AA** Carlino: Federal Reserve Bank of Philadelphia and University of Pennsylvania. Sill: Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/08; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **Website:** www.phil.frb.org/econ/wps/index.html. **PG** 17. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C22, C32, E32. **KW** Common Cycles. Common Trends.

**AB** This paper investigates trend and cycle dynamics in per capita income for the major U.S. regions during the 1956-95 period. Cointegration, serial correlation and common features information are used in jointly decomposing the series into trend and cycle components. We find considerable differences in the volatility of regional cycles. Controlling for differences in volatility, we find a great deal of comovement in the cyclical response for all regions but the Far West. Possible sources underlying differences in regional cycles are explored, such as the share of a region's income accounted for by manufacturing, defense spending as a proportion of a region's income, oil price shocks, and the stance of monetary policy. Somewhat surprisingly, we find that the share of manufacturing in a region seems to account for little of the variation in regional cycles relative to national cycles, but manufacturing share differentially affects trend growth for four of the seven regions studied.

**PD** August 2000. **TI** Sectoral Shocks and Metropolitan Employment Growth. **AU** Carlino, Gerald A.; DeFina, Robert H.; Sill, Keith. **AA** Carlino and Sill: Federal Reserve Bank of Philadelphia. DeFina: Villanova University. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/09; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **Website:**

www.phil.frb.org/econ/wps/index.html. **PG** 18. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E32, R11. **KW** Sectoral Shocks. Data Frequency. Structural VAR.

**AB** We examine the relative importance of national disturbances versus local industry shocks for employment fluctuations using monthly data on five metropolitan statistical areas (MSAs). Input-output tables are used to quantify the strength of inter-industry linkages, which are then used to help identify a structural VAR model for each MSA. Within-MSA industry shocks are found to explain considerably more of the forecast-error variance in industry employment growth (87-94 percent) than do common national shocks to productivity and monetary policy, and the manufacturing, services, and government sectors make the largest individual contributions to local employment variance. We also find that the measured importance of national shocks for employment fluctuations increases as the level of spatial aggregation increases.

**PD** March 2001. **TI** Employment Deconcentration: A New Perspective on America's Postwar Urban Evolution. **AU** Carlino, Gerald A.; Chatterjee, Satyajit. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/04; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: www.phil.frb.org/econ/wps/index.html. **PG** 24. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** R11, R12, R13. **KW** Employment Deconcentration. Regional Development. Urban Density. Congestion Costs.

**AB** In this study we show that during the postwar era, the United States experienced a decline in the share of urban employment accounted for by the relatively dense metropolitan areas and a corresponding rise in the share of relatively less dense ones. This trend, which we call employment deconcentration, is distinct from the other well-known regional trend, namely, the postwar movement of jobs and people from the frost belt to the sunbelt. We also show that deconcentration has been accompanied by a similar trend within metropolitan areas, wherein employment share of the denser sections of MSAs has declined and that of the less dense sections risen. We provide a general equilibrium model with density-driven congestion costs to suggest an explanation for employment deconcentration.

### Carlton, Dennis W.

**TI** The Choice of Organizational Form in Gasoline Retailing and the Costs of Laws Limiting That Choice. **AU** Blass, Asher A.; Carlton, Dennis W.

### Carson, Carol S.

**PD** February 2001. **TI** Toward a Framework for Assessing Data Quality. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/25; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 69. **PR** not available. **JE** C49, C82. **KW** Data Quality. Macroeconomic Data. Data Assessment.

**AB** This paper describes work in progress on data quality, an important element of greater transparency in economic policy and financial stability. Data quality is being dealt with systematically by the IMF through the development of data

quality assessment frameworks complementing the IMF's Special Data Dissemination Standard (SDDS) and General Data Dissemination System (GDDS). The aim is to improve the quality of data provided by countries to the IMF; and to assess evenhandedly the quality of countries' data in Reports on the Observance of Standards and Codes. The frameworks bring together best practices including those of the United Nations Fundamental Principles of Official Statistics.

### Casares, Miguel

**PD** March 2001. **TI** Business Cycle and Monetary Policy Analysis in a Structural Sticky-Price Model of the Euro Area. **AA** Universidad Publica de Navarra, Spain. **SR** European Central Bank Working Paper: 49; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 42. **PR** no charge. **JE** E20, E32, E52. **KW** Optimizing Dynamic Models. Sticky Prices. Business Cycle. Taylor Rules.

**AB** Structural models are a powerful tool for business cycle and monetary policy analysis because they are invariant to either policy changes or external shocks. This paper derives a Sidrauski-type model in which both the demand and supply side are structural in the sense that the behavioral equations obtained are rigorously calculated from optimizing decisions of the individuals. Moreover, price stickiness on the supply side decisions is introduced so as to have relevant short-run real effects of monetary policy through the real interest rate channel. The resulting medium-size model will be calibrated and estimated for the euro area, some simulations on business cycle and monetary policy analysis will be carried out.

### Cassola, Nuno

**TI** A Money Demand System for Euro Area M3. **AU** Brand, Klaus; Cassola, Nuno.

**PD** March 2001. **TI** A Two-Factor Model of the German Term Structure of Interest Rates. **AU** Cassola, Nuno; Barros Luis, Jorge. **AA** Cassola: European Central Bank. Barros Luis: University of York and Banif Investimento. **SR** European Central Bank Working Paper: 46; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 63. **PR** no charge. **JE** E43, G12. **KW** Expectations Hypothesis. Term Premiums. Pricing Kernels. Affine Model.

**AB** This paper shows that a two-factor constant volatility model provides an adequate description of the dynamics and shape of the German term structure of interest rates from 1972 up to 1998. The model also provides reasonable estimates of the volatility and term premium curves. Following the conjecture that the two factors driving the German term structure of interest rates represent the ex-ante real interest rate and the expected inflation rate, the identification of one factor with expected inflation is discussed. Estimates are obtained using a Kalman filter and a maximum likelihood procedure including in the measurement equation both the yields and their volatilities.

### Castren, Olli

**PD** November 2000. **TI** Capital Market Development, Corporate Governance and the Credibility of Exchange Rate Pegs. **AU** Castren, Olli; Takalo, Tuomas. **AA** Castren: European Central Bank. Takalo: Boston University. **SR** European Central Bank Working Paper: 34; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt

am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 28. PR no charge. JE E58, D84, F33, G18, G38. KW Exchange Rate Pegs. Speculative Attacks. Output Persistence. Capital Market Frictions. Corporate Governance. AB Focusing on emerging market currency arrangements, we build a model of an exchange rate peg with escape clauses and output persistence. We first show how output persistence works as an additional "fundamental" so that an exogenous increase in persistence can make the currency peg more vulnerable to speculative attacks. We then endogenize output persistence as arising from capital market frictions that are caused by weak corporate governance institutions. It turns out that in emerging market economies, often characterized by credit constraints, a partial reform of corporate governance institutions may enhance a financial accelerator mechanism, which increases output persistence and deteriorates the credibility of the exchange rate peg. A conservative policymaker partially counters this adverse effect, but only a complete reform of corporate governance institutions fully eliminates persistence and reduces the risk of currency crisis on all levels of policy preferences.

#### Catao, Luis

TI The New Economy and Global Stock Returns. AU Brooks, Robin; Catao, Luis.

#### Cecchetti, Stephen G.

PD December 1999. TI Does Inflation Targeting Increase Output Volatility? An International Comparison of Policymakers' Preferences and Outcomes. AU Cecchetti, Stephen G.; Ehrmann, Michael. AA Cecchetti: Ohio State University and NBER. Ehrmann: European University Institute. SR National Bureau of Economic Research Working Paper: 7426; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 24. PR \$5.00. JE E52, E58. KW Inflation Targeting. Output Volatility. Aggregate Shocks. AB Aggregate shocks that move output and inflation in opposite directions create a tradeoff between output and inflation variability, forcing central bankers to make a choice. Differences in the degree of accommodation of shocks lead to disparate variability outcomes, revealing national central banker's relative weight on output and inflation variability in their preferences. We use estimates of the structure of 23 industrialized and developing economies, including nine that target inflation explicitly, together with the realized output and inflation patterns in those countries, to infer the degree of policymakers' inflation variability aversion. Our results suggest that both countries that introduced inflation targeting, and non-targeting European Union countries approaching monetary union, increased their revealed aversion to inflation variability, and likely suffered most increase in output volatility as a result.

#### Chaloupka, Frank J.

TI Marijuana and Youth. AU Pacula, Rosalie Liccardo; Grossman, Michael; Chaloupka, Frank J.; O'Malley, Patrick M.; Johnston, Lloyd D.; Farrelly, Matthew C.

TI Marijuana and Youth. AU Pacula, Rosalie Liccardo; Grossman, Michael; Chaloupka, Frank J.; O'Malley, Patrick M.; Johnston, Lloyd D.; Farrelly, Matthew C.

#### Chatterjee, Satyajit

PD November 2000. TI On the Welfare Gains of Reducing the Likelihood of Economic Crises. AU Chatterjee, Satyajit; Corbae, Dean. AA Chatterjee: Federal Reserve Bank of Philadelphia. Corbae: University of Pittsburgh. SR Federal Reserve Bank of Philadelphia Research Working Paper: 00/14; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). PG 30. PR no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE E21, E32, E37. KW Economic Crises. Depression. Welfare Gains.

AB Our aim in this paper is to obtain a measure of the potential benefit of reducing the likelihood of economic crises. We define an economic crisis as a Depression-style collapse of economic activity. Based on the observed frequency of Depression-like events, we estimate this likelihood to be approximately once every 83 years for the US. Even for this small probability of transiting into a Depression-like state, the welfare gain from setting it to zero can range between 1.05 percent and 6.59 percent of annual consumption, in perpetuity. These large gains arise because even though the probability of encountering a Depression-like state is small, it is highly persistent once it occurs. We also find that for some calibrations of the model, uninsured unemployment risk contributes significantly to the size of these gains.

TI Employment Deconcentration: A New Perspective on America's Postwar Urban Evolution. AU Carlino, Gerald A.; Chatterjee, Satyajit.

#### Chatterji, Pinka

PD May 2000. TI The Impact of Maternal Alcohol and Illicit Drug Use on Children's Behavior Problems: Evidence from the Children of the National Longitudinal Survey of Youth. AU Chatterji, Pinka; Markowitz, Sara. AA Chatterji: Montefiore Medical Center. Markowitz: NBER and New Jersey Institute of Technology. SR National Bureau of Economic Research Working Paper: 7692; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 20. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE 111, 112. KW Youth. Health. Maternal Drug Use. Children's Behavioral Problems.

AB This study uses data from the Children of the National Longitudinal Survey of Youth to test for evidence of a causal relationship between maternal alcohol use, marijuana use and cocaine use, and children's behavior problems. Ordinary test squares results provide strong evidence that maternal substance use is associated with children's behavior problems. Models that account for the potential endogeneity of maternal substance use yield mixed results. Models estimated using instrumental variables (IV) methods are inconsistent with OLS findings. Child-specific and family-specific fixed effects models, however, suggest that maternal alcohol, marijuana and cocaine use are associated with increases in behavior problems.

#### Chattopadhyay, Raghobendra

PD October 2001. TI Women as Policy Makers: Evidence from an India-Wide Randomized Policy Experiment. AU Chattopadhyay, Raghobendra; Dufo, Esther. AA Chattopadhyay: Indian Institute of Management,



Calcutta. Duflo: MIT, NBER, and CEPR. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/35; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 27. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** H41, H72, I18, J16, O11. **KW** Gender. Decentralization. Affirmative Action. Political Economy.

**AB** This paper uses political reservations for women in India to study the impact of women's leadership on policy decisions. In 1998, one third of all leadership positions of Village Councils in West Bengal were randomly selected to be reserved for a woman: in these councils only women could be elected to the position of head. Village Councils are responsible for the provision of many local public goods in rural areas. Using a data set we collected on 165 Village Councils, we compare the type of public goods provided in reserved and unreserved Village Councils. We show that women invest more in infrastructure that is directly relevant to the needs of rural women (water, fuel, and road), while men invest more in education. Women are more likely to participate in the policy-making process if the leader of their village council is a woman.

**Chay, Kenneth Y.**

**PD** April 2001. **TI** Does Air Quality Matter? Evidence from the Housing Market. **AU** Chay, Kenneth Y.; Greenstone, Michael. **AA** Chay: UC Berkeley and NBER. Greenstone: University of Chicago. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 33; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. **Website:** violet.berkeley.edu/~ir/cle/index.html. **PG** 35. **PR** no charge. **JE** L51, Q25. **KW** Clean Air Act. Air Quality. Housing Values. TSPs Pollution.

**AB** We use the declines in air pollution induced by the 1970 and 1977 Clean Air Acts to provide new evidence on the capitalization of air quality into housing values. County-level EPA regulations are used as instrumental variables for changes in total suspended particulates (TSPs) pollution. We find that TSPs fell substantially more in regulated than in unregulated counties during the 1970s and, at the same time, housing prices rose more in regulated counties. We produce estimates of the impact of declines in particulates levels on home values. The estimates from this design are remarkably stable across specifications, while the estimates based on "conventional" designs are 6-7 times smaller and very sensitive to model specification. The Clean Air Act regulations seem to have provided substantial economic benefits to homeowners in regulated counties. Consistent with the Tiebout' sorting hypothesis, the evidence also suggests that the marginal benefit of a pollution reduction is slightly lower in communities with high pollution levels.

**PD** August 2001. **TI** Air Quality, Infant Mortality, and the Clean Air Act of 1970. **AU** Chay, Kenneth Y.; Greenstone, Michael. **AA** Chay: UC Berkeley and NBER. Greenstone: University of Chicago and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 42; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. **Website:** violet.berkeley.edu/~ir/cle/index.html. **PG** 24.

**PR** no charge. **JE** I12, Q25. **KW** TSPs. Clean Air Act. Infant Mortality.

**AB** We examine the effects of total suspended particulates (TSPs) pollution on infant health using the air quality improvements induced by federal air pollution regulations. We use county-level nonattainment status as an instrumental variable for TSPs changes after the 1970 CAAA. Since regulatory status is a discrete function of the previous year's TSPs levels, the discontinuity in its assignment can be used to gauge the credibility of the research design. The county-level regulations are associated with sharp, large reductions in TSPs pollution in nonattainment counties soon after the 1970 CAAA. We estimate that a 1-mg/m<sup>3</sup> reduction in TSPs pollution results in 5-8 fewer infant deaths per 100,000 live births at the county level (a 0.35 elasticity). Most of these effects are driven by a reduction in deaths occurring within one month of birth, suggesting that fetal exposure is a potential biological pathway. The estimated birth weight effects are consistent with this possibility. Also there are discrete differences in TSPs and infant mortality changes between nonattainment and attainment counties near the federal ceiling, suggesting that the regulations are a causal actor. It appears that the 1970 Clean Air Act provided significant health benefits for infants.

**TI** Civil Rights, the War on Poverty, and Black-White Convergence in Infant Mortality in Mississippi. **AU** Almond, Douglas V.; Chay, Kenneth Y.; Greenstone, Michael.

**PD** December 1999. **TI** The Impact of Air Pollution on Infant Mortality: Evidence from Geographic Variation in Pollution Shocks Induced by a Recession. **AU** Chay, Kenneth Y.; Greenstone, Michael. **AA** Chay: UC Berkeley and NBER. Greenstone: UC Berkeley. **SR** National Bureau of Economic Research Working Paper: 7442; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **Website:** www.nber.org. **PG** 42. **PR** \$5.00. **JE** I12, Q25, Q28. **KW** Infant Mortality. Air Pollution.

**AB** This study uses sharp, differential air quality changes across sites attributable to geographic variation in the effects of the 1981-82 recession to estimate the relationship between infant mortality and particulates air pollution. Using the most detailed and comprehensive data available, we find that a 1mg/m<sup>3</sup> reduction in particulates results in about 4-8 fewer infant deaths per 100,000 live births at the county level (a 0.35-0.45 elasticity). The estimated effects are driven almost entirely by fewer deaths occurring within one month and one day of birth, suggesting that fetal exposure to pollution has adverse health consequences. The estimated effects of the pollution reductions on infant birth weight provide evidence consistent with this potential pathophysiologic mechanism. The analysis also reveals a nonlinear relationship between pollution and infant mortality at the county level. Importantly, the estimates are remarkably stable across a variety of specifications. All of these findings are masked in "conventional" analyses based on less credible research designs.

**Chen, Duanjie**

**PD** February 2001. **TI** A Quest for Revenue and Tax Incidence in Uganda. **AU** Chen, Duanjie; Matovu, John M.; Reinikka, Ritva. **AA** Chen: University of Toronto. Matovu: International Monetary Fund. Reinikka: World Bank. **SR** International Monetary Fund Working Paper: WP/01/24;

International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 39. **PR** not available. **JE** H22, H23, H25. **KW** Tax Reforms. Tax Incidence.

**AB** This paper examines tax policy and tax reforms in Uganda. Using household survey evidence, the paper identifies which taxes are progressive and investigates whether tax reforms have made the poor better or worse off. Household survey analysis reveals that some of the tax reforms implemented in the 1990s were generally pro-poor. The paper also examines business taxation and the actual tax burden on firms' capital investment. The analysis demonstrates that, even when the country's level of public revenue is low at the macroeconomic level, rapidly increasing taxation may pose a constraint to private investment at the microeconomic level.

### Chernozhukov, Victor

**PD** July 2000. **TI** Conditional Extremes and Near-Extremes. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/21; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 26. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C13, C14, C21, C41, C51, C53, D21, D44, D81. **KW** Quantile Regression. Extreme Value Theory. Tail Analysis. (S,s) Models. Auctions. Price Search. Extreme Risk.

**AB** This paper develops a theory of high and low (extremal) quantile regression: the linear models, estimation, and inference. In particular, the models coherently combine the convenient, flexible linearity with the extreme-value-theoretic restrictions on tails and the general heteroscedastic forms. Within these models, the limit laws for extremal quantile regression statistics are obtained under the rank conditions (experiments) constructed to reflect the extremal or rare nature of tail events. An inference framework is discussed. The results apply to cross-section (and possibly dependent) data. The applications, ranging from the analysis of babies' very low birthweights, (S,s) models, tail analysis in heteroscedastic regression models, outlier-robust inference in auction models, and decision-making under extreme uncertainty, provide the motivation and applications of this theory.

**PD** November 2000. **TI** Conditional Value-at-Risk: Aspects of Modeling and Estimation. **AU** Chernozhukov, Victor; Umantsev, Len. **AA** Chernozhukov: MIT. Umantsev: Stanford University. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/19; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 20. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C14, C13, C21, C51, C53, G12, G19. **KW** Conditional Quantiles. Quantile Regression. Extreme Quantiles. Extreme Value Theory. Extreme Risk.

**AB** This paper considers flexible conditional (regression) measures of market risk. Value-at-Risk modeling is cast in terms of the quantile regression function -- the inverse of the conditional distribution function. A basic specification analysis relates its functional forms to the benchmark models of returns and asset pricing. We stress important aspects of measuring very high and intermediate conditional risk. An empirical application illustrates.

**PD** March 2001. **TI** Simple 3-Step Censored Quantile Regression and Extramarital Affairs. **AU** Chernozhukov,

Victor; Hong, Han. **AA** Chernozhukov: MIT. Hong: Princeton University and UCL. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/20; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 27. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C14, C24, C41, C51, D13. **KW** Median Regression. Quantile Regression. Fixed Censoring. Robustness. Accelerated Failure Time. Proportional Hazard. Classification. Discriminant Analysis.

**AB** This paper suggests simple 3 and 4-step estimators for censored quantile regression models with an envelope or a separation restriction on the censoring probability. The estimators are theoretically attractive (asymptotically as efficient as the celebrated Powell's censored least absolute deviation estimator). At the same time, they are conceptually simple and have trivial computational expenses. They are especially useful in samples of small size or models with many regressors, with desirable finite sample properties and small bias. The envelope restriction costs a small reduction of generality relative to the canonical censored regression quantile model, yet its main plausible features remain intact. The estimator can also be used to estimate a large class of traditional models, including normal Amemiya-Torbin model and many accelerate failure and proportional hazard models. The main empirical example involves a very large data-set on extramarital affairs, with high 68% censoring. We also briefly consider the survival quantile regression on the Stanford heart transplant data. We estimate the age and prior surgery effects across survival quantiles.

### Cheung, Yin-Wong

**PD** October 1999. **TI** Market Structure and the Persistence of Sectoral Real Exchange Rates. **AU** Cheung, Yin-Wong; Chinn, Menzie D.; Fujii, Eiji. **AA** Cheung: University of California, Santa Cruz. Chinn: University of California, Santa Cruz and NBER. Fujii: Otaru University of Commerce and University of California, Santa Cruz. **SR** National Bureau of Economic Research Working Paper: 7408; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **Website:** www.nber.org. **PG** 20. **PR** \$5.00. **JE** F31, F41, L16. **KW** Real Exchange Rates. Persistence. Market Structure.

**AB** We examine the relationship between market structure and the persistence of U.S. dollar-based sectoral real exchange rates for fourteen OECD countries. Our empirical results based on disaggregated data suggest that differences in market structure significantly determine the rates at which deviations from sectoral purchasing power parity decay. Specifically, industries with a larger price-cost margin are found to exhibit slower parity reversion of their sectoral real exchange rates. Further, as the degree of intra-industry trade activity increases, sectoral real exchange rate persistence becomes more pronounced. These findings imply that an imperfectly competitive market structure contributes to the well-documented persistence in real exchange rates.

**PD** November 1999. **TI** Traders, Market Microstructure and Exchange Rate Dynamics. **AU** Cheung, Yin-Wong; Chinn, Menzie D. **AA** Cheung: University of California, Santa Cruz. Chinn: University of California, Santa Cruz and NBER. **SR** National Bureau of Economic Research Working Paper: 7416; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **Website:**

www.nber.org. **PG** 14. **PR** \$5.00. **JE** F31, G15. **KW** Foreign Exchange Traders. Microstructure.

**AB** We report findings from a survey of United States foreign exchange traders. Our results indicate that: (i) The share of customer business, versus interbank business, has remained fairly constant; (ii) The channels by which transactions take place have changed, as electronically-brokered transactions have risen from 2% to 46% of total, mostly at the expense of transactions undertaken by traditional brokers; (iii) The single most widely-cited reason for deviating from the standard market convention on the bid-ask spread is a thin/liquid market; (iv) Half or more of market respondents believe that large players dominate in the dollar-pound and dollar-Swiss franc markets; and (v) 60% of respondents believe there is low predictability of exchange rates intraday. Even at medium and long run horizons, only a third of traders believe that there is high predictability.

**PD** November 1999. **TI** Macroeconomic Implications of the Beliefs and Behavior of Foreign Exchange Traders. **AU** Cheung, Yin-Wong; Chinn, Menzie D. **AA** Cheung: University of California, Santa Cruz. Chinn: University of California, Santa Cruz and NBER. **SR** National Bureau of Economic Research Working Paper: 7417; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 19. **PR** \$5.00. **JE** F31, G15. **KW** Foreign Exchange Traders. Trading Rules. Speculation.

**AB** We report findings from a survey of United States foreign exchange traders. Our results indicate that (i) technical trading best characterizes about 30% of traders, with this proportion rising from five years ago; (ii) news about macroeconomic variables is rapidly incorporated into exchange rates; (iii) the importance of individual macroeconomic variables shifts over time, although interest rates always appear to be important, and; (iv) economic fundamentals are perceived to be more important at longer horizons. The short run deviations of exchange rates from their fundamentals are attributed to excess speculation and institutional customer/hedge fund manipulation. Speculation is generally viewed positively, as enhancing market efficiency and liquidity, even though it exacerbates volatility. Central bank intervention does not appear to have a substantial effect, although there is general agreement that it increases volatility. Finally, traders do not view purchasing power parity as a useful concept, even though a significant proportion (40%) believe that it affects exchange rates at horizons of over six months.

### Chiang, Eric P.

**TI** The Influence of Federal Laboratory R&D on Industrial Research. **AU** Adams, James D.; Jensen, Jeffrey L.; Chiang, Eric P.

### Chinn, Menzie D.

**TI** Market Structure and the Persistence of Sectoral Real Exchange Rates. **AU** Cheung, Yin-Wong; Chinn, Menzie D.; Fujii, Eiji.

**TI** Traders, Market Microstructure and Exchange Rate Dynamics. **AU** Cheung, Yin-Wong; Chinn, Menzie D.

**TI** Macroeconomic Implications of the Beliefs and Behavior of Foreign Exchange Traders. **AU** Cheung, Yin-Wong; Chinn, Menzie D.

### Cho, In-Koo

**PD** June 2000. **TI** Escaping Nash Inflation. **AU** Cho, In-Koo; Sargent, Thomas J. **AA** Cho: University of Illinois, Urbana-Champaign. Sargent: Stanford University and Hoover Institution. **SR** European Central Bank Working Paper: 23; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 54. **PR** no charge. **JE** C50, C62, E24. **KW** Self-Confirming Equilibrium. Mean Dynamics. Natural Rate of Unemployment. Adaptation. Experimentation Trap.

**AB** Mean dynamics govern convergence to rational expectations equilibria of self-referential systems under least squares learning. This paper highlights escape dynamics that propel away from a rational expectations equilibrium under fixed-gain recursive learning schemes. These learning schemes discount past observations. In a model with a unique self-confirming equilibrium, we show that the destination of the escape dynamics is an outcome associated with government discovery of too strong a version of the natural rate hypothesis. That destination is not sustainable as a self-confirming equilibrium but is visited recurrently. The escape route dynamics cause recurrent outcomes close to the Ramsey (commitment) inflation rate in a model with an adaptive government.

### Chong, Alberto

**TI** Are African Current Account Deficits Different? Stylized Facts, Transitory Shocks, and Decomposition Analysis. **AU** Calderon, Cesar; Chong, Alberto; Zanforlin, Luisa.

### Choudhri, Ehsan U.

**PD** April 2001. **TI** International Trade in Manufactured Products: A Ricardo-Heckscher-Ohlin Explanation with Monopolistic Competition. **AU** Choudhri, Ehsan U.; Hakura, Dalia S. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/41; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** F11, F12. **KW** Ricardian Models. Heckscher-Ohlin. Monopolistic Competition.

**AB** A large data set on trade in manufactured products is used to evaluate the performance of a model that combines both the Ricardian and Heckscher-Ohlin effects and incorporates monopolistic competition. The paper estimates a relation implied by the model to explain relative sectoral exports of major countries to a number of important markets, using 1970-90 data for nine manufacturing sectors. The relation fits the data well and variables suggested by both traditional and new trade models play an important role in explaining relative exports.

### Clarida, Richard H.

**PD** December 1999. **TI** G3 Exchange Rate Relationships: A Recap of the Record and a Review of Proposals for Change. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 7434; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 58. **PR** \$5.00. **JE** F31, F33. **KW** Exchange Rate Policy. G3. Monetary Policy.

**AB** This paper is a recap of G3 exchange rate relationships since the collapse of Bretton Woods and an analysis of recent proposals for changing the way the G3 countries currently

conduct exchange rate policy. The advocates of the proposals for change have made their assessment of the global costs of exchange rate volatility and (their estimates) of exchange rate misalignments, especially as these apply to the emerging economies through their linkages to the global capital markets. In their view, the status quo is unacceptable, and a sustained effort to limit G3 exchange rate fluctuations would deliver benefits to the world economy that would outweigh the value that they place on any loss of monetary autonomy in the G3 that would be required to maintain such a system. The skeptics make a positive, not a normative, judgment that the sorts of proposals that are on the table will not, in practice, get around the "impossible trinity" of international finance.

#### Clements, Michael P.

**TI** Economic Forecasting: Some Lessons from Recent Research. **AU** Hendry, David F.; Clements, Michael P.

#### Clifton, Eric V.

**PD** February 2001. **TI** Explaining Russia's Output Collapse: Aggregate Sources and Regional Evidence. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/16; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 32. **PR** not available. **JE** E22, E24, O47, P23. **KW** Growth. Productivity. Transition.

**AB** This paper explores sources of the output collapse in Russia during transition. A modified growth accounting framework is developed that takes into account changes in factor utilization typical of the transition process. The results indicate that declines in factor inputs and productivity were both important determinants of the output fall. The contribution of the productivity drop was critical, but smaller than previously reported. Possible causes of the reduction in productivity are assessed using data on sub-national regions within Russia. Privatization and entry of private firms are found to have generated productivity gains, while lack of exit of unviable enterprises constituted a drag on efficiency.

#### Coate, Stephen

**TI** Elected Versus Appointed Regulators: Theory and Evidence. **AU** Besley, Timothy; Coate, Stephen.

**TI** Market Provision of Public Goods: The Case of Broadcasting. **AU** Anderson, Simon J.; Coate, Stephen.

**TI** Elected versus Appointed Regulators: Theory and Evidence. **AU** Besley, Timothy; Coate, Stephen.

#### Coenen, Gunter

**PD** January 2000. **TI** Asymptotic Confidence Bands for the Estimated Autocovariance and Autocorrelation Functions of Vector Autoregressive Models. **AA** European Central Bank. **SR** European Central Bank Working Paper: 09; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 32. **PR** no charge. **JE** C13, C32, E31, E43. **KW** Autocovariances and Autocorrelations. Confidence Bands. d-Method. Bootstrap Method. Phillips Curve.

**AB** This paper provides closed-form formulae for computing the asymptotic standard errors of the estimated autocovariance and autocorrelation functions for stable VAR models by means of the d-method. These standard errors can be used to construct asymptotic confidence bands for the estimated autocovariance

and autocorrelation functions in order to assess the underlying estimation uncertainty. A Monte Carlo experiment gives evidence on the small-sample performance of these asymptotic confidence bands compared with that obtained using bootstrap methods. The usefulness of the asymptotic confidence bands for empirical work is illustrated by two applications to euro area data on inflation, output and interest rates.

**PD** September 2000. **TI** A Small Estimated Euro Area Model With Rational Expectations and Nominal Rigidities. **AU** Coenen, Gunter; Wieland, Volker. **AA** Coenen: European Central Bank. Wieland: Federal Reserve Board. **SR** European Central Bank Working Paper: 30; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 68. **PR** no charge. **JE** E31, E52, E58, E61. **KW** European Monetary Union. Euro Area. Macroeconomic Modelling. Inflation Persistence. Monetary Policy Rules.

**AB** This paper estimates a small model of the euro area to be used as a laboratory for evaluating the performance of alternative monetary policy strategies. It focuses on the relationship between output and inflation and investigates the fit of the nominal wage contracting model due to Taylor (1980) and three different versions of the relative real wage contracting model proposed by Buiter and Jewitt (1981) and estimated by Fuhrer and Moore (1995a) for the United States. While Fuhrer and Moore reject the nominal contracting model in favor of the relative contracting model which induces more inflation persistence, it is found that both models fit euro area data reasonably well. When considering France, Germany and Italy separately, however, the nominal contracting model fits German data better, while the relative contracting model does quite well in countries which transitioned out of a high inflation regime such as France and Italy.

**PD** November 2001. **TI** Data Uncertainty and the Role of Money as an Information Variable for Monetary Policy. **AU** Coenen, Gunter; Levin, Andrew; Wieland, Volker. **AA** Coenen: European Central Bank. Levin: Federal Reserve Board. Wieland: Johann-Wolfgang-Goethe Universitat. **SR** European Central Bank Working Paper: 84; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 41. **PR** no charge. **JE** E31, E52, E58, E61. **KW** Euro Area. Kalman Filter. Macroeconomic Modeling. Measurement Error. Monetary Policy Rules. Rational Expectations.

**AB** This paper shows that money can play an important role as an information variable when initial output data are measured with error and subject to revision. Using an estimated model of the euro area we find that current output estimates may be substantially improved by including money growth in the information set. The gain in precision, however, depends on the magnitude of the output measurement error relative to the money demand shock. We find noticeable but small improvements in output estimates, if the uncertainty due to money demand shocks corresponds to the estimated variance obtained from the money demand equation. Money plays a quantitatively more important role with regard to output estimation if we allow for a contribution of monetary analysis in reducing uncertainty due to money demand shocks. In this case, money also helps to reduce uncertainty about output forecasts.

**PD** September 1999. **TI** The Demand for M3 in the Euro Area. **AU** Coenen, Gunter; Vega, Juan-Luis. **AA** European

Central Bank. **SR** European Central Bank Working Paper: 06; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 56. **PR** no charge. **JE** C22, C32, E41. **KW** Money Demand. Euro Area. Cointegration. Error-Correction Model. Impulse.

**AB** In this paper, an empirically stable money demand model for M3 in the euro area is constructed. Starting with a multivariate system, three cointegrating relationships with economic content are found: (i) the spread between the long- and the short-term nominal interest rates, (ii) the long-term real interest rate, and (iii) a long-run demand for broad money M3. There is evidence that the determinants of M3 money demand are weakly exogenous with respect to the long-run parameters. Hence, following a general-to-specific modelling approach, a parsimonious conditional error-correction model for M3 money demand is derived which can be interpreted economically. For the conditional model, long- and short-run parameter stability is extensively tested and not rejected. Insights into the dynamics of money demand are gained by means of SVAR techniques exploring the impulse response functions of the cointegrated multivariate system.

#### Constantinides, George M.

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

#### Cooper, Russell

**TI** The Dynamics of Car Sales: A Discrete Choice Approach. **AU** Adda, Jerome; Cooper, Russell.

#### Corbae, Dean

**TI** On the Welfare Gains of Reducing the Likelihood of Economic Crises. **AU** Chatterjee, Satyajit; Corbae, Dean.

#### Corbett, Jennifer

**PD** May 2000. **TI** Banking Crises and Bank Rescues: The Role of Reputation. **AU** Corbett, Jennifer; Mitchell, Janet. **AA** Corbett: Oxford University and Centre for Economic Policy Research. Mitchell: Facultes Universitaires Saint-Louis (Brussels), ECARES, and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2453; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** G21, G28. **KW** Banking Crises. Banking Regulation. Financial Reforms.

**AB** This paper focuses on bank rescue packages and on the behavior of troubled banks in light of rescue offers. A puzzling feature of experience with banking crises is that in many cases policy authorities make offers of bank rescue, and banks are reluctant to accept these offers. Situations in which regulators have decided to offer bank rescue plans are studied, and show that a combination of factors, including bankers' reputational concerns, can explain banks' potential reluctance to accept offers of recapitalization.

#### Cortes, Kalena E.

**PD** September 2001. **TI** Are Refugees Different from Economic Immigrants? Some Empirical Evidence on the Heterogeneity of Immigrant Groups in the United States. **AA** UC Berkeley. **SR** University of California, Berkeley,

The Center for Labor Economics Working Paper: 41; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 23. **PR** no charge. **JE** C81, F22, J24, J31. **KW** Refugees. Economic Immigrants. Human Capital. Wage Growth.

**AB** This paper analyzes how the implicit difference in time horizons between refugees and economic immigrants affects subsequent human capital investments and wage assimilation. The analysis uses the 1980/1990 Public Use Samples of the Census. I find that recent refugee immigrants in 1980 earned 11 percent less and worked 19 percent fewer hours than economic immigrants. Both had about the same level of English skills. By 1990, the two immigrant groups had made substantial gains; however, refugees had made greater gains. Refugees in 1990 earned 24 percent more, worked 8 percent more hours, and improved their English skills by 11 percent more than economic immigrants. Evidence suggests refugees have higher rates of human capital accumulation.

#### Corvoisier, Sandrine

**PD** July 2001. **TI** Bank Concentration and Retail Interest Rates. **AU** Corvoisier, Sandrine; Gropp, Reint. **AA** European Central Bank. **SR** European Central Bank Working Paper: 72; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 50. **PR** no charge. **JE** B43, G21, L13. **KW** Banks. Competition. Interest Rates.

**AB** The recent wave of mergers in the euro area raises the question, whether the increase in concentration has at least in part offset the increase in competition in European banking through deregulation. We test this question by estimating a simple Cournot model of bank pricing. We construct country and product specific measures of bank concentration and find that for loans and demand deposits, increasing concentration may have resulted in less competitive pricing by banks, whereas for savings and time deposits, the model is rejected, suggesting increases in contestability and/or efficiency in these markets. These findings are robust across a wide variety of econometric specifications. Finally, the paper discusses some implications for tests of the effect of concentration on monetary policy transmission.

#### Costa, Dora L.

**PD** March 2000. **TI** From Mill Town to Board Room: The Rise of Women's Paid Labor. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7608; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J16, J22, N31. **KW** Female Participation. Female Management. Social Change.

**AB** In the twenty-first century many of the professional and high ranking managerial workers in the United States and in other OECD countries will be women. This change in women's social and economic status represents a dramatic break with the past, but one that can only be understood by looking to the past. The rise of the career woman would not have been possible without the entry of previous generations of women into the labor market. This entry was determined both by contemporaneous demand factors and by the characteristics,

expectations, and social norms regarding work and family of different cohorts of women. History suggests that change in women's labor force experiences may be slow because it must await the entry of new cohorts of women (and also of men) into the labor market.

### Cour-Thimann, Philippine

**TI** Cyclically Adjusted Budget Balances: An Alternative Approach. **AU** Bouthevillain, Carine; Cour-Thimann, Philippine; Van Den Dool, Gerrit; Hernandez de Cos, Pablo; Langenus, Geert; Mohr, Matthias; Momigliano, Sandro; Tujula, Mika.

### Crocker, Keith J.

**PD** October 1999. **TI** Insurance Fraud and Optimal Claims Settlement Strategies: An Empirical Investigation of Liability Insurance Settlements. **AU** Crocker, Keith J.; Tennyson, Sharon. **AA** Crocker: University of Michigan. Tennyson: Cornell University. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/014; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmop/publications.htm](http://www/bris.ac.uk/cmop/publications.htm). **PG** 40. **PR** no charge. **JE** G22, M14. **KW** Insurance Claims. Settlement Costs.

**AB** This paper develops a model of optimal third-party settlements between a risk-neutral insurer and a risk-averse claimant. It considers an environment where the insurer can observe only the size of the claim, which may be larger than the actual loss if the claimant chooses to expend resources in inflating the claim. Faced with the prospects of fraudulent claiming, the insurer must select a settlement strategy, which in this environment consists of an indemnification profile. An optimal settlement strategy reflects a tension between the insurer's attempts to mitigate the claimant's incentives to exaggerate the claim, and the insurer's desire to avoid costs associated with systematic claims underpayment. The primary implication of the theoretical model is that an optimal settlement strategy entails systematic underpayment of claims and the degree of underpayment will be larger for classes of claims which are most easily exaggerated. The empirical findings are consistent with the theoretical predictions.

### Crone, Theodore M.

**PD** July 2001. **TI** Measuring American Rents: A Revisionist History. **AU** Crone, Theodore M.; Nakamura, Leonard I.; Voith, Richard. **AA** Crone and Nakamura: Federal Reserve Bank of Philadelphia. Voith: Econsult Corporation. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/08; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 28. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C81, R21. **KW** Rents. Consumer Price Index.

**AB** Until the end of 1977, the method used to measure changes in rent of primary residence in the U.S. consumer price index (CPI) tended to omit price changes when units changed tenants or were temporarily vacant. Since such units typically had more rapid increases in rents than average units, omitting them biased inflation estimates downward. Beginning in 1978,

the Bureau of Labor Statistics (BLS) implemented a series of methodological changes that reduced this bias. We use data from the American Housing Survey to check the success of the corrections. We compare estimates of the historical series adjusted for the BLS changes in methodology with a new hedonic estimate of changes in rental rates. We conclude that from 1940 to 1977 the CPI for rent would have been about 60 percent higher if current BLS practices had been used -- between 1.3 and 3.5 percentage points. Even after the corrections have been made, our hedonic estimates suggest that the current CPI methodology may still understate the rental inflation rate by one-half to 1 percentage point.

### Croushore, Dean

**PD** June 2000. **TI** A Real-Time Data Set for Macroeconomists: Does Data Vintage Matter for Forecasting? **AU** Croushore, Dean; Stark, Tom. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/06; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 16. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** C52, C82. **KW** Real Time Data. Forecasting. Data Vintage.

**AB** This paper describes a real-time data set for macroeconomists that can be used for a variety of purposes, including forecast evaluation. The data set consists of quarterly vintages, or snapshots, of the major macroeconomic data available at quarterly intervals in real time. The paper explains the construction of the data set, examines the properties of several of the variables in the data set across vintages, and provides an example showing how data revisions can affect forecasts.

**TI** Forecasting with a Real-Time Data Set for Macroeconomists. **AU** Stark, Tom; Croushore, Dean.

**TI** Expectations and the Effects of Monetary Policy. **AU** Ball, Laurence; Croushore, Dean.

### Croxson, Bronwyn

**TI** Waiting Times for Hospital Admissions: The Impact of GP Fundholding. **AU** Propper, Carol; Croxson, Bronwyn; Shearer, Arran.

**TI** Team-Based Incentives in the NHS: An Economic Analysis. **AU** Ratto, Marisa; Burgess, Simon; Croxson, Bronwyn; Jewitt, Ian; Propper, Carol.

**TI** The Intricacies of the Relationship Between Pay and Performance for Teachers: Do Teachers Respond to Performance Related Pay Schemes? **AU** Burgess, Simon; Croxson, Bronwyn; Gregg, Paul; Propper, Carol.

**TI** The Impact of Teacher Pay Reform on Pupil Attainment: An Outline of the CMPO Research Project on the Performance Threshold. **AU** Burgess, Simon; Croxson, Bronwyn.

**PD** November 2001. **TI** The Implementation of the Performance Threshold in UK Secondary Schools. **AU** Croxson, Bronwyn; Atkinson, Adele. **AA** CMPO, University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/044; CMPO, Department of Economics, University

of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). PG 33. PR no charge. JE I28, J33, J44, J45. KW Performance Related Pay. Financial Incentives. Public Sector.

**AB** A form of performance related pay, called the Performance Threshold, has recently been introduced into English Schools. This paper reports the results of interviews with the head teachers of 25 secondary schools, designed to gain information about how the Performance Threshold was operationalized in schools. The process varied between schools. Heads were also divided about its impact: some identified benefits accruing from staff being forced to be positive about their own achievements, from the government using the criteria to send a clear message to teachers about where they should be focusing and from an increase in morale. Others believed that it had been a stressful and time-consuming process, which would not in itself improve morale and which might prove internally divisive. All heads supported the principle of giving staff a pay raise, and most felt that some form of performance-related pay was the only politically viable way of achieving this.

**PD** November 2001. **TI** Incentives in Secondary Schools: The Impact of the Performance Threshold. **AU** Croxson, Bronwyn; Atkinson, Adele. **AA** CMPO, University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/045; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). PG 29. PR no charge. JE I28, J33, J44, J45. KW Performance Related Pay. Financial Incentives. Public Sector.

**AB** A form of performance-related pay, called the Performance Threshold, has recently been introduced into English schools. This study reports the results of interviews with head teachers in 25 English secondary schools, designed to elicit their perception of the Threshold's impact. Most of these heads believed that the fact that Threshold assessment is based on the performance of individual teachers poses a risk to teamwork, although none had observed divisive behavior. Heads were divided in their views on the use of financial incentives to motivate teachers, with some believing they cannot be used to motivate teachers directly. Others believed that financial incentives can be effective, but that design flaws are likely to render the Threshold ineffective. Heads were also divided over whether they believed that targets created by the Threshold assessment criteria would create perverse incentives, or would act as a constructive signal about where effort should be expended.

**PD** August 1998. **TI** Do Doctors Respond to Financial Incentives? **UK** Family Doctors and the GP Fundholder Scheme. **AU** Croxson, Bronwyn; Propper, Carol; Perkins, Andy. **AA** Croxson and Perkins: University of East Anglia. Propper: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 98/001; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). PG 27. PR no charge. JE I11, J45. KW Physicians. Financial Incentives. Health Care Reform.

**AB** The 1991 reforms to the UK NHS created a group of buyers of hospital care from amongst primary care physicians.

The implementation of the reforms was such that these buyers had incentives to increase their use of hospital services prior to entering the scheme rather than providing better care once in the scheme. It has been argued that the non-financial motives would limit such behavior. The paper shows that these health care providers did respond to the financial incentives offered by the scheme, increasing hospital-based activity prior to entry and decreasing it thereafter.

#### Cui, Li

**TI** Measures to Limit the Offshore Use of Currencies: Pros and Cons. **AU** Ishii, Shogo; Otker-Rober, Inci; Cui, Li.

#### Cutler, David M.

**PD** May 2000. **TI** Explaining the Rise in Youth Suicide. **AU** Cutler, David M.; Norberg, Karen; Glaeser, Edward L. **AA** Cutler and Glaeser: Harvard University and NBER. Norberg: NBER. **SR** National Bureau of Economic Research Working Paper: 7713; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 38. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE I11, I12, J13. KW Youth Suicide. Self Injury.

**AB** Suicide rates among youths aged 15-24 have tripled in the past half-century, even as rates for adults and the elderly have declined. And for every youth suicide completion, there are nearly 400 suicide attempts. This paper examines the dynamics of youth suicide attempts and completions, and reaches three conclusions. First, we suggest that many suicide attempts by youths can be viewed as a strategic action on the part of the youth to resolve conflicts within oneself or with others. Youths have little direct economic or familial power, and in such a situation, self-injury can be used to signal distress or to encourage a response by others. Second, we present evidence for contagion effects. Youths who have a friend or family member who attempts or commits suicide are more likely to attempt or commit suicide themselves. Finally, we show that to the extent we can explain the rise in youth suicide over time, the most important explanatory variable is the increased share of youths living in homes with a divorced parent. The divorce rate is more important for suicides than either the share of children living with step-parents or the share of female-headed households.

#### Dabla-Norris, Era

**PD** February 2001. **TI** Rent Seeking and Endogenous Income Inequality. **AU** Dabla-Norris, Era; Wade, Paul. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/15; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 28. PR not available. JE D23, D31, D72, O11. KW Income Inequality. Rent Seeking. Lotteries.

**AB** This paper studies the relationship between wealth inequality and occupational choice between rent seeking and production. With imperfect credit markets and a fixed cost to rent-seeking, only wealthy agents choose to engage in rent seeking as it enables them to protect their wealth from expropriation. Hence, initial wealth determines occupational choice and aggregate economic activity. The model also generates an unequal wealth distribution endogenously through fair gambles undertaken voluntarily, despite agents being identical ex ante. If agents have an altruistic bequest motive, income and occupational differences can be perpetuated from

generation to generation.

### Dages, B. Gerard

**TI** Foreign and Domestic Bank Participation in Emerging Markets: Lessons from Mexico and Argentina. **AU** Goldberg, Linda; Kinney, Daniel; Dages, B. Gerard.

### Daniel, Kent D.

**PD** March 2000. **TI** Covariance Risk, Mispricing, and the Cross Section of Security Returns. **AU** Daniel, Kent D.; Subrahmanyam, Avanidhar; Hirshleifer, David. **AA** Daniel: Northwestern and NBER. Subrahmanyam: UCLA. Hirshleifer: Ohio State. **SR** National Bureau of Economic Research Working Paper: 7615; 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** G12, G14. **KW** Covariance Risk. Mispricing. Misperceptions. Arbitrage. **AB** This paper offers a multisecurity model in which prices reflect both covariance risk and misperceptions of firms' prospects, and in which arbitrageurs trade to profit from mispricing. We derive a pricing relationship in which expected returns are linearly related to both risk and mispricing variables. The model thereby implies a multivariate relation between expected return, beta, and variables that proxy for mispricing of idiosyncratic components of value tends to be arbitrated away but systematic mispricing is not. The theory is consistent with several empirical findings regarding the cross-section of equity returns, including: the observed ability of fundamental/price ratios to forecast aggregate and cross-sectional returns, and of market value but not non-market size measures to forecast returns cross-sectionally; and the ability in some studies of fundamental/price ratios and market value to dominate traditional measures of security risk. The model also offers several untested empirical implications for the cross-section of expected returns and for the relation of volume to subsequent volatility.

### Davila, Julio

**PD** February 1998. **TI** Time Reversibility and Extrinsic Uncertainty in Overlapping Generations Economies. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 415/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 15. **PR** no charge. **JE** D50, D80, D91, D92. **KW** Time Reversibility. Extrinsic Uncertainty. Sunspots. Overlapping Generations.

**AB** This paper investigates how time and uncertainty interweave. Specifically, it studies the appearance of symmetries and asymmetries -- with respect to the direction in which time flows -- in the set of equilibria of simple overlapping generations economies which are open-ended in both directions, when there is extrinsic uncertainty and when there isn't any. It is shown in what follows that, while all the perfect foresight equilibria of any such overlapping generations economy can be reversed in time -- which amounts to looking at it as an equilibrium of an economy which is the mirror image of the original one -- such general reversibility is lost for equilibria under uncertainty. More specifically, there is no robust overlapping generations economy of this class whose set of reversible finite Markovian stationary sunspot equilibria is

not negligible, although for any such economy this set is nonempty. This result shows the arrow of time in these overlapping generations economies to be meaningful only under uncertainty.

**PD** March 1998. **TI** Overlapping Generations Economies and Symmetrical Economies Under Extrinsic Uncertainty. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 416/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG**:10. **PG** Not Given. **PR** no charge. **JE** D51, D82, D91, D92. **KW** Extrinsic Uncertainty. Sunspots. Overlapping Generations. Asymmetric Information. Exchange Economies. **AB** The stationary structure of the simple overlapping generations economies is used to try to extend to the case with extrinsic uncertainty the characterization of their stationary equilibria by means of symmetrical multiple equilibria of a related exchange economy in which the representative agent faces his mirror image. It is proved in this article that, although such a characterization exists in the deterministic case as was shown in Balasko-Ghiglino (1997) and Tuinstra-Weddepohl (1997), it cannot be robustly extended to economies with extrinsic uncertainty.

### Davis, E. Philip

**TI** A Cross-Country Comparison of Market Structures in European Banking. **AU** De Bandt, Olivier; Davis, E. Philip.

### De Bandt, Olivier

**PD** May 2000. **TI** Convergence of Fiscal Policies in the Euro Area. **AU** De Bandt, Olivier; Mongelli, Francesco Paolo. **AA** De Bandt: European Central Bank. Mongelli: Banque de France, Paris. **SR** European Central Bank Working Paper: 20; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 44. **PR** no charge. **JE** C22, E61, H60. **KW** Fiscal Policy. Euro Area. Convergence. Cointegration. Dynamic Factor Analysis.

**AB** This paper aims at determining whether economic, financial and monetary integration on the one hand, and institutional factors on the other, may have led to gradual convergence in key fiscal variables across the euro area over the recent period, bringing fiscal positions closer together. The Maastricht convergence criteria have facilitated this process but we investigate here whether the structural factors bringing fiscal positions closer together have been a feature of European integration starting already in the 1970s. The alternative scenario is that the euro zone is still characterized by largely idiosyncratic national fiscal policies. Over the 1970-1998 period we find convincing evidence that for euro area countries cross-correlation has increased steadily over the sample period and that fiscal dispersion has been declining at a sustained pace among all countries in the sample. There is clearly common fiscal cycles for net lending across the euro area that do not only express common business cycles. However, while countries have followed more similar policies in the 1990s in particular during the run-up to EMU, the timing of fiscal adjustment differed across countries. In addition, idiosyncratic components still contribute to a significant share of the variability of individual countries.

**PD** November 2000. **TI** Systemic Risk: A Survey.



**AU** De Bandt, Olivier; Hartmann, Philipp. **AA** De Bandt: Banque de France, Paris. Hartmann: European Central Bank. **SR** European Central Bank Working Paper: 35; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 77. **PR** no charge. **JE** E49, G12, G21, G29. **KW** Systemic Risk. Financial Stability. Banking Crises. Contagion. Financial Markets. Payment and Settlement Systems. Currency Crises.

**AB** This paper develops a broad concept of systemic risk. It is claimed that any such concept must integrate systemic events in banking and financial markets as well as in the related payment and settlement systems. At the heart of systemic risk are contagion effects. The concept also includes simultaneous financial instabilities following aggregate shocks. The quantitative literature on systemic risk is surveyed in the light of this concept. Various rigorous models of bank and payment system contagion have now been developed, although a general theoretical paradigm is still missing. Direct econometric tests of bank contagion effects seem to be mainly limited to the United States. Empirical studies of systemic risk in foreign exchange and security settlement systems appear to be non-existent. Moreover, the literature surveyed reflects the general difficulty to develop empirical tests that can make a clear distinction between contagion in the proper sense and joint crises caused by common shocks, rational revisions of depositor or investor expectations when information is asymmetric ("information-based" contagion) and "pure" contagion as well as between "efficient" and "inefficient" systemic events.

**PD** September 1999. **TI** A Cross-Country Comparison of Market Structures in European Banking. **AU** De Bandt, Olivier; Davis, E. Philip. **AA** De Bandt: Banque de France, Paris. Davis: Bank of England, London. **SR** European Central Bank Working Paper: 07; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 38. **PR** no charge. **JE** G21, L12. **KW** Banking. Competition. EMU. Panel Data Analysis. Contestability.

**AB** In order to assess the effect of EMU on market conditions for banks based in countries which adopt the Single Currency, we use the H indicator suggested by Panzar and Rosse (1987). Our contribution is to assess results separately for large and small banks, and for interest income and total income as a dependent variable. From a panel of banks over the period 1992-1996, we provide evidence that European banking markets for large banks in the mid-1990s were still characterized by monopolistic competition, as compared to the United States. Regarding small banks, the level of competition appears to be even lower, especially in France and Germany. EMU would therefore imply a notable rise in competition for small banks in France and Germany, as well as an increase in competition for large banks, especially in Italy.

### De Fiore, Fiorella

**PD** September 2000. **TI** Can Indeterminacy Explain the Short-Run Non-Neutrality of Money? **AA** European Central Bank. **SR** European Central Bank Working Paper: 32; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 45. **PR** no charge. **JE** E13, E40, E52. **KW** Indeterminacy. Neutrality of Money. Transaction Costs. **AB** This paper analyzes the possibility to generate indeterminacy and equilibria with short-run non-neutrality of money in a model with flexible prices, constant returns to scale

in production and constant money growth rules. The model recovers previous results in the literature as particular cases. It is shown that real effects of monetary shocks, as observed in the data, can arise in four regions of the parameter space. Two regions are characterized by unreasonable assumptions, which lead to inferiority of consumption or leisure. Two regions are characterized by reasonable assumptions and by normality of the goods. However, real effects of monetary shocks require implausible parameter values.

**PD** November 2000. **TI** The Optimal Inflation Tax When Taxes are Costly to Collect. **AA** European Central Bank. **SR** European Central Bank Working Paper: 38; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 43. **PR** no charge. **JE** E31, E41, E58, E62. **KW** Friedman Rule. Optimal Inflation Tax. Collection Costs.

**AB** Tax collection costs have been advocated in the literature as a reason to deviate from the Friedman rule, in standard general equilibrium monetary models with flexible prices. This paper shows that there are conditions under which the Friedman rule is optimal despite the presence of collection costs. When these conditions are not satisfied, the optimal inflation tax depends upon the collection costs parameter and schedule, the interest and scale elasticity of money demand, and the compensated labor supply elasticity. Numerical results obtained by calibrating the model on US data suggest that collection costs do not justify substantial departures from Friedman's prescriptions.

### De Fraja, Gianni

**PD** March 1998. **TI** Training, Minimum Wage, and Employment: A Simple Dynamic Analysis. **AA** University of York and Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 417/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 25. **PR** no charge. **JE** E24, J23, J24, J31. **KW** Minimum Wage. Training. Employment. Human Capital.

**AB** The paper presents a model where an increase in minimum wage may determine an increase in employment. The mechanism through which this effect occurs is via effort and training. When minimum wage increases, some of the low paid workers are dismissed, but others are retained and required to work harder. Because they work harder, it is worth their employer's while to train them more. Therefore, when the minimum wage increases, some low paid workers receive better training. As long as training can be transferred to future jobs, better trained workers are more employable. The paper shows that, for low levels of the minimum wage, this increase in future employability can more than offset the direct negative effect of minimum wage increases on employment, and as a consequence total employment can increase.

### De Haan, Leo

**PD** December 2001. **TI** The Credit Channel in the Netherlands: Evidence from Bank Balance Sheets. **AA** De Nederlandsche Bank, Amsterdam. **SR** European Central Bank Working Paper: 98; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 28. **PR** no charge. **JE** E51, E52, G21. **KW** Monetary Policy Transmission.

**Bank Lending.**

**AB** This study contributes to the empirical evidence on the lending channel in the Netherlands using individual bank data. The main conclusion is that a lending channel is operative in the Netherlands. However, it is only operative for unsecured and not for secured lending, possibly because loans with state guarantees get special treatment by banks. Effects of monetary tightening on unsecured lending are more negative for smaller, less liquid and less capitalized banks, in line with the lending channel theory. A contribution of this study is that it gives evidence that the monetary policy impact on bank lending also depends on the market segment in which a bank is active. The evidence suggests that the lending channel is not affecting lending to households as much as it is affecting lending to firms.

**de la Fuente, Angel**

**PD** May 2000. **TI** Convergence Across Countries and Regions: Theory and Empirics. **AA** Instituto de Analisis Economico (CSIC) and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2465; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** O40. **KW** Convergence. Growth.

**AB** This paper surveys the recent literature on convergence across countries and regions. It discusses the main convergence and divergence mechanisms identified in the literature and develops a simple model that illustrates their implications for income dynamics. Then the existing empirical evidence is reviewed and its theoretical implications discussed. Early optimism concerning the ability of a human capital-augmented neoclassical model to explain productivity differences across economies has been questioned on the basis of more recent contributions that make use of panel data techniques and obtain theoretically implausible results. Some recent research in this area tries to reconcile these findings with sensible theoretical models by exploring the role of alternative convergence mechanisms and the possible shortcomings of panel data techniques for convergence analysis.

**PD** May 2000. **TI** Human Capital in Growth Regressions: How Much Difference Does Data Quality Make? **AU** de la Fuente, Angel; Domenech, Rafael. **AA** de la Fuente: Instituto de Analisis Economico (CSIC) and Centre for Economic Policy Research. Domenech: Universidad de Valencia. **SR** CEPR Discussion Paper: 2466; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** I20, O30, O40. **KW** Human Capital. Growth.

**AB** A revised version of the Barro and Lee (1996) data set is constructed for a sample of OECD countries using previously unexploited sources and following a heuristic approach to obtain plausible time profiles for attainment levels by removing sharp breaks in the data that seem to reflect changes in classification criteria. It is then shown that these revised data perform much better than the Barro and Lee (1996) or Nehru et al (1995) series in a number of growth specifications. These results are interpreted as an indication that poor data quality may be behind counterintuitive findings in the recent literature on the (lack of) relationship between educational investment and growth. Using this preferred empirical specification, the contribution of TFP to cross-country productivity differentials is shown to be substantial and its relative importance to

differences in factor stocks increases over time.

**PD** September 1997. **TI** Fiscal Policy and Growth in the OECD. **AA** Institut d'Anàlisi Econòmica, CSIC. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 401/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 58. **PR** no charge. **JE** E62, H23, H61, O40. **KW** Growth. Fiscal Policy. Public Investment. Taxation.

**AB** This paper investigates the impact of taxes and public expenditures on economic growth using panel data for a sample of OECD countries. Our empirical results suggest that fiscal policy influences growth through three main channels. First, the government contributes directly to factor accumulation through public investment in infrastructure and other assets. Second, public expenditure tends to crowd out private investment by reducing private disposable income and the incentive to save. Third, we find evidence of a sizable negative externality effect of government expenditure on the level of productivity. According to our estimates, the effective cost of \$1 of public expenditure is around \$1.3 once the relevant distortions are taken into account. While we regard this figure as an upper bound, it does suggest taxes and public expenditures generate significant efficiency costs which should be taken into account when making budget decisions.

**PD** December 1997. **TI** Convergence Equations and Income Dynamics: The Sources of OECD Convergence, 1970-95. **AA** Universitat Autònoma de Barcelona and Centre for Economic Policy Research. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 407/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 18. **PR** no charge. **JE** O15, O40, O57. **KW** Growth. Convergence. Distribution Dynamics. Income Distribution.

**AB** This paper illustrates how convergence equations can be used to analyze the dynamics of the income distribution, thus overcoming some of the limitations of this methodology noted by Quah. Using panel data for a sample of OECD countries, we estimate a growth equation which relates the growth rate of income per capita to the rates of accumulation of physical, human and technological capital, the share of government expenditures in GDP and the behavior of the labor market, while allowing for the main convergence mechanisms identified in the literature. The estimated model and the underlying data are then used in a convergence accounting exercise which yields quantitative estimates of the contribution of each of these variables to the relative growth performance of each country and to observed income convergence in the sample.

**PD** May 1998. **TI** What Kind of Regional Convergence? **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 419/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 33. **PR** no charge. **JE** C23, O40, R11. **KW** Convergence. Panel Data.

**AB** Recent estimates of convergence equations using panel data techniques tend to produce theoretically unpalatable results which run counter to the views prevailing in the

literature. This paper argues that these results (and in particular the very high convergence coefficient obtained in these studies) may be partly due to the difficulty of empirically separating short-term fluctuations around trend from long-term growth dynamics. Using data for the Spanish regions, I find that explicitly allowing for short-term noise reduces the estimated convergence rate to values which are roughly consistent with an extended neoclassical model. On the other hand, the dispersion of estimated steady states remains high, although these estimates do not seem to be particularly reliable.

#### de Vries, Casper G.

**TI** Asset Market Linkages in Crisis Periods. **AU** Hartmann, Philipp; Straetmans, Stefan; de Vries, Casper G.

#### Dedola, Luca

**PD** July 2001. **TI** A Quantitative Welfare Analysis of the Trade-Off Between the Current Regime and Macroeconomic Stabilization. **AU** Dedola, Luca; Leduc, Sylvain. **AA** Dedola: Banca D'Italia. Leduc: Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/11; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 29. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E31, E32, E52, F31, F41. **KW** Currency Regime. Exchange Rates. Macroeconomic Stabilization.

**AB** This paper studies the welfare effects of fixing the exchange rate from a quantitative viewpoint. We analyze a two country equilibrium business cycle model, featuring nominal rigidities and deviations from the law of one price, due to firms pricing to market. In this class of economies real effects stem from both systematic and non-systematic components of monetary policy. This model can reproduce the finding that, among the statistical properties of most macroeconomic variables, only the volatility of the real and nominal exchange rate has dramatically changed after the fall of the Bretton Woods system. If there is no significant trade off between exchange rate stability and macroeconomic volatility, then floating exchange rates may be excessively volatile. However exchange rate management implies that systematic monetary policy has to forgo goals related to internal stabilization. We explore the welfare costs of an exchange rate peg vis-a-vis a float under the following classes of monetary policy rules (i) k% rules for money growth, (ii) generalized Taylor rules for the interest rate and (iii) inflation targeting.

**TI** From the ERM to the Euro: New Evidence on Economic and Policy Convergence among EU Countries. **AU** Angeloni, Ignazio; Dedola, Luca.

#### DeFina, Robert H.

**TI** Sectoral Shocks and Metropolitan Employment Growth. **AU** Carlino, Gerald A.; DeFina, Robert H.; Sill, Keith.

#### Dehejia, Vivek

**PD** May 2000. **TI** Output and Unemployment Dynamics in Transition. **AU** Dehejia, Vivek; Dwyer, Douglas W. **AA** Dehejia: Carleton University and Centre for Economic Policy Research. Dwyer: William M. Mercer, Inc. **SR** CEPR

Discussion Paper: 2450; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** O10, P10. **KW** Adjustment Costs. Industry Restructuring. Transition Dynamics. Policy Reform.

**AB** This paper examines transition dynamics in a search economy. Two extreme cases are contrasted: a completely unexpected reform and a fully anticipated reform. The former is viewed as a metaphor for a reform being announced and implemented with immediate effect, the latter as a metaphor for a reform being announced in advance of its implementation. In contrast to models with convex adjustment costs, announcing the reform in advance leads to stagnation in anticipation of the reform and output cycles after the implementation that are more volatile than if a reform of identical magnitude had been implemented immediately. This provides, therefore, an argument in favor of immediately implementing a reform as against announcing it in advance with a delayed implementation. This is an argument in favor of "shock therapy" as against "gradualism," where the latter has the specific connotation of delaying reform (rather than sequencing it slowly).

**PD** May 2000. **TI** Macroeconomic Stabilization: Fixed Exchange Rates vs Inflation Targeting vs Price Level Targeting. **AU** Dehejia, Vivek; Rowe, Nicholas. **AA** Carleton University. **SR** CEPR Discussion Paper: 2460; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** E12, E52, E58, F33. **KW** Fixed Exchange Rates. Inflation Targeting. Price Level Targeting. Stabilization.

**AB** This paper argues that the traditional question "fixed vs. flexible exchange rates?" is not well-defined, because "flexible exchange rates" does not explicitly specify any particular monetary policy. In traditional analyses, "flexible exchange rates" was interpreted as implying a fixed money supply. But fixing the money supply (or fixing its growth rate) is rarely advocated nowadays. To reflect today's policy debate, the traditional question should be replaced by the question "fixed exchange rates vs. inflation targeting vs. price level targeting?" Then a simple macroeconomic model of a small open economy is built. The model incorporates an "outside lag" in the effect of monetary policy on aggregate demand, so that inflation targeting and price level targeting are always imperfect. This model is used to compare the stabilization properties of three different monetary rules: a fixed exchange rate, a fixed inflation target, and a fixed price level target. Price level targeting is shown to be best for stabilizing output, the real exchange rate and the real interest rate, relative to their natural rates.

#### Dell'Ariccia, Giovanni

**PD** February 2001. **TI** Flight to Quality or to Captivity: Information and Credit Allocation. **AU** Dell'Ariccia, Giovanni; Marquez, Robert. **AA** Ariccia: International Monetary Fund. Marquez: University of Maryland. **SR** International Monetary Fund Working Paper: WP/01/20; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 25. **PR** not available. **JE** E44, G21. **KW** Banking. Information. Credit Allocation.

**AB** Superior information exchanged over the course of lending relationships generates bank-client specificities to the extent that such information cannot be communicated credibly

to outsiders. Consequently, banks obtain higher profits from more captured borrowers than from borrowers with financing alternatives. We refer to this as a "flight to captivity" effect. Negative shocks, associated with monetary contractions or foreign entry, cause a reallocation of bank credit away from more transparent borrowers and toward more opaque, more captured borrowers. The paper applies these ideas to the analysis of bank behavior in tuition economies after financial liberalization and monetary policy contractions.

**TI** Bank Competition and Firm Creation. **AU** Bonaccorsi di Patti, Emilia; Dell'Ariccia, Giovanni.

### Detken, Carsten

**PD** April 2000. **TI** The Euro and International Capital Markets. **AU** Detken, Carsten; Hartmann, Philipp. **AA** European Central Bank. **SR** European Central Bank Working Paper: 19; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 54. **PR** no charge. **JE** F21, F32, G11, G15. **KW** International Capital Markets. International Currencies. International Monetary System. Portfolio Selection. Bank Lending.

**AB** This paper provides a broad empirical examination of the major currencies' roles in international capital markets, with a special emphasis on the first year of the euro. An attempt is made to measure these roles, both from the viewpoint of international financing as well as from international investment activities. The data allow for the identification of changes in the role of the euro (or other main currencies) during 1999 compared to the aggregate of euro predecessor currencies, net of intra-euro area assets/ liabilities, before stage 3 of EMU. A number of key factors determining the currency distribution of international portfolio investments, such as relative market liquidity and relative risk characteristics of assets, are also examined empirically. The euro immediately became the second most widely used currency for international financing and investment in almost all important market segments for which data are available. For the flow of international bond and note issuance it has even slightly overtaken the US dollar in the second half of 1999. The data also suggest that this early supply of euro bonds by non-euro area residents, clearly exceeding the euro-predecessor currency aggregate, is actually absorbed by euro area residents and not outside investors so far.

**PD** May 2000. **TI** The Euro and International Capital Markets. **AU** Detken, Carsten; Hartmann, Philipp. **AA** Detken: European Central Bank. Hartmann: European Central Bank and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2461; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F21, F32, G11, G15. **KW** Capital Markets. Currencies. Capital Flows. International Monetary System. Portfolio Selection.

**AB** See the abstract for Detken, Carsten; Hartmann, Philipp. April 2000, "The Euro and International Capital Markets". European Central Bank Working Paper: 19; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/).

**TI** Monetary Policy and Fears of Financial Instability. **AU** Brousseau, Vincent; Detken, Carsten.

**PD** May 1999. **TI** Fiscal Policy Effectiveness and Neutrality Results in a Non-Ricardian World. **AA** European Central Bank. **SR** European Central Bank Working Paper: 03; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 29. **PR** no charge. **JE** E63. **KW** Monetary Regimes. Fiscal Policy. Ricardian Equivalence. Central Bank Independence. Stability and Growth Pact.

**AB** The paper introduces monetary and fiscal regimes into a Blanchard- Weil overlapping generations model. Contrary to intuition, it is shown that fiscal policy becomes more effective, the less the central bank monetises government debt. Furthermore, there is a degree of debt monetisation at which Ricardian equivalence seems to hold in this "non- Ricardian" model, as fiscal policy is neutral with respect to agent's net wealth. At the origin of these results are the opposite intergenerational wealth effects of money and debt financing. Since, on average, central bank independence increased through EMU, the analysis suggests that fiscal policy might have become a more powerful instrument for euro-area countries. It is further argued that given the Stability and Growth Pact, governments will find it wise to run budget positions "close to balance or in surplus" in order to maintain the increased fiscal policy effectiveness.

### Detragiache, Enrica

**PD** January 2001. **TI** Crises and Liquidity: Evidence and Interpretation. **AU** Detragiache, Enrica; Spilimbergo, Antonio. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/02; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 29. **PR** not available. **JE** F34, F32. **KW** Debt Crises. Default. Creditor Runs.

**AB** In a large panel of countries, we find that less liquid countries are more likely to default on their external debt. Specifically, for given total external debt, the probability of a crisis increases with the proportion of short-term debt and debt service coming due and decreases with foreign exchange reserves. This correlation, however, is consistent with a standard model of optimal default and need not be ascribed to self-fulfilling creditor runs. Also, the correlation with short-term debt appears to be driven by joint endogeneity. The policy implications are discussed.

### Devereux, Michael B.

**PD** May 2000. **TI** Monetary Policy in the Open Economy Revisited: Price Setting Rules and Exchange Rate Flexibility. **AU** Devereux, Michael B.; Engel, Charles M. **AA** Devereux: University of British Columbia and Centre for Economic Policy Research. Engel: University of Washington. **SR** CEPR Discussion Paper: 2454; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F33, F41, F42. **KW** Monetary Policy. Flexible Exchange Rates. Local Currency Pricing. Expenditure Switching.

**AB** This paper develops a welfare-based model of monetary policy in an open economy. It focuses on the extent to which monetary policy should be employed in maintaining the exchange rate. The traditional approach maintains that exchange rate flexibility is desirable in the presence of real

country-specific shocks that require adjustment in relative prices. However, in the light of empirical evidence on nominal price response to exchange-rate changes -- specifically, that there appears to be a large degree of local-currency pricing in industrialized countries -- the expenditure-switching role played by nominal exchange rates may be exaggerated in the traditional literature. In the presence of local-currency pricing, optimal monetary policy in response to real shocks pricing is fully consistent with fixed exchange rates. On the other hand, when real country-specific shocks are not important, and when a country's monetary sector is stable, the case for freely floating rates (a monetary policy in which exchange rates are not a consideration) is strengthened in the presence of local-currency pricing.

#### Dewatripont, Mathias

**PD** October 1998. **TI** The Economics of Career Concerns, Part 1: Comparing Information Structures. **AU** Dewatripont, Mathias; Jewitt, Ian; Tirole, Jean. **AA** Dewatripont: Universite Libre de Bruxelles. Jewitt: University of Bristol. Tirole: IDEI/GREMAQ, University of Toulouse, CERAS, Paris, and Massachusetts Institute of Technology. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 98/002; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. **Website:** [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). **PG** 20. **PR** no charge. **JE** C70, D23, D82. **KW** Career Concerns. Incentives. Information Structures. Multitask.

**AB** Many incentives in organizations arise not through explicit formal incentive contracts but rather implicitly through career concerns. This paper models career concerns through agents trying to manipulate the market assessment of their future productivity. The information flow from current actions to market assessment is therefore crucial in determining the nature of these incentives. Improved information may either increase or reduce incentives. The impact of information provides a major distinction between the explicit and implicit incentives model. The paper derives general results on comparisons of information structures which serve as counterparts to the standard results on information structures in the principal-agent model -- sufficient statistic, impact of a Blackwell garbling, comparison of inclusive information structures.

**PD** November 1998. **TI** The Economics of Career Concerns, Part 2: Application to Missions and Accountability of Government Agencies. **AU** Dewatripont, Mathias; Jewitt, Ian; Tirole, Jean. **AA** Dewatripont: Universite Libre de Bruxelles. Jewitt: University of Bristol. Tirole: IDEI/GREMAQ, University of Toulouse, CERAS, Paris, and Massachusetts Institute of Technology. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 98/003; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. **Website:** [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). **PG** 24. **PR** no charge. **JE** C70, D23, D82. **KW** Government Agencies. Multitask Career Concerns. Missions. Focus.

**AB** The paper uses a simple multitask career concern model in order to analyze the incentives of government agencies' officials. Incentives are impaired by the agency pursuing multiple missions. A lack of focus is even more problematic in

the case of fuzzy missions, that is when outsiders are uncertain about the exact nature of the missions actually pursued by the agency. Consequently, agencies pursuing multiple missions receive less autonomy. The paper further shows that professionalization creates a sense of mission for the agency, and that the specialization of officials raises their incentives. Last, the paper compares its predictions with the stylized facts of government bureaucracies.

#### Diamond, Douglas W.

**PD** December 1999. **TI** Liquidity Risk, Liquidity Creation and Financial Fragility: A Theory of Banking. **AU** Diamond, Douglas W.; Rajan, Raghuram G. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 7430; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **Website:** [www.nber.org](http://www.nber.org). **PG** 38. **PR** \$5.00. **JE** E58, G21. **KW** Bank Liquidity. Banking. Financial Fragility. Liquidity Risk.

**AB** Both investors and borrowers are concerned about liquidity. Investors desire liquidity because they are uncertain about when they will want to eliminate their holding of a financial asset. Borrowers are concerned about liquidity because they are uncertain about their ability to continue to attract or retain funding. Because borrowers typically cannot repay investors on demand, investors will require a premium or significant control rights when they lend to borrowers directly, as compensation for the illiquidity investors will be subject to. We argue that banks can resolve these liquidity problems that arise in direct lending. Banks enable depositors to withdraw at low cost, as well as buffer firms from the liquidity needs of the investors. We show the bank has to have a fragile capital structure, subject to bank runs, in order to perform these functions. Far from being an aberration to be regulated away, the funding of illiquid loans by a bank with volatile demand deposits is rationalized in the context of the functions it performs. This model can be used to investigate important issues such as narrow banking and bank capital requirements.

**PD** December 1999. **TI** A Theory of Bank Capital. **AU** Diamond, Douglas W.; Rajan, Raghuram G. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 7431; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **Website:** [www.nber.org](http://www.nber.org). **PG** 45. **PR** \$5.00. **JE** E58, G21. **KW** Bank Capital. Bank Liquidity.

**AB** Banks can create liquidity because their deposits are fragile and prone to runs. Increased uncertainty can make deposits excessively fragile in which case there is a role for outside bank capital. Greater bank capital reduces liquidity creation by the bank but enables the bank to survive more often and avoid distress. A more subtle effect is that banks with different amounts of capital extract different amounts of repayment from borrowers. The optimal bank capital structure trades off the effects of bank capital on liquidity creation, the expected costs of bank distress, and the ease of forcing borrower repayment. The model can account for phenomena such as the decline in average bank capital in the United States over the last two centuries. It points to overlooked side-effects of policies such as regulatory capital requirements and deposit insurance.

#### Diamond, Peter

**PD** July 2001. **TI** Social Security Investment in Equities

I: Linear Case. AU Diamond, Peter; Geanakoplos, John. AA Diamond: Massachusetts Institute of Technology. Geanakoplos: Yale University. SR Yale Cowles Foundation Discussion Paper: 1314; Yale University, Cowles Foundation Library, P.O. 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 E62, 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.

#### Dickens, Richard

PD February 2000. TI New Labour and the Labour Market. AU Dickens, Richard; Gregg, Paul; Wadsworth, Jonathan. AA Dickens: London School of Economics. Gregg: University of Bristol, London School of Economics, and HM Treasury. Wadsworth: London School of Economics and Royal Holloway College. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/19; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www/bris.ac.uk/cmppo/publications.htm. PG 39. PR no charge. JE H24, I38, J21. KW Employment. Inactivity. Work Incentives. Labor Market Policy.

AB The recent run of good macro-economic news masks mounting evidence that worklessness is increasingly concentrated on selected individuals, households, socio-economic groups and geographical areas. Focusing on the aggregate unemployment rate bypasses many of these issues. Likewise, concentration on average wages and wage growth obscures the highest level of wage inequality ever. These factors have been overlooked or ignored over the last 20 years, but now form the most pressing labor market and social problems facing this government administration. This paper looks at the evidence of what lies behind many of these issues, and at the current policies addressing them. It documents the mounting evidence that many of these problems leave lasting scars on peoples' lives. Successful intervention could thus change life-course trajectories. The inter-connections among these issues could create virtuous circles. However, if policy is under-powered at any stage, then such interventions are proven at best partially successful.

#### DiNardo, John

TI Union Effects on Health Insurance Provision and Coverage in the United States. AU Buchmuller, Thomas C.; DiNardo, John; Valletta, Robert G.

PD September 2001. TI The Impact of Unionization on Establishment Closure: A Regression Discontinuity Analysis of Representation Elections. AU DiNardo, John; Lee, David S.

AA DiNardo: University of Michigan and NBER. Lee: UC Berkeley and NBER. SR University of California, Berkeley, The Center for Labor Economics Working Paper: 38; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: violet.berkeley.edu/~ir/cle/index.html. PG 31. PR no charge. JE D21, D23, J51. KW Survival Rates. Unions. Regression Discontinuity. Establishment Closure.

AB Using data on more than 27,000 establishments (1983-1999) in the United States, this paper exploits an institutional feature of the union organizing process in order to generate an estimate of the causal effect of unionization on the probability of establishment closure. In the U.S., most establishments become "unionized" as a partial consequence of a secret ballot election among the workers. If employers where unions barely won the election are ex ante comparable in all other ways to employers where unions barely lost, differences in their subsequent outcomes should represent the true impact of union recognition. The regression discontinuity analysis finds a negligible effect on short- and long-run establishment survival rates -- suggesting that distortions that are necessarily implied by the monopoly union model would more likely be found along the intensive margin of employment.

#### Disney, Richard F.

TI Restructuring and Productivity Growth in UK Manufacturing. AU Haskel, Jonathan; Heden, Ylva; Disney, Richard F.

#### Disyatat, Piti

PD February 2001. TI Currency Crises and Foreign Reserves: A Simple Model. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/01/18; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 21. PR not available. JE E51, E58, F32. KW Currency Crisis. Speculative Attacks. Borrowing Reserves.

AB This paper addresses the important question of how far a government will run down its stock of foreign reserves in a defense of a fixed exchange rate. An optimizing model of currency crisis is presented in which the decision of whether or not to borrow in a defense of a peg is explicitly analyzed. The threshold level of reserves is then determined endogenously and shown to be a function of fundamental economic variables. The analysis also demonstrates how an increase in the level of reserves, a credit-rating upgrade, or the imposition of capital controls can remove the multiplicity of equilibria.

#### Dolado, Juan Jose

PD May 2000. TI The Role of the Minimum Wage in the Welfare State: An Appraisal. AU Dolado, Juan Jose; Jimeno-Serrano, Juan Francisco; Felgueroso, Florentino. AA Dolado: Universidad Carlos III de Madrid. Jimeno-Serrano: FEDEA. Felgueroso: Universidad de Oviedo. SR CEPR Discussion Paper: 2452; 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, \$8 or 8 euros. JE J31. KW Minimum Wages. Employment. Inequality.

AB In order to offer a balanced assessment of the role of minimum wages in the Welfare State, seven basic questions

need to be answered: (i) Why is the minimum wage a useful redistributive tool?; (ii) How binding are minimum wage floors in different countries?; (iii) To what extent do minimum wages have the adverse consequences that standard analysis predict?; (iv) Are there strong theoretical grounds underlying the revisionist results?; (v) Who supports minimum wages?; (vi) Under which conditions is the minimum wage a better tool than other policy instruments to achieve income redistribution?; and, finally, (vii) What is the overall cross-country time-series evidence regarding the employment effect of the minima? The aim in this paper is to provide an appraisal on the available evidence for each of the above-mentioned issues.

### Domenech, Rafael

**TI** Human Capital in Growth Regressions: How Much Difference Does Data Quality Make? **AU** de la Fuente, Angel; Domenech, Rafael.

### Dubey, Pradeep

**PD** May 2001. **TI** Default and Punishment in General Equilibrium. **AU** Dubey, Pradeep; Geanakoplos, John; Shubik, Martin. **AA** Dubey: State University of New York, Stony Brook. Geanakoplos and Shubik: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1304; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 50. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D41, D52, D81, D82. **KW** Default. Incomplete Markets. Adverse Selection. Moral Hazard. Equilibrium. Refinement. Endogenous Assets.

**AB** We extend the standard model of general equilibrium with incomplete markets to allow for default and punishment. The equilibrating variables include expected delivery rates, along with the usual prices of assets and commodities. By reinterpreting the variables, our model encompasses a broad range of moral hazard, adverse selection, and signaling phenomena (including the Akerlof lemons model and Rothschild-Stiglitz insurance model) in a general equilibrium framework. We impose a condition on the expected delivery rates for untraded assets that is similar to the trembling hand refinements used in game theory. Despite earlier claims about the nonexistence of equilibrium with adverse selection, we show that equilibrium always exists, even with exclusivity constraints on asset sales, and transactions-liquidity costs or information-evaluation costs for asset trade. We show that more lenient punishment which encourages default may be Pareto improving because it allows for better risk spreading. We also show that default opens the door to a theory of endogenous assets.

**PD** May 2001. **TI** Signalling and Default: Rothschild-Stiglitz Reconsidered. **AU** Dubey, Pradeep; Geanakoplos, John. **AA** Dubey: State University of New York. Geanakoplos: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1305; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 30. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D41, D52, D81, D82. **KW** Default. Incomplete Markets. Adverse Selection. Moral Hazard. Equilibrium. Refinement. Signaling. Endogenous Assets.

**AB** In our previous paper we built a general equilibrium model of default and punishment in which equilibrium always exists and endogenously determines asset promises, penalties,

and sales constraints. In this paper we interpret the endogenous sales constraints as equilibrium signals. By specializing the default penalties and imposing an exclusivity constraint on asset sales, we obtain a perfectly competitive version of the Rothschild-Stiglitz model of insurance. In our model their separating equilibrium always exists even when they say it doesn't.

**TI** Insurance Contracts Designed by Competitive Pooling. **AU** Geanakoplos, John; Dubey, Pradeep.

### Duenwald, Christoph

**TI** China's Provincial Growth Dynamics. **AU** Aziz, Jahangir; Duenwald, Christoph.

### Duflo, Esther

**PD** May 2000. **TI** Grandmothers and Granddaughters: The Effects of Old Age Pension on Child Health in South Africa. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 00/05R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 22. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D13, H55, I12, O15. **KW** Social Security. Transfer Program. Child Health. Intra-Household Allocation.

**AB** This paper studies whether the impact of a cash transfer on child nutritional status is affected by the gender of its recipient. In the early 1990's, the benefits and coverage of the South African social pension program were expanded for the Black population. In 1993, the benefits were about twice the median income per capita in rural areas. Over a quarter of Black South African children under age five live with a pension recipient. My estimates suggest that pensions received by women had a large impact on the anthropometric status of girls (it improved their weight given height by 1.19 standard deviations, and their height given age by 1.16 standard deviations), but little effect on that of boys. In contrast, I found no similar effect for pensions received by men. This suggests that the household does not function as a unitary entity, and that the efficiency of public transfer programs may depend on the gender of the recipient.

**TI** Inequality and Growth: What Can the Data Say? **AU** Banerjee, Abhijit V.; Duflo, Esther.

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

**TI** Women as Policy Makers: Evidence from an India-Wide Randomized Policy Experiment. **AU** Chattopadhyay, Raghavendra; Duflo, Esther.

**PD** March 2002. **TI** The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment. **AU** Duflo, Esther; Saez, Emmanuel. **AA** Duflo: MIT and NBER. Saez: UC Berkeley, Harvard University, and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 48; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 34. **PR** no charge. **JE** D83, I22. **KW** Retirement Plans. Financial Education. Social Networks.

**AB** This paper analyzes a randomized experiment to shed light on the role of information and social interactions in the decision 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. However, the effect on TDA enrollment is almost as large for individuals in treated departments who did not receive the encouragement than for those who did. We provide three interpretations, differential treatment effects, social network effects, and motivational reward effect, to account for these results. Responses from a follow-up questionnaire show that fair participants are more confident about their knowledge of retirement benefits but are no more likely to answer accurately precise question on these benefits.

#### Duggan, Mark G.

**PD** July 2000. **TI** Hospital Ownership and Public Medical Spending. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7789; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** H51, I11, I18. **KW** Health Care. Public Health Spending.

**AB** The hospital market is served by firms that are private, for-profit, and government-owned and operated. This paper uses a plausibly exogenous change in hospital financing that was intended to improve medical care for the poor to test three theories of organizational behavior. The results reveal that the critical difference between the three types of hospitals owes to the soft budget constraints of government-owned institutions. The decision-makers in private not-for-profit hospitals are just as responsive to financial incentives and are no more altruistic than their counterparts in profit-maximizing facilities. The final set of results suggests that the significant increase in public medical spending examined in this paper did not improve health outcomes for the indigent.

**TI** The Rise in Disability Reciprocity and the Decline in Unemployment. **AU** Autor, David H.; Duggan, Mark G.

**TI** The Rise in Disability Rolls and the Decline in Unemployment. **AU** Autor, David H.; Duggan, Mark G.

#### Duranton, Gilles

**TI** Nursery Cities: Urban Diversity, Process Innovation, and the Life-Cycle of Products. **AU** Puga, Diego; Duranton, Gilles.

#### Dwyer, Douglas W.

**TI** Output and Unemployment Dynamics in Transition. **AU** Dehejia, Vivek; Dwyer, Douglas W.

#### Dynarski, Susan M.

**PD** November 1999. **TI** Does Aid Matter? Measuring the Effect of Student Aid on College Attendance and Completion. **AA** Harvard University and NBER. **SR** National Bureau

of Economic Research Working Paper: 7422; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 37. **PR** \$5.00. **JE** I22, J24. **KW** Student Aid. College Attendance. College Completion.

**AB** Does student aid increase college attendance or simply subsidize costs for infra-marginal students? A shift in financial aid policy that affects some youth but not others can provide an identifying source of variation in aid. In 1982, Congress eliminated the Social Security Student Benefit Program, which at its peak provided grants totaling \$3.7 billion a year to one out of ten college students. Using the death of a parent as a proxy for Social Security beneficiary status, I find that offering \$1,000 (\$1998) of grant aid increases educational attainment by about 0.16 years and the probability of attending college by four percentage points. The elasticities of attendance and completed years of college with respect to schooling costs are 0.7 to 0.8. The evidence suggests that aid has a "threshold effect": a student who has crossed the hurdle of college entry with the assistance of aid is more likely to continue schooling later in life than one who has never attempted college. This is consistent with a model in which there are fixed costs of college entry. Finally, a cost-benefit analysis indicates that the aid program examined by this paper was a cost-effective use of government resources.

#### Earle, John S.

**PD** May 2000. **TI** Competition and Firm Performance: Lessons from Russia. **AU** Earle, John S.; Brown, J. David. **AA** SITE and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2444; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D24, J42, L10, L33, P31. **KW** Competition. Foreign Trade. Monopsony. Privatization. Russia.

**AB** The "big-bang" liberalization of the inefficient Russian economy in 1992 provides a fruitful setting for analyzing the impact of several dimensions of market competition and other factors on enterprise efficiency. This paper analyzes 1992-1998 panel data on 14,961 enterprises covering 75 percent of industrial employment, emphasizing the varied sources, geographic scope, intensity, time path, and survival effects of competitive pressures. Large, positive effects are found on TFP from competition in domestic product and local labor markets, and from imports and better transportation infrastructure, although the first effect appears only gradually. Non-state firms outperform state enterprises, even after correction for selection bias.

#### Easley, David

**TI** If You're So Smart, Why Aren't You Rich? Belief Selection in Complete and Incomplete Markets. **AU** Blume, Lawrence; Easley, David.

#### Edwards, Sebastian

**PD** November 1999. **TI** How Effective are Capital Controls? **AA** UCLA and NBER. **SR** National Bureau of Economic Research Working Paper: 7413; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$5.00. **JE** F32, F33. **KW** Capital Controls. Capital Flow Restriction.



**AB** In the aftermath of the East Asian crisis a number of authors have argued that capital mobility is highly destabilizing, and that emerging countries would benefit from restricting capital flows. In this paper I investigate, from a historical perspective, the effectiveness of capital controls. I deal with Tobin taxes, controls on outflows and controls on inflows. I argue that controls on outflows have seldom worked as expected. They introduce major distortions and breed corruption. Market-based controls on inflows -- similar to those implemented by Chile -- have the potential for lengthening the maturity of foreign debt. They are not very effective, however, in achieving other objectives, including a higher degree of monetary policy independence.

**Ehrmann, Michael**

**PD** May 2000. **TI** Firm Size and Monetary Policy Transmission: Evidence from German Business Survey Data. **AA** European Central Bank. **SR** European Central Bank Working Paper: 21; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 46. **PR** no charge. **JE** C32, E44, E52. **KW** Monetary Policy Transmission. Firm Size. Balance Sheet Channel. Markov Switching.

**AB** Using business survey data on German manufacturing firms, this paper provides tests for hypotheses formulated in capital market imperfection theories that predict distributional effects in the transmission mechanism of monetary policy. Effects of monetary policy shocks on the business conditions of firms of several size classes are analyzed, with the finding of considerable asymmetry. As predicted by theory, small firms are affected more strongly than large firms. To test whether these effects are reinforced when the economy is in a business cycle downturn, the paper employs a new estimation strategy: impulse response analysis conditional on Markov-switching regimes. The findings are supportive of the theoretical hypotheses: in a business cycle downturn, the distributional effects of monetary policy transmission are indeed reinforced.

**PD** April 2001. **TI** Uncertain Potential Output: Implications for Monetary Policy. **AU** Ehrmann, Michael; Smets, Frank. **AA** Ehrmann: European Central Bank. Smets: European Central Bank, CEPR, and Ghent University. **SR** European Central Bank Working Paper: 59; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 57. **PR** no charge. **JE** E17, E31, E52. **KW** Monetary Policy Rules. Potential Output. Uncertainty.

**AB** This paper uses a small, calibrated forward-looking model of the euro-area economy to investigate the implications of incomplete information about potential output for the conduct and the design of monetary policy. Three sets of issues are examined. First, the certainty-equivalent optimal policy under both commitment and discretion is characterized. In both cases, incomplete information about potential output leads to very persistent deviations between the actual and the perceived output gap in response to supply and cost-push shocks. The costs of imperfect information are quite large. Second, the implications for simple policy rules such as Taylor or inflation-forecast rule are examined. In first-difference form, both rules continue to perform relatively well with imperfect information as long as the output gap and the inflation forecast are optimally estimated. Third, the implications of potential output uncertainty for the optimal delegation to an independent central bank are examined. Incomplete information implies that it is

optimal to appoint a more "hawkish" central bank.

**PD** July 2001. **TI** Interbank Lending and Monetary Policy Transmission: Evidence for Germany. **AU** Ehrmann, Michael; Worms, Andreas. **AA** Ehrmann: European Central Bank. Worms: Deutsche Bundesbank. **SR** European Central Bank Working Paper: 73; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 47. **PR** no charge. **JE** C32, E52, G21. **KW** Monetary Policy. Bank Lending Channel. Interbank Market.

**AB** This paper presents empirical evidence on the behavior of interbank lending in Germany after a monetary policy impulse. Our VAR analysis shows that following a monetary contraction, the banking system as a whole attracts additional funds from foreign banks. Whereas small cooperative and savings banks do not seem to directly access the interbank market themselves, they do so indirectly through the head institutions of their sectors, i.e. the savings banks' and credit cooperative sector, respectively. The interbank flows within these two sectors allow small banks to access funds that might help them in keeping their loan portfolio relatively unaffected. This may explain why the evidence for a bank lending channel in Germany seems to be weaker compared to other countries, e.g. the US.

**TI** Does Inflation Targeting Increase Output Volatility? An International Comparison of Policymakers' Preferences and Outcomes. **AU** Cecchetti, Stephen G.; Ehrmann, Michael.

**Eichengreen, Barry**

**PD** March 2000. **TI** From Benign Neglect to Malignant Preoccupation: U.S. Balance-of-Payments Policy in the 1960s. **AA** UC Berkeley and NBER. **SR** National Bureau of Economic Research Working Paper: 7630; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 47. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F32, F33, N12, N22. **KW** Balance of Payments. USA. Currency Overvaluation. International Liquidity.

**AB** U.S. balance-of-payments problems in the 1960s remain poorly understood. In this paper I argue that they had two aspects. On the one hand there was a problem of real overvaluation, evident in the erosion of the current account and reflecting the reluctance of the Fed, the Executive and Congress to subordinate domestic political and economic objectives to balance-of-payments goals. In addition there was the systemic aspect, that the main source of international liquidity for the expanding world economy was dollar balances. The role of the United States was to act a banker to the world, borrowing short and lending long. But just like a bank providing liquidity transformation services, the U.S. was vulnerable to a "depositor run." So long as foreign central banks, concerned to preserve the Breton Woods System, stood ready to support the dollar, they provided the equivalent of deposit insurance. But unlike a classic lender of last resort, their willingness to do so was limited. When that limit was reached in 1971, the dollar -- and the Breton Woods System -- came crashing down.

**PD** November 1999. **TI** Exchange Rates and Financial Fragility. **AU** Eichengreen, Barry; Hausmann, Ricardo. **AA** Eichengreen: University of California, Berkeley and NBER. Hausmann: Interamerican Development Bank. **SR** National Bureau of Economic Research Working Paper: 7418; National Bureau of Economic Research, 1050

Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 37. PR \$5.00. JE F31, F34, G15. KW Exchange Rates. Financial Fragility. Moral Hazard.

AB In this paper we analyze three views of the relationship between the exchange rate and financial fragility: (1) the moral hazard hypothesis, according to which pegged exchange rates offer implicit insurance against exchange risk and thereby encourage reckless borrowing and lending; (2) the original sin hypothesis, which emphasizes and incompleteness in financial markets which prevents the domestic currency from being used to borrow abroad or to borrow long term even domestically; and (3) the commitment problem hypothesis, which sees financial crises as resulting from neither moral hazard nor original sin but from the weakness of the institutions that address commitment problems. We examine the evidence on these hypotheses and draw out their implications for exchange-rate policy in emerging markets.

### Eijffinger, Sylvester C. W.

PD February 2000. TI The Term Structure of Interest Rates and Inflation Forecast Targeting. AU Eijffinger, Sylvester C. W.; Schaling, Eric; Verhagen, Willem. AA Eijffinger: Tilburg University, College of Europe, Humboldt University of Berlin, and CEPR. Schaling: RAU. Verhagen: Tilburg University. SR CEPR Discussion Paper: 2375; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG 40. PR 5 pounds, \$8 or 8 euros. JE E43, E52, E58. KW Term Structure. Interest Rates. Inflation Targets.

AB This paper examines the implications of the expectations theory of the term structure for the implementation of inflation targeting. We show that the responsiveness of the central bank's instrument to the underlying state of the economy is increasing in the duration of the long-term bond. On the other hand, an increase in duration will make long-term inflationary expectations and therefore also the long-term nominal interest rate less responsive to the state of the economy. The extent to which the central bank cares about output stabilization will exert a moderating influence on the central bank's response to the current indicators of future inflation. However, the effect of an increase in this parameter on the long-term nominal interest rate turns out to be ambiguous. Next, we show that both the sensitivity of the nominal term spread to economic fundamentals and the extent to which the spread predicts future output are increasing in the duration of the long bond and the degree of structural output persistence. However, if the central bank becomes relatively less concerned about inflation stabilization the term spread will be less successful in predicting real economic activity.

### Ekholm, Karolina

TI Does FDI Work as a Channel for R&D Spillovers? Evidence Based on Swedish Data. AU Braconier, Henrik; Ekholm, Karolina; Midelfart Knarvik, Karen-Helene.

TI Does FDI Work as a Channel for R&D Spillovers? Evidence Based on Swedish Data. AU Braconier, Henrik; Ekholm, Karolina; Midelfart Knarvik, Karen-Helene.

### Eliasson, Ann-Charlotte

TI Inflation Targeting with NAIRU Uncertainty and Endogenous Policy Credibility. AU Isard, Peter; Laxton, Douglas; Eliasson, Ann-Charlotte.

### Ellison, Martin

PD August 2000. TI Learning, Uncertainty and Central Bank Activism in an Economy With Strategic Interactions. AU Ellison, Martin; Valla, Natacha. AA European University Institute. SR European Central Bank Working Paper: 28; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 34. PR no charge. JE D81, D83, D84, E52, E58. KW Activism. Learning. Monetary Policy. Strategic Interactions. Uncertainty.

AB This paper examines the optimal level of central bank activism in a standard model of monetary policy with uncertainty, learning and strategic interactions. It calibrates the model using G7 data and finds that the presence of strategic interactions between the central bank and private agents creates an additional motivation for caution in optimal monetary policy. An active policy designed to help learning and reduce future uncertainty creates extra volatility in inflation expectations, which is detrimental to welfare.

### Ellison, Sara Fisher

PD July 2001. TI Countervailing Power in Wholesale Pharmaceuticals. AU Ellison, Sara Fisher; Snyder, Christopher M. AA Ellison: MIT. Snyder: George Washington University. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 01/27; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. PG 25. PR \$7.00 U.S., Canada, Mexico; \$10.00 other international. JE C78, D43, L43, L65. KW Buyer Size. Quantity Discounts. Collusion Models. Bargaining Models. Pharmaceuticals.

AB There are a number of theories in the industrial organization literature explaining the conventional wisdom that larger buyers may have more "countervailing power" than small buyers, in that they receive lower prices from suppliers. We test the theories empirically using data on wholesale prices for antibiotics sold through various distribution channels -- chain and independent drugstores, hospitals, HMOs -- in the U.S. during the 1990s. Price discounts depend more on the ability to substitute among alternative suppliers than on sheer buyer size. In particular, hospitals and HMOs, which can use restrictive formularies to enhance their substitution opportunities beyond those available for drugstores, obtain substantially lower prices. Chain drugstores only receive a small size discount relative to independents, at most two percent on average, and then only for products for which drugstores have some substitution opportunities (i.e., not for on-patent branded drugs. Our findings are roughly consistent with collusion models of countervailing power and inconsistent with bargaining models and have implications for recent government proposals to form purchasing alliances to reduce prescription costs.

PD August 2001. TI Pharmaceutical Prices and Political Activity. AU Ellison, Sara Fisher; Wolfram, Catherine D. AA Ellison: MIT. Wolfram: UC Berkeley and NBER. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 01/30; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. PG 28. PR \$7.00 U.S., Canada, Mexico; \$10.00 other international. JE D72, I11, L65. KW Pharmaceuticals. Healthcare Reform. Political Economy.

AB Drug prices have been a conspicuous political issue in

much of recent history, but no more so than during health care reform debates in 1993 and 1994. This paper investigates possible effects of political activity on pharmaceutical prices, with a particular focus on the health care reform period. It evaluates the extent to which pharmaceutical companies slowed the rates at which they increased prices in an attempt to preempt government intervention. To do so, we characterized companies based on their vulnerability to future price regulation. We then consider patterns in price movements across companies. The results suggest that companies whose drugs had longer patent lives and who had recently increased contributions to their corporate Political Action Committees (PACs) slowed price increase during 1992 and 1994 more than their competitors. It is difficult to distinguish pricing differences across companies in 1993, perhaps because most companies had pledge to keep price increases below the rate of inflation.

#### **Emerson, Patrick M.**

**TI** Efficiency Pricing, Tenancy Rent Control and Monopolistic Landlords. **AU** Basu, Kaushik; Emerson, Patrick M.

#### **Engel, Charles M.**

**TI** Monetary Policy in the Open Economy Revisited: Price Setting Rules and Exchange Rate Flexibility. **AU** Devereux, Michael B.; Engel, Charles M.

#### **Engle, Robert F.**

**TI** Value at Risk Models in Finance. **AU** Manganelli, Simone; Engle, Robert F.

#### **Epaulard, Anne**

**PD** January 2001. **TI** Recursive Utility, Endogenous Growth, and the Welfare Cost of Volatility. **AU** Epaulard, Anne; Pommeret, Aude. **AA** Epaulard: International Monetary Fund. Pommeret: Universite de Louvain. **SR** International Monetary Fund Working Paper: WP/01/05; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 23. **PR** not available. **JE** E32, E61. **KW** Cost of Fluctuations. Recursive Utility. Endogenous Growth. Risk.

**AB** This paper proposes a measure of the welfare cost of volatility derived from an endogenous growth model (AK) under uncertainty extended to the case of a recursive utility function, which disentangles risk aversion from intertemporal elasticity of substitution. It encompasses a direct welfare cost of fluctuations and a welfare cost due to the endogeneity of the consumption. The total welfare cost of volatility increases with both the risk aversion and the intertemporal elasticity of substitution. For plausible values of the agent's preference parameters, the cost of volatility may be greater than measures based on an exogenous process for consumption.

#### **Estevao, Marcello M.**

**PD** November 1999. **TI** Measuring Temporary Labor Outsourcing in U.S. Manufacturing. **AU** Estevao, Marcello M.; Lach, Saul. **AA** Estevao: Board of Governors of the Federal Reserve System. Lach: Hebrew University and NBER. **SR** National Bureau of Economic Research Working Paper: 7421; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 25. **PR** \$5.00. **JE** C14, D24, J23, J24. **KW** Temporary Help Supply. Manufacturing.

**AB** Several analysts claim that firms have been using more flexible work arrangements in order to contain the costly adjustment of labor to changes in economic conditions. In particular, temporary help supply (THS) employment has increased dramatically in the last ten years. We provide several estimates of the number of individuals employed by temporary help supply (THS) firms who worked in the manufacturing sector from 1972 to 1997. We show that manufacturers have been using THS workers more intensively in the 1990s. In addition, the apparent flatness of manufacturing employment in the 1990s can be explained in part by this type of outsourcing from the service sector. Finally, not accounting for THS hours overstated the increase in average annual manufacturing labor productivity by 1/2 percentage point during the 1991-1997 period.

**PD** December 1999. **TI** The Evolution of the Demand for Temporary Help Supply Employment in the United States. **AU** Estevao, Marcello M.; Lach, Saul. **AA** Estevao: Board of Governors of the Federal Reserve System. Lach: Hebrew University and NBER. **SR** National Bureau of Economic Research Working Paper: 7427; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 11. **PR** \$5.00. **JE** D21, E24, J22, J41. **KW** Temporary Workers. Firm Behavior.

**AB** The Bureau of Labor Statistics has reported an extraordinary increase in temporary help supply (THS) employment during the late 190s and the 1990s. However, little is known about the venues where these THS employees actually work. Our estimates indicate that the proportion of THS employees in each major American industry, except the public sector, increased during 1977-97. By 1997, close to 4 percent of the employees in manufacturing and services were THS workers. In the service sector, the increase was accompanied by a large increase in direct hires. In manufacturing, however, it was accompanied by a decline in direct hiring from its peak in 1989 even though output increased substantially in the 1990s. Practically, all of the growth in THS employment is attributed to a change in the hiring behavior of firms, rather than to a disproportional increase in the size of more THS-intensive industries.

#### **Fabiani, Silvia**

**PD** March 2000. **TI** Alternative Measures of the NAIRU in the Euro Area: Estimates and Assessment. **AU** Fabiani, Silvia; Mestre, Ricardo. **AA** European Central Bank. **SR** European Central Bank Working Paper: 17; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 48. **PR** no charge. **JE** E24, E31, C14, C22. **KW** NAIRU. Phillips Curve. Kalman Filter.

**AB** The paper focuses on the measurement of the NAIRU (Non-Accelerating- Inflation-Rate-of-Unemployment) for the euro area and assesses the usefulness of different methodologies developed in the literature to estimate this unobservable variable at the aggregate level. After reviewing the theoretical framework underlying the most common estimation approaches, it presents several estimates of the area-wide NAIRU based on a number of direct (or statistical) techniques. The latter range from simple univariate filtering approaches to more complex multivariate methods based on Phillips curve relationships. The different estimates of the aggregate NAIRU appear to be consistent and robust with respect to alternative specifications, methodologies and choice of the inflation

indicator. They also show significant inflation forecasting ability and are able to produce sensible measures of the output gap, therefore providing some ground to argue that unemployment and the unemployment gap may be a useful variable to analyze short-term economic developments at the euro area level.

**PD** September 2000. **TI** The Sources of Unemployment Fluctuations: An Empirical Application to the Italian Case. **AU** Fabiani, Silvia; Locarno, Alberto; Oneto, Giampaolo; Sestito, Paolo. **AA** Fabiani: European Central Bank. Locarno: Bank of Italy. Oneto: ISAE. Sestito: Italian Ministry of Labour and Bank of Italy. **SR** European Central Bank Working Paper: 29; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 51. **PR** no charge. **JE** C51, E24, J60. **KW** Unemployment. **SVAR**. Wage and Price Setting. Temporary and Permanent Shocks.

**AB** The paper attempts to disentangle the main sources of the rise in the Italian unemployment rate over the last four decades on the basis of a small model a la Layard-Nickell, identified and estimated using a structural VAR approach. Unemployment movements are assumed to be driven by fully permanent and long-lived but temporary shocks. The component of unemployment related to current and lagged demand shocks deriving from the SVAR estimation is found to be relevant and quite persistent, its swings accounting for approximately a 4 percent change in the unemployment rate. In particular, while temporary by construction, this component shows an almost continuous increase since the beginning of the 1980s. Nonetheless, the results confirm that the bulk of the rise in Italian unemployment can be attributed to non-demand factors: temporary (namely productivity and labor supply shocks) and fully permanent (namely shocks to the wage bargaining schedule). The latter explain a gradual rise of about 2.5 percent between the end of the 1960s and the beginning of the 1980s; over the last 15-20 years, however, they do not seem to have further contributed to the worsening of unemployment situation.

**PD** April 2001. **TI** Model-Based Indicators of Labor Market Rigidity. **AU** Fabiani, Silvia; Rodriguez-Palenzuela, Diego. **AA** European Central Bank. **SR** European Central Bank Working Paper: 57; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 35. **PR** no charge. **JE** J21, J41. **KW** Flexibility. Labor Market Reform. Unemployment. Eurosclerosis. Labor Market Institutions. EMU.

**AB** We derive indicators of labor market flexibility that are comparable across countries and time intervals. Our indicators build on a structural VAR model of real wages, output and unemployment dynamics. We compute our indicators for thirteen OECD countries and for two time periods, and we compare them with existing indicators of labor market flexibility in the literature. The main result of the paper is that we did not find evidence of a closing gap in terms of labor market flexibility between the United States and continental European countries, although our findings suggest that medium-sized and small countries have experienced greater improvements in this regard than the large countries since the mid-eighties.

**PD** May 2001. **TI** A System Approach for Measuring the Euro Area NAIRU. **AU** Fabiani, Silvia; Mestre, Ricardo.

**AA** European Central Bank. **SR** European Central Bank Working Paper: 65; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 37. **PR** no charge. **JE** C11, C15, E31, E32. **KW** Bootstrap. Kalman Filter. NAIRU. Unobserved Components.

**AB** This paper addresses the issue of measuring the NAIRU for the euro area and assessing the robustness and precision of the obtained estimates. The empirical framework adopted is based on systems combining an Okun-type relationship between cyclical unemployment and the output gap with a Phillips curve and stochastic laws of motion for the NAIRU and potential output. Such systems have been estimated using Kalman-filter techniques. The results obtained point to an estimate of the area-wide NAIRU that is robust to changes in the underlying models. This robustness is shown to hold both in terms of the mean -- i.e., the shape of the resulting NAIRU -- and the variance of the process. The latter is derived through bootstrap exercises using the models alone or pooled together. The evidence found suggests that the increase in the aggregate NAIRU that took place in the early part of the sample period has come to a halt and may be about to be reversed.

### Fagan, Gabriel

**PD** January 2001. **TI** An Area Wide Model (AWM) for the Euro Area. **AU** Fagan, Gabriel; Henry, Jerome; Mestre, Ricardo. **AA** European Central Bank. **SR** European Central Bank Working Paper: 42; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 62. **PR** no charge. **JE** C30, C50, E20. **KW** European Monetary Union. Macroeconometric Modelling. Euro Area.

**AB** This paper presents a quarterly estimated structural macroeconomic model for the euro area, denoted area-wide model (AWM). This model has been developed with four uses in mind: the assessment of economic conditions in the area, macroeconomic forecasting, policy analysis and deepening understanding of the functioning of euro area economy. Five key features of the model are: (1) it treats the euro area as a single economy; (2) it is a medium sized model which, while detailed enough for most purposes, is sufficiently small to be manageable in the context of forecasting and simulation exercises; (3) the model is designed to have a long run equilibrium consistent with classical economic theory, while its short run dynamics are demand driven; (4) the current version of the AWM is mostly backward-looking, i.e. expectations are reflected via the inclusion of lagged variables; and (5) the AWM uses quarterly data, allowing for a richer treatment of the dynamics, and is mostly estimated on the basis of historical data (rather than calibrated).

### Faia, Ester

**PD** April 2001. **TI** Stabilization Policy in a Two Country Model and the Role of Financial Frictions. **AA** New York University. **SR** European Central Bank Working Paper: 56; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 60. **PR** no charge. **JE** E31, E42, E44, E52, F41. **KW** Financial Frictions. Monetary Regimes. Financial Stability. Stabilization Policy.

**AB** This paper studies the optimal choice of exchange rate regimes between two large currency areas. It provides a positive and normative analysis of alternative monetary policy

rules in a model with sticky prices, monopolistic competition, and frictions in the processes of capital accumulation and acquisition of external finance. In a two country model without capital the pattern of output is mainly determined by the pattern of consumption: any movement in the exchange rate under floating exchange rates causes movements in the price of the international traded bond and in consumption and consequently in output. In the model with capital and financial frictions output mimics the movements in investment: an active monetary authority reacting to exchange rate movements generates perverse movements in the interest rate, destabilizing investment and output. The paper also suggests how monetary policy can improve financial stability, stressing the importance of the interest rate smoothing in tuning movements in investment and output and in reducing the welfare cost of financial frictions mostly under fixed exchange rates.

#### Fair, Ray C.

**PD** March 2001. **TI** Is There Empirical Support for the "Modern" View of Macroeconomics? **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1300; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 24. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** E19, E51. **KW** Macroeconomics. Monetary Policy.

**AB** This paper argues that the basic model of the "modern" view of macroeconomics appears to be a poor approximation of the actual economy. The modern view is based on three equations. 1) The interest rate rule: The Fed adjusts the nominal interest rate in response to inflation and the output gap. The coefficient on inflation is greater than one and so the real interest rate rises when inflation rises. 2) The Price Equation: Inflation depends on the output gap, cost shocks and expected future inflation. 3) The Aggregate Demand Equation: Aggregate demand (real) depends on the real interest rate, expected future demand and exogenous shocks.

#### Falzoni, Anna M.

**TI** Multinational Corporations, Wages and Employment: Do Adjustment Costs Matter? **AU** Bruno, Giovanni; Falzoni, Anna M.

#### Faruqee, Hamid

**PD** April 2001. **TI** Japan: Demographic Shock and Fiscal Sustainability. **AU** Faruqee, Hamid; Muhleisen, Martin. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/40; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** D58, E21, E27, E62. **KW** Japan. Aging. Saving. Fiscal Policy. General Equilibrium.

**AB** The paper develops a general equilibrium framework to examine the economic implications of population aging in Japan. Particular attention is paid to aggregate saving behavior which is modeled on the basis of empirical age-earnings profiles using a life-cycle approach. The paper's objectives are to (i) estimate the output loss caused by demographic changes and assess the impact of aging on Japan's government finances; and (ii) compare fiscal policy options with respect to their effects on output growth and economic welfare.

#### Fatum, Rasmus

**PD** February 2000. **TI** On the Effectiveness of Sterilized Foreign Exchange Intervention. **AA** European Central Bank. **SR** European Central Bank Working Paper: 10; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 49. **PR** no charge. **JE** F31, F33, F42, G15. **KW** Foreign Exchange Intervention. Fed Intervention. Bundesbank Intervention. Event Study.

**AB** This paper addresses the question of whether sterilized central bank intervention systematically affects exchange rates. Furthermore, the paper analyzes whether a central bank can conduct its intervention operations in a specific manner, in order to increase the likelihood of achieving its objectives. The first question is addressed by applying the event study methodology of the finance literature to daily data on Bundesbank and Fed post-Plaza intervention. Using the non-parametric sign test and the matched sample test, evidence of effectiveness in terms of a systematic association between exchange rate levels and intervention is found. The second question is addressed by estimating binary choice models of the conditional probabilities of observing a successful intervention operation over observations when at least one of the two central banks were intervening. The results suggest that central banks can improve the likelihood of success primarily through coordination, if intervention occurs infrequently.

#### Fehr, Hans

**PD** July 1997. **TI** VIVAT -- A Definitive VAT System for Europe? **AU** Fehr, Hans; Polo, Clemente. **AA** Fehr: University of Tubingen. Polo: Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 397/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 20. **PR** no charge. **JE** D58, F42, H25, H87. **KW** Value Added Tax. VIVAT. General Equilibrium. European Union. Taxation.

**AB** The paper examines the efficiency effects of the viable integrated value-added tax (VIVAT) system, which was recently proposed as the future VAT system for the European Union (EU). We first describe the difference in the administration of the current transitional system and the VIVAT system. Then we present the computable general equilibrium model featuring eleven EU regions and eleven production sectors. Finally we evaluate the adoption of two different tax rate structures under the VIVAT system by using numerical simulations. Our results indicate that efficiency effects from adopting a uniform tax rate structure could be quite substantial. However, these gains are not spread uniformly across countries and some countries could even lose. Under a dual tax rate structure these losses will be even more pronounced.

#### Figueras, Neus

**TI** An Exploration of Reputation Formation in Experimental Games. **AU** Brandts, Jordi; Figueras, Neus.

#### Fogarty, Michael S.

**TI** The Meaning of Patent Citations: Report on the NBER/Case-Western Reserve Survey of Patentees. **AU** Jaffe, Adam B.; Trajtenberg, Manuel; Fogarty, Michael S.

**Fogel, Robert W.**

**PD** July 2000. **TI** Simon S. Kuznets: April 30, 1901-July 9, 1985. **AA** University of Chicago and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7787; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** B31. **KW** Kuznets, Simon S. (1901-1985). Biography. **AB** This paper, prepared for the Biographical Memoirs of the National Academy of Sciences, presents an account of the scholarly career of Simon S. Kuznets. Among the issues considered are his contribution to the development of the empirical tradition in economics, his transformation of the field of national income accounting, his use of national income accounting during World War II to set production targets for both the military and civilian sectors of the economy, and to guide the implementation of those targets; his development of a theory of economic growth, his investigation of the interrelationship between economic growth, his contribution to methods of measurement in economics, and his legacy to the economics profession.

**Francis, Nicolas**

**PD** August 2000. **TI** The Impact of Policy Uncertainty on Regulated Companies. **AU** Francis, Nicolas; Grout, Paul A. **AA** Francis: Europe Economics. Grout: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/24; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). **PG** 46. **PR** no charge. **JE** G10, L50. **KW** Regulatory Policy. CAPM (Capital Asset Pricing Model). Public Policy. **AB** This paper is concerned with the extent that possible changes in regulatory policy feed through into stock market perceptions. It assesses the impact of potential policy changes from price cap to profit sharing regulation in the UK. The approach employs a difference in difference analysis comparing a treatment sample of 19 regulated companies with a control sample of 21 companies. Since the alternative to the existing regulatory regime was a shift to profit sharing, theory predicts that the beta during the period of policy uncertainty should fall for the regulated sample and either be zero or slightly positive for the control sample. These effects are confirmed. An effect separate from the above is noted towards the end of the sample period. Here the average beta of the control sample, which is close to unity elsewhere, falls. This change is also reflected in shifts in the beta of the regulated sample. This is attributed to the "internet effect."

**Francois, Joseph F.**

**PD** February 2000. **TI** Trade in International Transport Services: The Role of Competition. **AU** Francois, Joseph F.; Wooton, Ian. **AA** Francois: Erasmus University Rotterdam. Wooton: University of Glasgow. **SR** CEPR Discussion Paper: 2377; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 28. **PR** 5 pounds, \$8 or 8 euros. **JE** F12, F13, F23. **KW** Services Trade. Trade Liberalization. Market Access Costs. Imperfect Competition. **AB** We are concerned with trade in transport services

(international shipping, transport, and related logistical services) and the importance of competition and market structure in the sector. We examine implications of liberalization for profits, trade, and national gains from trade. Though the General Agreement on Trade in Services (GATS) maritime negotiations involved the maritime nations, we also flag interests of consuming nations (particularly poorer developing countries). We further illustrate issues raised in the analytical section through a computational example, to provide a rough sense of orders of magnitude and the importance of the issues raised for basic gains from improved market access.

**Fratzscher, Marcel**

**PD** March 2001. **TI** Financial Market Integration in Europe: On the Effects of EMU on Stock Markets. **AA** European University Institute. **SR** European Central Bank Working Paper: 48; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 45. **PR** no charge. **JE** C32, F30, G15. **KW** Financial Integration. Stock Markets. EMU. Exchange Rate Volatility. GARCH Model. **AB** This paper analyzes the integration process of European equity markets since the 1980s. Its central focus is on the role that EMU, and specifically, changes in exchange rate volatility, has played in this process of financial integration. Building on an uncovered interest rate parity condition to measure financial integration, a trivariate GARCH model with time-varying coefficients yields three key results: first, European equity markets have become highly integrated only since 1996. Second, the Euro area market has gained considerably in importance in world financial markets and has taken over from the US as the dominant market in Europe. And third, the integration of European equity markets is in large part explained by the drive towards EMU, and in particular the elimination of exchange rate volatility and uncertainty in the process of monetary unification.

**Freeman, Richard B.**

**PD** March 2000. **TI** Skill Compression, Wage Differentials and Employment: Germany vs. the US. **AU** Freeman, Richard B.; Schettkat, Ronald. **AA** Freeman: NBER. Schettkat: Utrecht University. **SR** National Bureau of Economic Research Working Paper: 7610; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 14. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J31, J63, J64. **KW** Compression Hypothesis. Germany. USA. Job Creation. Wage Distribution. Skill Distribution. **AB** Germany's more compressed wage structure is taken by many analysts as the main cause of the German-US difference in job creation. We find that the US has a more dispersed level of skills than Germany but even adjusted for skills, Germany has a more compressed wage distribution than the US. The fact that jobless Germans have nearly the same skills as employed Germans and look more like average Americans than like low skill Americans runs counter to the wage compression hypothesis. It suggests that the pay and employment experience of low skilled Americans is a poor counterfactual for assessing how reductions in pay might affect jobless Germans.

**PD** March 2000. **TI** Low Wage Services: Interpreting the US -- German Difference. **AU** Freeman, Richard B.; Schettkat, Ronald. **AA** Freeman: NBER. Schettkat: Utrecht University. **SR** National Bureau of Economic Research

Working Paper: 7611; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 13. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** J21, J31, L89. **KW** Wage Distribution. Germany. USA. Low Wage Services. **AB** Is the expansion of jobs in low-wage services in Europe restricted by high wages? With services now the main sector source of employment growth this question becomes crucial and we examine it through a detailed comparison of the role of low-wage services in the US and Germany. We find clear low-wage service "job deficit" in Germany but this is not due to excessively high German wages. Relative wages in low-wage sectors are extremely similar in the two countries. This is a striking finding given the much wider wage distribution in the US. The explanation for this phenomenon is the much greater intra-industry wage dispersion in the US producing similar industry mean wages as the much narrower German distribution.

#### Freire-Seren, M. Jesus

**PD** February 1999. **TI** Human Capital Accumulation and Economic Growth. **AA** Universitat Autònoma de Barcelona and Universidade de Vigo. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 435/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 23. **PR** no charge. **JE** E13, J24, O40, O50. **KW** Economic Growth. Human Capital. Empirical Evidence. Education.

**AB** This paper analyzes the relationship between human capital and economic growth. To that aim, we propose an augmented neoclassical growth model, where the process of human capital accumulation is, in some sense, endogenized. The relevance of this modification is that we can analyze how human capital affects growth, considering the reverse impact or causation of growth on human capital accumulation. Thus, we can estimate not only the contribution of human capital to economic growth, but also the effect of income level on human capital accumulation. More precisely, we directly estimate the dynamical system that describes the behavior of the economy. In this way, we obtain the parameters of the aggregate production function and those characterizing the endogenous process of human capital accumulation. Moreover, the joint estimation of the dynamical equations provides evidence about the level effect of education on economic growth. However, when we only estimate the output equation, the outcome changes in the opposite direction.

**PD** February 1999. **TI** Research and Development Expenditures and Economic Growth. **AA** Universitat Autònoma de Barcelona and Universidade de Vigo. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 436/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 29. **PR** no charge. **JE** O31, O32, O38, O41, O47. **KW** Technological Change. Endogenous Growth. Research and Development. Innovation. Sustainable Growth.

**AB** The aim of this paper is to theoretically and empirically analyze the role that aggregate R&D-expenditures play in economic growth. We introduce a technology of innovation based on R&D-expenditures instead of labor to see how this consideration generates sustainable growth determined

endogenously, even if population growth does not exist. Therefore, it seems relevant to analyze the effects of different fiscal policies. For the empirical analysis we make use of an econometric model obtained from the decentralized equilibrium. More precisely, the specification is obtained using the free-entry condition that the competitive equilibrium states for the R&D-activity and the policy function defining the dynamic evolution of patentees' price.

#### Freixas, Xavier

**PD** August 2001. **TI** Interbank Market Integration Under Asymmetric Information. **AU** Freixas, Xavier; Holthausen, Cornelia. **AA** Freixas: Universitat Pompeu Fabra. Holthausen: European Central Bank. **SR** European Central Bank Working Paper: 74; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 43. **PR** no charge. **JE** F36, G15, G21. **KW** Financial Integration. Interbank Markets. Banking Theory. Asymmetric Information.

**AB** While domestic interbank markets are often considered to work in an efficient way, cross-country bank lending appears to be subjected to market imperfections leading to persistent interest rate differentials. In a model where banks need to cope with liquidity shocks by borrowing or by liquidating assets, we study the scope for international interbank market integration with unsecured lending when cross-country information is noisy. We find that an equilibrium with integrated markets need not always exist, and that it coexists with one characterized by segmentation. A repo market reduces interest rate spreads and improves upon the segmentation equilibrium. However, it may destroy the unsecured integrated equilibrium.

#### Friebel, Guido

**PD** January 2000. **TI** Why Russian Workers Do Not Move: Attachment of Workers Through in-Kind Payments. **AU** Friebel, Guido; Guriev, Sergei. **AA** Friebel: Stockholm School of Economics, IDEI, Toulouse, SITE, RECEP, CEPR, and WDI. Guriev: New Economic School, RECEP, Moscow, CEPR and WDI. **SR** CEPR Discussion Paper: 2368; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 36. **PR** 5 pounds, \$8 or 8 euros. **JE** B31, D23, J41. **KW** Transition. Labor Mobility. Enterprise Restructuring.

**AB** We relate the phenomena of sluggish interregional labor reallocation and in-kind compensation in Russia to "attachment" strategies of firms: Paying wages in non-monetary forms makes it hard for workers to raise the cash needed for quitting their region in order to find better jobs in more prosperous regions. While attachment may facilitate worker-specific investments that do not pay off if workers are expected to leave, it also eliminates workers' outside options. Hence, firms may use it to exploit workers. Surprisingly, exploitation through attachment does not only occur in monopsonistic regional labor markets. Even if there is some competition, all firms in a region may use attachment strategies. Here, workers are locked-in and do not receive any compensation for their forgone option to move. Data of the Russian Longitudinal Monitoring Survey (RLMS) support our theory. Workers who receive in-kind payments are less likely to move than workers who do receive their wages in cash.

**Friedman, Benjamin M.**

**PD** November 1999. **TI** The Future of Monetary Policy: The Central Bank as an Army With Only a Signal Corps? **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7420; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$5.00. **JE** E52, E58. **KW** Monetary Policy. Central Banks. Bank Reserves.

**AB** The influence of monetary policy over interest rates, and via interest rates over nonfinancial economic activity, stems from the central bank's role as a monopolist over the supply of bank reserves. Several trends already visible in the financial markets of many countries today threaten to weaken or even undermine the relevance of that monopoly, and with it the efficacy of monetary policy. These developments include the erosion of the demand for bank-issued money, the proliferation of nonblank credit, and aspects of the operation of bank clearing mechanisms. What to make of these threats from a public policy perspective -- in particular, whether to undertake potentially aggressive regulatory measures in an effort to forestall them -- depends in large part on one's view of the contribution of monetary policy toward successful economic performance.

**Fujii, Eiji**

**TI** Market Structure and the Persistence of Sectoral Real Exchange Rates. **AU** Cheung, Yin-Wong; Chinn, Menzie D.; Fujii, Eiji.

**Fullerton, Don**

**PD** July 2000. **TI** Tax and Subsidy Combinations for the Control of Car Pollution. **AU** Fullerton, Don; West, Sarah E. **AA** Fullerton: University of Texas, Austin and National Bureau of Economic Research. West: Macalester College. **SR** National Bureau of Economic Research Working Paper: 7774; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H21, H23, Q21, Q28. **KW** Pigovian Tax. Auto Emissions. Pollution Control.

**AB** Despite technological advances, an individual's car emissions still cannot be measured reliably enough to impose a Pigovian tax. This paper explores alternative market incentives that could be used instead. We solve for second-best combinations of uniform taxes on gasoline, engine size, and vehicle age. For 1,261 individuals and cars in the 1994 Consumer Expenditure Survey, we record the car's model, year, and number of cylinders. We then seek a corresponding car in data from the California Air Resources Board that shows the car's engine size, fuel efficiency, and emissions per mile. We calculate the welfare improvement from a zero-tax scenario to the ideal Pigovian tax, and we find that 71 percent of that gain can be achieved by the second-best combination of taxes on gas, size, and vintage. A gas tax alone attains 62 percent of that gain. These results are robust to variation in the elasticity of substitution among goods.

**Fumagalli, Chiara**

**PD** June 2000. **TI** On the Welfare Effects of Competition for Foreign Direct Investments. **AA** Universita Bocconi. **SR** CEPR Discussion Paper: 2468; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell

Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** F23, H73, H87. **KW** Business Location. Foreign Direct Investments. Tax Competition. Multinationals.

**AB** This paper studies the effects of subsidy competition for the location of a multinational enterprise (MNE). We assume that a (poorer) region enjoys larger gains from the positive externalities associated with the inward investment but that the MNE would find it more profitable to locate to the other (richer) region, subsidies being equal. In this setting, subsidy competition can improve aggregate welfare relative to a policy that bans grants because it gives the chance to the region that needs it more to attract the investment. The paper analyzes under which conditions this is the case, assuming either that the multinational a priori decided to invest abroad or that exports are a feasible alternative to foreign direct investments (FDI). The welfare effects of subsidy competition can thus be extremely different.

**Gal-Or, Esther**

**PD** January 2000. **TI** Evaluating the "Leverage Theory" of Product Bundling in the Context of Negotiations. **AA** University of Pittsburgh. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/22; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 41. **PR** no charge. **JE** B22, D42, L12. **KW** Leverage Theory. Product Bundling. Monopolies. Chicago School.

**AB** This paper develops a model to evaluate the leverage theory of product bundling in the context of negotiations between a monopolist and intermediaries who sell its products to consumers. It investigates whether the monopolist finds it feasible and advantageous to utilize product bundling in order to block negotiations between the intermediaries and a rival firm who competes against the monopolist in a complementary market. These results support the Chicago School conventional wisdom that product bundling is ineffective in extending monopoly power, even in this modified environment where it affects the bargaining position of the monopolist in negotiations with powerful business partners. Specifically, the monopolist finds foreclosure of competitors via bundling either unprofitable or not feasible.

**Galasso, Vincenzo**

**PD** May 2000. **TI** The US Social Security: A Financial Appraisal for the Median Voter. **AA** Universidad Carlos III de Madrid and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2456; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D72, H55. **KW** Returns on Public Pensions. Median Voter.

**AB** Why do voters support pay-as-you-go social security systems? Browning (1975) suggested that for a majority of voters, who consider past contributions as a sunk cost, unfunded systems may represent a better investment than alternative assets, such as mutual or pension funds. The relevance of Browning's argument is quantified by analyzing the performance of the US social security system as an asset. For different specifications of the median voter's household at



US Presidential elections from 1964 to 1996, the return from "investing" in social security (i.e., the rate of discount that equalizes the expected present value of current and future contributions with the expected present value of pension benefits). For the baseline family, the returns fluctuate between 5.7 percent in 1984 and 9.8 percent in 1964 and is therefore in line with the average US stock market return over the last century: 6.6 percent for the S&P Composite. In particular, social security outperforms both S&P Composite and Dow Jones Industrial Average in ex-post returns for the median voters at the 1964 and 1968 elections, this difference vanishes in the 1972 election, and it is reversed in the 1976 election.

#### **Galenson, David W.**

**PD** October 1999. **TI** Quantifying Artistic Success: Ranking French Painters -- and Paintings -- from Impressionism to Cubism. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 7407; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$5.00. **JE** D79, Z10. **KW** Artistic Success. French Painting. Modern Art.

**AB** For 35 leading painters who lived in France during the first century of modern art, this paper uses textbook illustrations as the basis for measuring the importance of both painters and individual paintings. The rankings pose an interesting puzzle: why do some of the greatest artists not produce famous paintings, and why do some relatively minor artists produce some of the most famous individual paintings? The answer may lie in an important difference in approach between experimental and conceptual painters. Experimental artists work incrementally, their innovations appear gradually, and they generally do their best work late in their careers; conceptual artists innovate more suddenly, produce individual breakthrough works, and usually do their best work early in their careers. This paper demonstrates that artistic success can usefully be quantified, and that doing so increases our understanding of the working methods of modern painters.

#### **Garcia-Alonso, Maria del Carmen**

**PD** June 1998. **TI** The Role of Technology Security in a Model of Trade with Horizontal Differentiation. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 423/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 29. **PR** no charge. **JE** F12, F13, O31, O38. **KW** Strategic Trade. Export Controls. Arms Trade. Research and Development.

**AB** The security concerns of exporters of products which might be used for military purposes have motivated different security regimes that limit the quality of the products exported by home firms. At the same time however, home governments want to ensure the competitiveness of their home companies. We analyze the optimal policy of a government facing such a trade off. We present a multistage model in which the government has the ability to commit to R&D subsidies but cannot credibly set its quality restrictions until the outcome of the R&D process is known. We show that, depending on whether some or all governments want to restrict the quality exported by the home firms, the optimal policy involves R&D subsidies or taxes together with ex post security restrictions.

#### **Garcia-Cestona, Miguel A.**

**PD** July 1997. **TI** A Main Bank Approach to Optimal Financial Contracting. **AU** Garcia-Cestona, Miguel A.; Tribo, Josep. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 387/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 37. **PR** no charge. **JE** D21, G21, G32, L14. **KW** Main Bank. Corporate Governance. Financial Contracts. Monitoring. Corporate Finance.

**AB** This paper analyzes the costs and benefits of using a Main Bank (MB) as a financial provider, which is so common in countries such as Japan. Several banks lend resources to a particular firm, but only one bank monitors and remains responsible to other participants. These inside banks act as fund providers for a project but exchange roles by the time other projects are considered. We show how, depending on firm's quality and the bank's skills to monitor, an MB-contract outperforms other arrangements. These conditions are shown not to be idiosyncratic to the Japanese marketplace.

#### **Gartner, Christine**

**TI** Modeling the Demand for Loans to the Private Sector in the Euro Area. **AU** Calzo, Alessandro; Gartner, Christine; Sousa, Joao.

#### **Gaspar, Vitor**

**PD** July 2001. **TI** The ECB Monetary Policy Strategy and the Money Market. **AU** Gaspar, Vitor; Perez-Quiros, Gabriel; Sicilia, Jorge. **AA** European Central Bank. **SR** European Central Bank Working Paper: 69; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 37. **PR** no charge. **JE** C22, E52. **KW** Money Market. Martingale Behavior. Operational Framework. Predictability.

**AB** This paper aims at contributing to the understanding of how the ECB conducts monetary policy as seen from a money market perspective. More specifically it covers two different issues. First, it looks at the "learning period" for banks since the Eurosystem started implementing the single monetary policy. It shows that during the first three weeks of 1999 the narrow corridor in place during this period was effective in limiting daily volatility of the money market overnight rates. In addition, the behavior of banks and market rates during this period provides evidence that learning was taking place. Second, it looks at how well money market participants have anticipated the monetary policy decisions taken by the ECB. To do so, the paper analyses whether the announcements of monetary policy decisions to maintain or change interest rates impact on the stochastic behavior of interest rates. Looking at the EONIA rates within the reserve maintenance periods, we find that the announcement of monetary policy decisions does not change significantly the level or volatility of overnight rates.

#### **Geanakoplos, John**

**TI** Default and Punishment in General Equilibrium. **AU** Dubey, Pradeep; Geanakoplos, John; Shubik, Martin.

**TI** Signalling and Default: Rothschild-Stiglitz Reconsidered. **AU** Dubey, Pradeep; Geanakoplos, John.

**PD** July 2001. **TI** International Finance in General

Equilibrium. AU Geanakoplos, John; Tsomocos, D. P. AA Geanakoplos: Yale University. Tsomocos: Bank of England. SR Yale Cowles Foundation Discussion Paper: 1313; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 49. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE E52, E62, F11, F36. KW Currency. Cash. Fiscal Policy. Monetary Policy. Money. Trade.

AB Our purpose in this paper is to unify international trade and finance in a single general equilibrium model. We explicitly calculate the financial and real effects of changes in tariffs, productivity, and preferences, as well as the effects of monetary and fiscal policy. We maintain agent optimization, rational expectations, and market clearing (i.e., perfect competition with flexible prices) throughout. But because of the important role money plays, and because of the heterogeneity of markets and agents, we find that fiscal and monetary policy both have real effects. The effects of policy on real income, long-term interest rates, and exchange rates are qualitatively identical to those suggested in Mundell-Fleming (without the small country hypothesis), although our equilibrating mechanisms are different. However, because the Mundell-Fleming model ignores expectations and relative price changes, our model predicts different effects on the flow of capital, the balance of trade, and real exchange rates in some circumstances.

TI Social Security Investment in Equities I: Linear Case. AU Diamond, Peter; Geanakoplos, John.

PD August 2001. TI Insurance Contracts Designed by Competitive Pooling. AU Geanakoplos, John; Dubey, Pradeep. AA Geanakoplos: Yale University. Dubey: State University of New York. SR Yale Cowles Foundation Discussion Paper: 1315; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 38. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D41, D52, D81, D82. KW Competitive Pooling. Insurance Contracts. Adverse Selection. Signaling. Seniority. Equilibrium Refinement.

AB We build a model of competitive pooling and show how insurance contracts emerge in equilibrium, designed by the invisible hand of perfect competition. When pools are exclusive, we obtain a unique separating equilibrium. When pools are not exclusive but seniority is recognized, we obtain a different unique equilibrium: the pivotal primary-secondary equilibrium. Here reliable and unreliable households take out a common primary insurance up to its maximum limit, and then unreliable households take out further secondary insurance.

PD August 2001. TI Liquidity, Default and Crashes: Endogenous Contracts in General Equilibrium. AA Yale University. SR Yale Cowles Foundation Discussion Paper: 1316; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 35. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE D41, D52, D81, D82. KW Liquidity Crisis. Equilibrium Refinement. Default.

AB The possibility of default limits available liquidity. If the potential default draws nearer, a liquidity crisis may ensue, causing a crash in asset prices, even if the probability of default barely changes, and even if no defaults subsequently

materialize. Introducing default and limited collateral into general equilibrium theory (GE) allows for a theory of endogenous contracts, including endogenous margin requirements on loans. This in turn allows GE to explain liquidity and liquidity crises in equilibrium. A formal definition of liquidity is presented. When new information raises the probability and shortens the horizon over which a fixed income asset may default, its drop in price may be much greater than its objective drop in value for two reasons: the drop in value reduces the relative wealth of its natural buyers and also endogenously raises the margin required for its purchase. The liquidity premium rises, and there may be spillovers in which other assets crash in price even though their profitability of default did not change.

### Geczy, Christopher C.

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

### Geraats, Petra M.

PD January 2001. TI Why Adopt Transparency? The Publication of Central Bank Forecasts. AA University of California, Berkeley. SR European Central Bank Working Paper: 41; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 41. PR no charge. JE E52, E58. KW Transparency. Monetary Policy.

AB Recently, several central banks have abandoned the usual secrecy in monetary policy and become very transparent. This paper provides an explanation for this puzzling fact, focusing on the disclosure of central bank forecasts. It shows that transparency reduces the inflationary bias and gives the central bank greater flexibility to respond to shocks in the economy. Furthermore, it makes it easier for a central bank to build reputation. To achieve these benefits of transparency it is generally necessary to publish the conditional central bank forecasts for both inflation and output.

### Gersbach, Hans

PD March 1999. TI Rush, Delay and the Money Burning Refinement in Political Signalling Games. AA University of Heidelberg. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/007; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmipo/publications.htm](http://www.bris.ac.uk/cmipo/publications.htm). PG 25. PR no charge. JE C72, D72, D82, D83. KW Rush and Delay. Money Burning Refinement. Belief Tests. Signaling in Politics.

AB This paper considers an equilibrium refinement in signaling games by allowing agents to perform costly tests of beliefs by burning money. The refinement is applied in a model where the public is unsure about the ability of an agent, such as a government, to foresee the effects of long-term decisions. Agents with much information about the consequences of decisions should invest either immediately or never. Poorly informed agents should wait for better information. Pooling equilibria is identified in which excessive rush or waiting occurs. The burning money refinement eliminates rush and waiting distortions, but it implies wasting money and, for high discount factors, a decrease in welfare. The conditions under which the public should allow the agent to burn the public's

money are also identified.

### Ghosh, Madanmohan

**PD** May 2000. **TI** State-Owned Enterprises, Shirking and Trade Liberalization. **AU** Ghosh, Madanmohan; Whalley, John. **AA** Ghosh: University of Western Ontario. Whalley: University of Western Ontario, University of Warwick, and NBER. **SR** National Bureau of Economic Research Working Paper: 7696; 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** F14, H11, H32, H77. **KW** State Owned Enterprises. Trade Liberalization. Shirking.

**AB** We explore the implications of trade liberalization in economies with State Owned enterprises (SOEs) and shirking. SOEs are modeled as controlled by the members of the enterprise who determine output and effort levels, while facing output prices and wage rates set by government. Enterprise members must collectively meet a budget constraint that the value of sales equals the enterprise wage bill plus an exogenous enterprise commitment to the state budget. Labor can shirk either through low on the job effort (leisure), or through moonlighting to second jobs in the private sector. Three alternative formulations of equilibria in SOE economies are explored, and in these trade liberalization can produce effects opposite from conventional competitive models. These models when calibrated to 1995 data for Vietnam also suggest quantitatively much larger impacts from trade liberalization than is the case for comparable conventional competitive models. This is because departures from Pareto optimality in SOE economies can be large and trade liberalization acts to discipline shirking associated with these inefficiencies. Analyses or evaluation of policy initiatives, such as trade liberalization, in developing and transition economies that does not explicitly recognize SOE's and shirking may be misleading.

### Giavazzi, Francesco

**PD** February 2000. **TI** Searching for Non-Linear Effects of Fiscal Policy: Evidence from Industrial and Developing Countries. **AU** Giavazzi, Francesco; Jappelli, Tullio; Pagano, Marco. **AA** Giavazzi: IGER and Universita Bocconi, Milano. Jappelli and Pagano: Universita di Salerno. **SR** CEPR Discussion Paper: 2374; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. **Website:** www.cepr.org. **PG** 44. **PR** 5 pounds, \$8 or 8 euros. **JE** E21, E62, H31. **KW** Fiscal Policy. National Saving.

**AB** Several recent studies imply that the response of national saving to fiscal policy is non-monotonic. In this paper, we use two data sets to search for the circumstances in which such non-monotonic responses arise: one refers to a sample of OECD countries, as in previous studies, and one to a sample of developing countries, using recent World Bank data. We find that in both samples non-monotonic effects tend to be associated with large and persistent fiscal impulses. In the OECD such responses are stronger for fiscal contractions than for fiscal expansions: during large fiscal contractions an increase in net taxes has no effect on national saving. High or rapidly growing public debt does not appear to be a good predictor of non-monotonic effects. Using the World Bank data, the situations in which the non-monotonic response of national saving to fiscal policy are not limited to large fiscal

contractions. They also occur during large fiscal expansions, and in periods in which debt is accumulating rapidly, regardless of its initial level.

### Glaeser, Edward L.

**PD** April 2000. **TI** Why Do the Poor Live in Cities? **AU** Glaeser, Edward L.; Rappaport, Jordon; Kahn, Matthew E. **AA** Glaeser: Harvard University and NBER. Rappaport: Federal Reserve Bank of Kansas City. Kahn: Columbia University. **SR** National Bureau of Economic Research Working Paper: 7636; 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** R12, R21, R23, R41. **KW** Poverty. Urban Economics. Public Transport.

**AB** More than 17 percent of households in American central cities live in poverty; in American suburbs, just 7.4 percent of households live in poverty. The income elasticity of demand for land is too low for urban poverty to be the result of wealthy individuals' wanting to live where land is cheap (the traditional urban economics explanation of urban poverty). Instead, the urbanization of poverty appears to be the result of better access to public transportation in central cities, and central city governments favoring the poor (relative to suburban governments).

**TI** Explaining the Rise in Youth Suicide. **AU** Cutler, David M.; Norberg, Karen; Glaeser, Edward L.

**PD** July 2000. **TI** Consumer City. **AU** Glaeser, Edward L.; Kolko, Jed; Saiz, Albert. **AA** Glaeser: Harvard University and National Bureau of Economic Research. Kolko and Saiz: Harvard University. **SR** National Bureau of Economic Research Working Paper: 7790; National Bureau of Economic Research, 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 the U.S.). **JE** R11, R23, R31. **KW** Urban Economics.

**AB** Urban economics has traditionally viewed cities as having advantages in production and disadvantages in consumption. This paper argues that the role of urban density in facilitating consumption is extremely important and understudied. As firms become more mobile, the success of cities hinges more and more on their role as centers of consumption. Empirically, we find that high amenity cities have grown faster than low amenity cities. Urban rents have gone up faster than urban wages, suggesting that the demand for living in cities has risen for reasons beyond rising wages. The rise of reverse commuting suggests the same consumer city phenomena.

### Goldberg, Linda

**PD** May 2000. **TI** Foreign and Domestic Bank Participation in Emerging Markets: Lessons from Mexico and Argentina. **AU** Goldberg, Linda; Kinney, Daniel; Dages, B. Gerard. **AA** Goldberg: Federal Reserve Bank of New York and NBER. Kinney and Dages: Federal Reserve Bank of New York. **SR** National Bureau of Economic Research Working Paper: 7714; National Bureau of Economic Research, 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 the U.S.). **JE** F34, G21, N26. **KW** Mexico. Argentina. Banking. Emerging Markets.

**AB** The Asian Crisis has highlighted the importance of

strong domestic financial systems in overall economic development and stabilization. Less agreement is evident on the role of foreign banks in achieving this goal. We explore this issue by studying bank-specific data on lending by domestically -- and foreign-owned banks in Argentina and Mexico. We find that foreign banks generally have had higher loan growth rates than their domestically-owned counterparts, with lower volatility of lending, contributing to lower overall volatility of credit. In both countries, foreign banks show notable credit growth during crisis periods. In Argentina, the loan portfolios of foreign and domestic privately-owned banks are similar, and lending rates analogously respond to aggregate demand fluctuations. In Mexico, foreign and domestic banks with lower levels of impaired assets have similar loan responsiveness and portfolios. State-owned banks (Argentina) and banks with high levels of impaired assets (Mexico) have more stagnant loan growth and weak responsiveness to market signals. Overall, these findings suggest that bank health, and not ownership per se, is the critical element in the growth, volatility, and cyclicity of bank credit. Diversity in ownership appears to contribute to greater stability of credit in times of crisis and domestic financial system weakness.

#### Goldberg, Pinelopi K.

**TI** Credit Constraints in the Market for Consumer Durables: Evidence from Micro Data on Car Loans. **AU** Attanasio, Orazio P.; Goldberg, Pinelopi K.; Kyriazidou, Ekaterini.

#### Gomez, Montuenga

**PD** February 1998. **TI** Price Convergence During the EC Lifetime. **AU** Gomez, Montuenga; Manuel, Victor. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 411/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 23. **PR** no charge. **JE** C32, E31, F40, N13. **KW** Convergence. Differential Series. Cointegration. Inflation. Price Levels.

**AB** Convergence in inflation rates may not imply a process of convergence in price levels. If this were the case in the European Union, small but consistent differences in inflation would lead to inevitable realignments and would end up in a set back of the inflation convergence process. For some countries in the ancient European Community we investigate such a process by using time series analysis techniques.

#### Gonzalez-Maestre, Miguel

**PD** February 1997. **TI** Divisionalization and Delegation in Oligopoly. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 403/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 14. **PR** no charge. **JE** J41, L13, L22, L23. **KW** Divisionalization. Oligopoly. Managerial Contracts. Delegation. Firm Organization.

**AB** In this paper, we consider an oligopolistic market where every firm decides, simultaneously, its number of independent divisions and, subsequently, every division decides, simultaneously, the incentive scheme for its manager. In the last stage, we assume Cournot competition among all the managers. With linear costs and demand functions we show

that in a duopoly the Subgame Perfect Nash Equilibrium (SPNE) implies that every firm will create just one division, with three firms there are many symmetric SPNE and with more than three firms the unique SPNE converges to perfect competition as divisionalization cost converges to zero. We also show that the comparison between the equilibrium level of divisionalization and the social optimum, depends, crucially, on the number of firms.

**PD** December 1997. **TI** Industrial Loans and Market Structure. **AU** Gonzalez-Maestre, Miguel; Granero, Luis M. **AA** Gonzalez-Maestre: Universitat Autònoma de Barcelona. Granero: Universitat Autònoma de Barcelona and Universitat de Valencia. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 396/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 20. **PR** no charge. **JE** G21, G32, L13, L14. **KW** Banks. Industrial Loans. Oligopoly. Market Structure. Corporate Finance.

**AB** This paper is concerned with the interactions between the structure of the banking sector and the product market. We consider a framework where firms' installation costs are financed by means of industrial loans from specialized banks. Initially, we assume that an exogenous number of banks compete in providing loans before the firms compete in prices in a market with product differentiation. We show that even a small decrease in the number of banks can cause a dramatic fall in competition among firms. With endogenous entry in the specialized banking activity, we show, first, the paradoxical result that an increase in the entry cost of each firm might yield a dramatic increase in the degree of competition and, second, that a natural oligopoly takes place in both the market for industrial loans and the product market, under reasonable conditions. Remarkably, while the literature on natural oligopolies relies on quality (i.e., vertical) differentials, our results depart from this key assumption.

#### Goodman, Alissa

**TI** Changes in Intergenerational Mobility in Britain. **AU** Blanden, Jo; Goodman, Alissa; Gregg, Paul; Machin, Stephen.

#### Goolsbee, Austan

**PD** March 2000. **TI** Taxes, High-Income Executives, and the Perils of Revenue Estimation in the New Economy. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 7626; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 7. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H24, J31, J32. **KW** Capital Gains. Options. Executive Compensation. Tax Revenue.

**AB** This paper uses panel data on executive compensation in the 1990s, to argue that because the gains on most stock options are treated as ordinary income for tax purpose, rising stock market valuations are directly tied to non-capital gains income. This blurred line between capital and wage income has affected tax revenue in three ways, at least for these high-income people. First, stock performance has directly affected the amount of ordinary income that people report by influencing their stock option exercise decisions. Second, the presence of options gives executives more flexibility in changing the timing of their reported income and appears to make them more

sensitive to the short-run timing of tax changes, even accounting for the stock market changes of the period. Third, because of the tax rules on options, changing the capital gains tax rate, as the U.S. did in the late 1990s, can lead individuals to exercise their options early to convert the expected future gains into lower-taxed forms. The data show significant evidence of each of these effects and in all three cases, executives working in the "new" economy and high-technology sectors, show decidedly greater responses.

### Gordon, Roger H.

**PD** December 1999. **TI** Do Taxes Affect Corporate Debt Policy? Evidence From U.S. Corporate Tax Return Data. **AU** Gordon, Roger H.; Lee, Young. **AA** Gordon: University of Michigan and NBER. Lee: University of Maryland. **SR** National Bureau of Economic Research Working Paper: 7433; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 14. **PR** \$5.00. **JE** G32, H25, H52. **KW** Corporate Tax. Corporate Debt Policy. Tax Incentives. **AB** Past attempts to measure the impact of taxes on corporate debt policy have focused on larger firms. Given that the top statutory corporate tax rate has varied little in recent years, tax incentives vary among these firms, almost entirely due to current or prospective tax losses. Results are inevitably mixed, given that firms with losses or nondebt tax shields may have different propensities to borrow even ignoring taxes. This paper uses US Statistics of Income balance sheet data on all corporations, to compare the debt policies of firms of different sizes. Given the progressivity in the corporate tax schedule, small firms face very different tax rates than larger firms. Relative tax rates have also changed frequently over time. Our results suggest that taxes have had a strong and statistically significant effect on debt levels. In particular, the difference in corporate tax rates currently faced by the largest vs. the smallest firms (35% vs. 15%) is forecast to induce larger firms to finance an additional 8% of their assets with debt, compared with smaller firms.

### Granero, Luis M.

**TI** Industrial Loans and Market Structure. **AU** Gonzalez-Maestre, Miguel; Granero, Luis M.

### Green, David

**TI** The Changing Structure of Wages in the US and Germany: What Explains the Differences? **AU** Beaudry, Paul; Green, David.

### Green, Katherine

**TI** Does Competition Between Hospitals Improve the Quality of Care? Hospital Death Rates and the NHS Internal Market. **AU** Propper, Carol; Burgess, Simon; Green, Katherine.

**TI** A Larger Role for the Private Sector in Health Care?: A Review of the Arguments. **AU** Propper, Carol; Green, Katherine.

**TI** The Demand for Private Medical Insurance in the UK: A Cohort Analysis. **AU** Propper, Carol; Rees, Hedley; Green, Katherine.

### Greenstone, Michael

**TI** Does Air Quality Matter? Evidence from the Housing

Market. **AU** Chay, Kenneth Y.; Greenstone, Michael.

**TI** Air Quality, Infant Mortality, and the Clean Air Act of 1970. **AU** Chay, Kenneth Y.; Greenstone, Michael.

**TI** Civil Rights, the War on Poverty, and Black-White Convergence in Infant Mortality in Mississippi. **AU** Almond, Douglas V.; Chay, Kenneth Y.; Greenstone, Michael.

**TI** The Impact of Air Pollution on Infant Mortality: Evidence from Geographic Variation in Pollution Shocks Induced by a Recession. **AU** Chay, Kenneth Y.; Greenstone, Michael.

### Gregg, Paul

**TI** New Labour and the Labour Market. **AU** Dickens, Richard; Gregg, Paul; Wadsworth, Jonathan.

**TI** The Intricacies of the Relationship Between Pay and Performance for Teachers: Do Teachers Respond to Performance Related Pay Schemes? **AU** Burgess, Simon; Crosson, Bronwyn; Gregg, Paul; Propper, Carol.

**TI** Changes in Intergenerational Mobility in Britain. **AU** Blanden, Jo; Goodman, Alissa; Gregg, Paul; Machin, Stephen.

### Griffith, Rachel

**TI** Mapping the Two Faces of R&D: Productivity Growth in a Panel of OECD Industries. **AU** Van Reenen, John; Redding, Stephen; Griffith, Rachel.

### Grogger, Jeff

**PD** May 2000. **TI** Time Limits and Welfare Use. **AA** UCLA. **SR** National Bureau of Economic Research Working Paper: 7709; National Bureau of Economic Research, 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 the U.S.). **JE** I38, J22. **KW** Welfare Use Time Limits.

**AB** Time limits are a central component of recent welfare reforms and represent a substantial departure from previous policy. However, several recent studies suggest that they have had no effect on welfare use. In this paper I attempt to reconcile those findings with results from Grogger and Michalopoulos, who find time limits to have substantial effects that vary by the age of the youngest child in the family. Using data from the Current Population Survey, I obtain results similar to those of previous analysts when I estimate models that constrain the effects of time limits to be independent of age. When I allow for age dependence and employ controls for time-varying state-level unobservables that may be correlated with the timing of welfare reform, however, I find that time limits have negative effects on welfare use and those effects are stronger, the younger the youngest child in the family. The estimates suggest that time limits may account for 16 to 18 percent of the recent decline in welfare use among female-headed families.

### Gropp, Reint

**PD** September 2000. **TI** The Disappearing Tax Base: Is Foreign Direct Investment Eroding Corporate Income Taxes? **AU** Gropp, Reint; Kostial, Kristina. **AA** Gropp: European Central Bank. Kostial: International Monetary Fund. **SR** European Central Bank Working Paper: 31; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt

am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 35. PR no charge. JE F21, F42, F47, H25, H87. KW Corporate Taxation. Foreign Direct Investment. Revenues. Simulations. OECD Countries.

AB This paper analyzes the link between Foreign Direct Investment (FDI), corporate taxation, and corporate tax revenues. It finds strong evidence that FDI in (out) flows are affected by tax regimes in the host (home) countries and FDI flows in turn affect the corporate tax base. Simulations of EU harmonization (isolating the revenue effect of FDI on the tax base from direct effects through the rate harmonization) suggest that high (low) tax countries would gain (lose) revenue from harmonization; these effects may be substantial. These results also suggest that EU tax harmonization would significantly affect the net FDI position of some countries.

PD March 2001. TI Deposit Insurance and Moral Hazard: Does the Counterfactual Matter? AU Gropp, Reint; Vesala, Jukka. AA European Central Bank. SR European Central Bank Working Paper: 47; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 36. PR no charge. JE G21, G28. KW Banking. Deposit Insurance. Subordinated Debt. Charter Value. Safety Net.

AB The paper analyzes the relationship between deposit insurance, debt-holder monitoring, charter values and risk taking. Utilizing cross-sectional and time series variation in the existence of deposit insurance schemes in the EU, the establishment of explicit deposit insurance significantly reduces the risk taking of banks is found. This finding stands in contrast to most of the previous empirical literature. It supports the hypothesis that in the absence of deposit insurance, European banking systems have been characterized by strong implicit insurance operating through the expectation of public intervention at times of distress. Further hypotheses are also tested regarding the interaction between deposit insurance and monitoring, charter values and "too-big-to-fail." Smaller banks and banks with lower charter values and more subordinated debt are found to reduce risk taking more after the introduction of explicit deposit insurance, which supports "too-big-to-fail", monitoring by debt holders and the moral hazard reducing effect of charter values.

TI Bank Concentration and Retail Interest Rates. AU Corvoisier, Sandrine; Gropp, Reint.

PD August 2001. TI Rating Agency Actions and the Pricing of Debt and Equity of European Banks: What can we Infer About Private Sector Monitoring of Bank Soundness? AU Gropp, Reint; Richards, Anthony J. AA Gropp: European Central Bank. Richards: International Monetary Fund. SR European Central Bank Working Paper: 76; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 24. PR no charge. JE G14, G18, G21. KW Bond Ratings. Event Study. Banks. Abnormal Returns.

AB The recent consultative papers by the Basel Committee suggest an explicit role for external rating agencies in the assessment of the credit risk of banks' assets. In this context, an assessment of the information contained in credit ratings is important. We address this issue via an event study of rating change announcements by leading international rating agencies, focusing on a sample of European banks. We find no evidence of announcement effects on bond prices. We are largely able to exclude lack of liquidity as an explanation for

this puzzling result and suggest some alternatives, such as "too-big-to-fail." For equity prices, we find strong effects of unexpected ratings changes and confirm prior evidence that stock prices may react very differently to ratings downgrades, depending on the underlying reason. Overall, our results suggest that ratings agencies may perform a useful role in summarizing and obtaining non-public information on banks, at least for stockholders.

### Grossman, Michael

TI Marijuana and Youth. AU Pacula, Rosalie Liccardo; Grossman, Michael; Chaloupka, Frank J.; O'Malley, Patrick M.; Johnston, Lloyd D.; Farrelly, Matthew C.

### Grout, Paul A.

TI The Impact of Policy Uncertainty on Regulated Companies. AU Francis, Nicolas; Grout, Paul A.

PD August 2000. TI Promoting Competition in the Presence of Essential Facilities. AU Grout, Paul A.; Park, In-Uck. AA Grout: University of Bristol. Park: University of Pittsburgh and University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/25; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). PG 27. PR no charge. JE L51. KW Essential Facilities. Competition. Access Pricing. Technology Spillovers.

AB This paper addresses the issue of how regulators can use access pricing to promote entry by innovatory firms in the presence of essential facilities. In a dynamic framework with entrants of differing quality, technology spillovers have two effects. One is positive in that the incumbent can copy the cheaper technology of the entrant. This reduces cost in the industry and offsets the fixed entry cost. The other is negative in that the ability to use access pricing to deter entry of bad quality entrants is reduced. The greater the spillover, the greater desire to attract good entrants, but also the harder it is to penalize poor quality entrants. This paper considers this dilemma and the consequences for public policy. The question is whether the lack of full information encourages the regulator to sustain entry enhancing policies or make entry harder. Generally, the incentives are for the regulator to limit entry enhancement in the face of incomplete information. Also, for certain configurations, the good firm has an incentive to raise its costs (i.e., become a less good competitor).

PD March 2001. TI Recent Developments in the Definition of Abusive Pricing in European Competition Policy. AA University of Bristol. SR University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/23; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). PG 32. PR no charge. JE K21. KW Anti-Trust. Competition Policy. Predation. Price Squeeze. Telecommunications.

AB The Azko judgment specifies upper- and lower-bound threshold tests for predatory pricing. The European Commission has recently sought to explicitly change the lower threshold test but has remained silent on the upper threshold. This paper assesses the Commission's position and alternatives for the upper threshold. The use of combinatorial tests for the

latter, as suggested in the guidelines to the UK 1998 Competition Act, is also assessed. The paper then considers the price squeeze test and the interpretation of discriminatory pricing in this context. It is argued that application of price squeeze tests where a company has several retail products and several upstream inputs requires a market by market application of discrimination.

**PD** August 2001. **TI** Regulatory Opportunism and Asset Valuation: Evidence from the US Supreme Court and UK Regulation. **AU** Grout, Paul A.; Jenkins, Andrew. **AA** Grout: University of Bristol. Jenkins: University of London. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/038; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmipo/publications.htm](http://www/bris.ac.uk/cmipo/publications.htm). **PG** 83. **PR** no charge. **JE** K21, K23, L40, L50. **KW** Regulatory Policy. Privatization. Rate Base.

**AB** This paper compares the evolution of the treatment of the asset base in the US with the equivalent evolution in the regulatory framework applied to privatized utilities in the UK. A particular concern is to look for common themes and lessons. It analyzes the relevant US Supreme Court cases between *Smyth v Ames* (1897) and *Hope Natural Gas* (1944). These cases suggest that changes in preference as to the appropriate asset base appear to be somewhat sensitive to underlying changes in prices. This is tested using logit and multinomial logit regressions. Both the companies and regulators are found to be opportunistic and regulators appear to be more opportunistic than companies. The UK evidence is consistent with and supportive of the US conclusions, but because of the limited data it cannot be more than suggestive.

**PD** August 2001. **TI** Circularity and the Undervaluation of Privatised Companies. **AU** Grout, Paul A.; Zalewska, Anna. **AA** Grout: University of Bristol. Zalewska: University of Maastricht. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/039; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmipo/publications.htm](http://www/bris.ac.uk/cmipo/publications.htm). **PG** 14. **PR** no charge. **JE** L33, L51. **KW** Privatization. Regulatory Policy. Undervaluation.

**AB** Circularity arises in regulation if the value of a company's assets is determined by future earning capacity. The value of assets in place is then determined by reference to future rates, but these future rates are themselves determined by a fair return on the value. The view that it was not possible to determine values and rates in these circumstances has become well established in the literature that developed on asset valuation in the twentieth century. This paper formalizes the precise circularity result. If existing assets are valued according to their earning power (i.e., present value), then there is indeed no unique value to these assets, and consequently no unique regulatory prices, providing the valuing exercise is conducted once. However, if the possibility of future review is allowed for, then there is a unique valuation and this is equal to the replacement cost of the assets. Still, when a regulator makes symmetric errors in estimating the cost of capital and the company knows the error is considered. Circularity thus induces undervaluation of privatized companies.

**TI** What Should the State Buy? **AU** Bentz, Andreas; Grout, Paul A.; Halonen, Maija.

**PD** August 2001. **TI** Privatisation of Utilities and the Asset Value Problem. **AU** Grout, Paul A.; Jenkins, Andrew. **AA** Grout: CMPO, University of Bristol. Jenkins: University of London. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/041; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmipo/publications.htm](http://www/bris.ac.uk/cmipo/publications.htm). **PG** 22. **PR** no charge. **JE** L33, L51. **KW** Privatization. Utilities. Regulatory Policy.

**AB** Privatized utilities are typically characterized by both undervaluation and underpricing. When faced with this problem, regulators have tended to employ a market value approach to determine the regulatory asset base (i.e., assets transferred at privatization) which is entered into the regulatory accounts at the market value at privatization. This paper analyses this approach and suggests a similar but preferable alternative. With the conventional market value approach an error at privatization is magnified and relative errors remain entrenched forever. An alternative is to use the regulatory agency's own estimate of the company's value (which is called the model-based approach). This shows that errors made at the time of privatization do not have the same impact on future prices and hence far less effect on the potential sale price. This is because there is an inherent correction mechanism built into the model-based approach that is lacking in the market value approach.

#### Gruber, Jonathan

**PD** July 2000. **TI** Youth Smoking in the U.S.: Evidence and Implications. **AU** Gruber, Jonathan; Zinman, Jonathan. **AA** Gruber: Massachusetts Institute of Technology and National Bureau of Economic Research. Zinman: Massachusetts Institute of Technology. **SR** National Bureau of Economic Research Working Paper: 7780; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 45. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** H21, I18. **KW** Tobacco Use. Taxation. Public Health.

**AB** This paper explores four aspects of the youth smoking decision. First, the demographic correlates of smoking participation is considered, finding that smoking participation is not simply concentrated among the most disadvantaged youth, but increasingly among white, suburban youth with college educated parents and good grades. Second, neither changes in demographic characteristics nor changes in attitudes towards smoking can explain the striking increase in smoking rates in the 1990s. Third, that price is a powerful determinant of smoking for high school seniors is documented, but price is not important for younger teens. Finally, there is an important intertemporal correlation in the decision to smoke. In particular, there is a significant correlation across cohorts in teen smoking and later smoking of adults, and the taxes teens face on cigarettes have a significant negative effect on their smoking later in life. These findings suggest that between 25 and 50 percent of the rise in youth smoking in the 1990s will persist into adulthood for this cohort; rough calculations suggest that the long run cost to the U.S. will be at least 1.6 million years of life lost from this youth smoking increase.

**PD** July 2000. **TI** Risky Behavior Among Youths: An Economic Analysis. **AA** Massachusetts Institute of Technology and National Bureau of Economic Research.

**SR** National Bureau of Economic Research Working Paper: 7781; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 28. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D80, I18. **KW** United States. Tobacco Use. Marijuana Use. Criminal Behavior.

**AB** The past decade has seen dramatic shifts in the intensity with which youths pursue risky activities: for example, youth homicide fell by 40 percent; teen births declined by 20 percent; youth smoking rose by 33 percent; and marijuana use among youth virtually doubled. This paper, and the volume it introduces, explores the determinants and implications of risky behaviors by youths. It begins by reviewing perspectives on youth risk-taking from traditional rational-choice economics, developmental psychology, and behavioral economics. It then discusses both cross-sectional and time series evidence on risk-taking by youths, and how this compares to adults. The conclusions are that (a) economic incentives and macroeconomic conditions are powerful predictors of risk taking by youths, (b) despite this, these factors are not very successful in predicting the dramatic time series swings we see in youth risk taking, and (c) risk taking by youths appears to have important implications for risky behaviors later in life.

#### Gudmundsson, Bjorn R.

**TI** Iceland's Natural Experiment in Supply-Side Economics. **AU** Bianchi, Marco; Zoega, Gylfi; Gudmundsson, Bjorn R.

#### Guiso, Luigi

**PD** February 2000. **TI** The Role of Social Capital in Financial Development. **AU** Guiso, Luigi; Zingales, Luigi; Sapienza, Paola. **AA** Guiso: Ente Einaudi and Università di Sassari. Zingales: University of Chicago. Sapienza: Northwestern University. **SR** CEPR Discussion Paper: 2383; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 68. **PR** 5 pounds, \$8 or 8 euros. **JE** D19, D23, G21, O12. **KW** Social. Capital. Financial. Development.

**AB** To identify the effect of social capital on financial development, we exploit the well-known differences in social capital and trust (Banfield (1958), Putnam (1993)) across different parts of Italy, using microeconomic data on households and firms. In areas of the country with high levels of social trust, households invest less in cash and more in stock, use more checks, have higher access to institutional credit, and make less use of informal credit. In these areas, firms also have more access to credit and are more likely to have multiple shareholders. The effect of trust is stronger where legal enforcement is weaker and among less-educated people. The level of trust of the environment where they live mainly affects the behavior of movers, but a significant fraction of the effect is also due to the level of trust prevailing in the province where they grew up.

#### Guriev, Sergei

**TI** Why Russian Workers Do Not Move: Attachment of Workers Through in-Kind Payments. **AU** Friebe, Guido; Guriev, Sergei.

**PD** May 2000. **TI** Barter For Price Discrimination? **AU** Guriev, Sergei; Kvasov, Dmitry. **AA** Guriev: New Economic School, Moscow, RECEP, and Centre for Economic

Policy Research. Kvasov: Pennsylvania State University. **SR** CEPR Discussion Paper: 2449; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D43, L13, P42. **KW** Barter. Price Discrimination. Oligopoly.

**AB** Unprecedented growth of barter is a striking phenomenon of Russia's transition. The explanations of barter include tight monetary policy, tax evasion and poor financial intermediation. The market power may also be important. A model of imperfect competition is built in which firms use barter for price discrimination. The model predicts a positive relationship between the concentration of market power and the share of barter in sales. Barter disappears at a certain level of competition. The model has multiple stable equilibria which may explain persistence of barter. Using a unique dataset on barter transactions in Russia, empirical evidence is consistent with the model's predictions.

#### Gyourko, Joseph

**TI** Capitalization of Federal Taxes, the Relative Price of Housing, and Urban Form: Density and Sorting Effects. **AU** Voith, Richard; Gyourko, Joseph.

#### Hahn, Jinyong

**PD** December 2000. **TI** Asymptotically Unbiased Inference for a Dynamic Panel Model with Fixed Effects When Both  $n$  and  $T$  are Large. **AU** Hahn, Jinyong; Kuersteiner, Guido M. **AA** Hahn: Brown University. Kuersteiner: MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/17; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 26. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C13, C23, C33. **KW** Dynamic Panel. VAR. Large  $n$  Asymptotics. Large  $T$  Asymptotics. Bias Correction. Efficiency.

**AB** We consider a dynamic panel AR(1) model with fixed effects when both " $n$ " and " $T$ " are large. Under the " $T$  fixed  $n$  large" asymptotic approximation, the maximum likelihood estimator is known to be inconsistent due to the well-known incidental parameter problem. We consider an alternative asymptotic approximation where " $n$ " and " $T$ " grow at the same rate. It is shown that, although the MLE is asymptotically biased, a relatively simple fix to the MLE results in an asymptotically unbiased estimator. The bias corrected MLE is shown to be asymptotically efficient by a Hajek type convolution theorem.

**PD** June 2001. **TI** Bias Corrected Instrumental Variables Estimation for Dynamic Panel Models with Fixed Effects. **AU** Hahn, Jinyong; Hausman, Jerry; Kuersteiner, Guido M. **AA** Hahn: Brown University. Hausman and Kuersteiner: MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/24; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 49. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C13, C23, C51. **KW** Dynamic Panel. Bias Correction. Second Order. Unit Root. Weak Instrument.

**AB** This paper analyzes the second order bias of instrumental variables estimators for a dynamic panel model with fixed effects. Three different methods of second order bias correction



are considered. Simulation experiments show that these methods perform well if the model does not have a root near unity but break down near the unit circle. To remedy the problem near the unit root a weak instrument approximation is used. We show that an estimator based on long differencing the model is approximately achieving the minimal bias in a certain class of instrumental variables (IV) estimators. Simulation experiments document the performance of the proposed procedure in finite samples.

#### Haisken-DeNew, John P.

**TI** Employer Learning and the Returns to Schooling.  
**AU** Bauer, Thomas; Haisken-DeNew, John P.

#### Hakura, Dalia S.

**TI** International Trade in Manufactured Products: A Ricardo-Heckscher-Ohlin Explanation with Monopolistic Competition. **AU** Choudhri, Ehsan U.; Hakura, Dalia S.

#### Hall, Bronwyn H.

**TI** Firm-Level Investment in France and the United-States: An Exploration of What We Have Learned in Twenty Years.  
**AU** Mairesse, Jacques; Mulkay, Benoit; Hall, Bronwyn H.

#### Hall, George J.

**TI** Middle Men versus Market Makers: A Theory of Competitive Exchange. **AU** Rust, John; Hall, George J.

**PD** August 2001. **TI** Exchange Rates and Casualties During the First World War. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1321; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 37. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** E41, F31, N14, N24. **KW** First World War. Factor Models. Principal Component Analysis.

**AB** I estimate a single factor model of Swiss exchange rates during World War I for five of the primary belligerents: Britain, France, Italy, Germany, and Austria-Hungary. At the outbreak of the war these nations suspended convertibility of their currencies into gold with the promise that after the war each would restore convertibility at the old par. However, once convertibility was suspended, each currency became a state-contingent claim; after the war it would pay off at (or near) the old par if the country won or pay off significantly less than par (perhaps nothing) if the country lost. The single factor extracted from the five exchange rates appears to contain information on contemporaries' expectations about the war's outcome. Innovations to the single factor that are correlated with time series on soldiers killed and wounded and soldiers taken prisoner.

#### Hall, S. G.

**TI** Rational Expectations and Near Rational Alternatives: How Best to Form Expectations. **AU** Beeby, M.; Hall, S. G.; Henry, S. B.

#### Halonen, Maija

**TI** What Should the State Buy? **AU** Bentz, Andreas; Grout, Paul A.; Halonen, Maija.

**PD** May 1999. **TI** The Organization of Government Bureaucracies: The Choice Between Competition and Single Agency. **AU** Halonen, Maija; Propper, Carol.

**AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/010; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 21. **PR** no charge. **JE** H11, H42. **KW** Government Organization. Government Agencies.

**AB** Recent reforms of the public sector welfare provision have introduced competition between public sector suppliers. This paper analyzes when a self-interested politician will introduce competition. Professionals who supply welfare services receive a private benefit from working, but may put different weighting on different types of customers from their proportions in the population. When public suppliers compete for contracts the level of effort is increased. More importantly, the balance of effort is altered. Competition forces professionals to allocate effort in order to better represent the proportions of the population. However, competition will also be more expensive than a single public supplier as a result of the increase in quality. A self-interested politician will choose competition only if these additional costs are outweighed by the benefits.

#### Hamermesh, Daniel S.

**PD** January 2000. **TI** Togetherness: Spouses' Synchronous Leisure, and the Impact of Children. **AA** University of Texas and NBER. **SR** National Bureau of Economic Research Working Paper: 7455; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$5.00. **JE** J13, J22. **KW** Timing of Leisure. Children.

**AB** This study goes beyond the immense literature on the quantity of labor that households supply to examine the timing of their labor/leisure choices. Using two-year panels from the United States in the 1970s it demonstrates that couples prefer to consume leisure simultaneously: Synchronization is greater than random male-female pairing would predict. In the 1970s the demand for joint leisure among working couples was more responsive to increases in wives' earnings than to husbands', but by the 1990s the responses were identical. Couples react to changes in constraints on them by altering their schedules to preserve joint leisure, and those with higher full incomes consume more of their leisure jointly. Children reduce the jointness of spouses' leisure, with the greatest change in schedules occurring among new mothers.

#### Hanushek, Eric A.

**PD** December 1999. **TI** Schooling, Inequality, and the Impact of Government. **AU** Hanushek, Eric A.; Somers, Julie A. **AA** Hanushek: University of Rochester and NBER. Somers: PHB Hagler Bailly, Inc. **SR** National Bureau of Economic Research Working Paper: 7450; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 32. **PR** \$5.00. **JE** I21, I22, I32. **KW** Schooling Quality. Income Inequality.

**AB** Analyses of income inequality have identified the importance of increased demand for worker skills, but characterizations of worker skills by the amount of schooling attained do not capture important aspects of the widening income distribution and of the stagnating relative wages of

black workers. This paper is motivated by the possibility that schooling quality is an important component of the changing income distribution. The central analysis focuses on how governmental schooling policies -- particularly those related to the level and distribution of school spending -- affect the distribution of worker quality and of income. The substantial differences in spending across states are not significantly related to the variations in achievement growth across states. Further, the three decade old movement toward reducing the variation in school spending within states appears to have done nothing to reduce subsequent income variations of workers. Thus, the direct government policies toward school spending, as carried out in the past, have not ameliorated inequalities in incomes.

### Harbaugh, William

**PD** May 2000. **TI** Reexamining the Empirical Evidence for an Environmental Kuznets Curve. **AU** Harbaugh, William; Wilson, David; Levinson, Arik. **AA** Harbaugh: University of Oregon and NBER. Wilson: University of Oregon. Levinson: Georgetown University. **SR** National Bureau of Economic Research Working Paper: 7711; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 12. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** O13, Q25. **KW** Environmental Kuznets. Kuznets Curve. Pollution Income Relation.

**AB** This paper uses an updated and revised panel data set on ambient air pollution in cities world-wide to examine the robustness of the evidence for the existence of an inverted U-shaped relationship between national income and pollution. We test the sensitivity of the pollution-income relationship to functional forms, to additional covariates, and to changes in the nations, cities, and years sampled. We find that the results are highly sensitive to these changes. We conclude that there is little empirical support for an inverted-U-shaped relationship between several important air pollutants and national income in these data.

### Haritchabalet, Carole

**PD** January 1999. **TI** Strategic Experimentation in a Durable Goods Duopoly. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 433/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 31. **PR** no charge. **JE** D43, D83, L13. **L15**. **KW** Learning. Experimentation. Value of Information. Durable Goods. Product Quality.

**AB** A firm selling a new product of uncertain quality competes with an existing firm in a two-period game. Both firms and buyers learn the quality of the new product through experimentation. We consider durable goods: buyers are in the market for only one unit and may choose to delay their purchases. The value of information of a buyer who would choose to wait is always negative. If the firms are capacity constrained, there is always experimentation independent of the priors on the new good's quality and products are purchased immediately. Both firms are however able to exploit the intertemporal competition to extract the buyer's informational surplus. Call options are a simple way for the new firm to induce a waiting behavior on the part of one of the buyers.

### Harris, Trevor S.

**PD** December 1999. **TI** The Share Price Effects of Dividend Taxes and Tax Imputation Credits. **AU** Harris, Trevor S.; Kemsley, Deen; Hubbard, R. Glenn. **AA** Harris and Kemsley: Columbia University. Hubbard: Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 7445; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 34. **PR** \$5.00. **JE** H25, H31. **KW** Share Prices. Dividend Taxes. Tax Credits. **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.

### Hartmann, Philipp

**TI** The Euro and International Capital Markets. **AU** Detken, Carsten; Hartmann, Philipp.

**TI** The Euro and International Capital Markets. **AU** Detken, Carsten; Hartmann, Philipp.

**TI** Systemic Risk: A Survey. **AU** De Bandt, Olivier; Hartmann, Philipp.

**PD** July 2001. **TI** Asset Market Linkages in Crisis Periods. **AU** Hartmann, Philipp; Straetmans, Stefan; de Vries, Casper G. **AA** Hartmann: European Central Bank and CEPR. Straetmans: Limburg Institute of Financial Economics (Life) and Maastricht University. de Vries: Erasmus University, Rotterdam. **SR** European Central Bank Working Paper: 71; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 34. **PR** no charge. **JE** C49, F36, G12, G15. **KW** Financial Crises. Systemic Risk. Contagion. Market Crashes. Flight to Quality. Extreme Value Analysis. Extreme Co-Movements.

**AB** We characterize asset return linkages during periods of stress by an extremal dependence measure. Contrary to correlation analysis, this non-parametric measure is not predisposed towards the normal distribution and can account for non-linear relationships. Our estimates for the G-5 countries suggest that simultaneous crashes in stock markets are about two times more likely than in bond markets. Moreover, stock-bond contagion is about as frequent as flight to quality from stocks into bonds. Extreme cross-border linkages are surprisingly similar to national linkages, illustrating a potential downside to international financial integration.

**PD** October 2001. **TI** The Microstructure of the Euro Money Market. **AU** Hartmann, Philipp; Manna, Michele; Manzanares, Andres. **AA** European Central Bank. **SR** European Central Bank Working Paper: 80; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 44. **PR** no charge. **JE** D44, E43, E52, G14. **KW** Euro.

Financial Microstructure. High-Frequency Data. Liquidity. Money Market. Monetary Policy Instruments. Overnight Deposit Rates. Payment Systems. Reserve Requirements. Trading Volume. Transaction Costs. Volatility.

**AB** This paper provides the first empirical examination of the microstructure of the euro money market, using tick data from brokers located in 6 countries. Special emphasis is put on the institutional environment (monetary policy decisions and their implementation, payment systems and private market structures) and its implications for intraday volatility, quoting activity, trading volume and bid-ask spreads in the overnight deposit segment. Volatility and spreads increase right after ECB monetary policy decisions, but market expectations of the interest rate changes were relatively precise during the sample period. Main refinancing operations with the open market are associated with active liquidity re-allocation, little volatility and no signs of market power or adverse selection. Spreads and volatility were high at the end of the reserve maintenance periods and during the year 2000 changeover. Even intraday, overnight rate levels hardly differ across euro area countries, reflecting active arbitrage and a high degree of integration.

#### Haskel, Jonathan

**PD** May 2000. **TI** Restructuring and Productivity Growth in UK Manufacturing. **AU** Haskel, Jonathan; Heden, Ylva; Disney, Richard F. **AA** Haskel and Heden: Queen Mary and Westfield College, University of London. Disney: University of Nottingham. **SR** CEPR Discussion Paper: 2463; 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, \$8 or 8 euros. **JE** L11, L60, O47. **KW** Productivity. Total Factor Productivity. Restructuring. Market Selection.

**AB** This paper analyzes productivity growth in UK manufacturing 1980-92 using the newly available ARD panel of establishments drawn from the Census of Production. The relative importance of "internal" restructuring (such as new technology and organizational change) and "external" restructuring (the process by which less efficient establishments exit and more efficient establishments enter and increase market share) is examined. The findings are that (a) "external restructuring" accounts for 50 percent of labor productivity growth and 90 percent of TFP growth over the period; (b) much of the external restructuring effect comes from multi-establishment firms closing down poorly-performing plants and opening high-performing new ones, and (c) external competition is an important determinant of internal restructuring.

#### Hausman, Jerry

**TI** Bias Corrected Instrumental Variables Estimation for Dynamic Panel Models with Fixed Effects. **AU** Hahn, Jinyong; Hausman, Jerry; Kuersteiner, Guido M.

#### Hausmann, Ricardo

**TI** Exchange Rates and Financial Fragility. **AU** Eichengreen, Barry; Hausmann, Ricardo.

#### Heckman, James J.

**PD** June 2000. **TI** The Cost of Job Security Regulation: Evidence from Latin America Labor Markets. **AU** Heckman, James J.; Pages, Carmen. **AA** Heckman: University of Chicago and National Bureau of Economic Research. Pages:

Inter-American Development Bank. **SR** National Bureau of Economic Research Working Paper: 7773; 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** C20. **KW** Job Security. Latin America.

**AB** This paper documents the high level of job security protection in Latin American labor markets and analyzes its impact on employment. It is shown that job security policies have substantial impact on the level and the distribution of employment in Latin America. They reduce employment and promote inequality. The institutional organization of the labor market affects both employment and inequality.

#### Heden, Ylva

**TI** Restructuring and Productivity Growth in UK Manufacturing. **AU** Haskel, Jonathan; Heden, Ylva; Disney, Richard F.

#### Heller, Peter S.

**PD** March 2001. **TI** Social Sector Reform in Transition Countries. **AU** Heller, Peter S.; Keller, Christian. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/35; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 26. **PR** not available. **JE** H51, H52, H53, O57, P35. **KW** Transition Economies. Social Sector Reform. Safety Nets.

**AB** During the transition process, many existing social sector institutions and policies were significantly eroded and their underlying character changed. As a result, they often do not redistribute to the poorest, nor generally serve the role of facilitating economic change. Social sector reforms have therefore become necessary for reasons of social welfare as well as economic growth. The analysis of eleven transition countries -- comprising some of the most advanced as well as some of the poorest transition economies -- shows that almost all countries have started to undertake reforms; however, their individual efforts vary. Reform does not only stand for cutting back, but also requires in some cases a building up and in others a redesign of social safety nets; it needs to address insurance issues, budgetary transfer programs, the performance of the health and education sector, as well as the labor market regime and the approach to tax administration.

#### Hendershott, Patric H.

**TI** Pricing Upward-Only Adjusting Leases. **AU** Ambrose, Brent W.; Hendershott, Patric H.; Klosek, Malgorzata M.

#### Hendry, David F.

**PD** October 2001. **TI** Economic Forecasting: Some Lessons from Recent Research. **AU** Hendry, David F.; Clements, Michael P. **AA** Hendry: Nuffield College, Oxford. Clements: University of Warwick. **SR** European Central Bank Working Paper: 82; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 26. **PR** no charge. **JE** C32, C52, C53. **KW** Forecasting. Structural Breaks. Model Selection. Forecast-Error Taxonomy.

**AB** This paper describes some recent advances and contributions to our understanding of economic forecasting. The framework we develop helps explain the findings of forecasting competitions and the prevalence of forecast failure.

It constitutes a general theoretical background against which recent results can be judged. We compare this framework to a previous formulation, which was silent on the very issues of most concern to the forecaster. We describe a number of aspects which it illuminates, and draw out the implications for model selection. Finally, we discuss the areas where research remains needed to clarify empirical findings which lack theoretical explanations.

### Henry, Jerome

**TI** An Area Wide Model (AWM) for the Euro Area. **AU** Fagan, Gabriel; Henry, Jerome; Mestre, Ricardo.

**TI** A Multi-Country Trend Indicator for Euro Area Inflation: Computation and Properties. **AU** Angelini, Elena; Henry, Jerome; Mestre, Ricardo.

**TI** Diffusion Index-Based Inflation Forecasts for the Euro Area. **AU** Angelini, Elena; Henry, Jerome; Mestre, Ricardo.

### Henry, S. B.

**TI** Rational Expectations and Near Rational Alternatives: How Best to Form Expectations. **AU** Beeby, M.; Hall, S. G.; Henry, S. B.

### Herbertsson, Tryggvi Thor

**TI** Three Symptoms and a Cure: A Contribution to the Economics of the Dutch Disease. **AU** Zoega, Gylfi; Herbertsson, Tryggvi Thor; Skuladottir, Marta.

### Hernan, Roberto

**TI** An Empirical Evaluation of the Determinants of Research Joint Venture Formation. **AU** Siotis, Georges; Hernan, Roberto; Marin Uribe, Pedro L.

### Hernandez, Leonardo F.

**PD** March 2001. **TI** What Drives Contagion: Trade, Neighborhood, or Financial Links? **AU** Hernandez, Leonardo F.; Valdes, Rodrigo O. **AA** Hernandez: International Monetary Fund. Valdes: Chile Ministry of Finance. **SR** International Monetary Fund Working Paper: WP/01/29; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 21. **PR** not available. **JE** F32, G15. **KW** Contagion. Bond Spreads. Stock Market. Capital Flows. Crisis Transmission. **AB** This paper presents evidence on the relative importance of alternative contagion channels during the Thai, Russian, and Brazilian crises. Results show that when crises are measured by changes in sovereign bond spreads, financial competition seems to explain almost all contagion episodes. However, when crises are measured by stock market returns, trade links and neighborhood effects appear to be relevant contagion channels during the Thai and Brazilian crises, while financial competition remains the only relevant channel in the case of the Russian crisis.

### Hernandez-Cata, Ernesto

**PD** April 2001. **TI** The Fall and Recovery of the Cuban Economy in the 1990s: Mirage or Reality? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/48; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 24. **PR** not available. **JE** O11, O23, O47, O54, P27. **KW** Cuba. Growth. Productivity. Liberalization. Transition.

**AB** The collapse of the Cuban economy following the cessation of Soviet assistance gave way to a strong recovery in 1994-96. There are three possible explanations for this recovery: (i) that it never took place; (ii) that it reflected a surge in productivity resulting from stabilization and liberalization in 1993-94; or (iii) that it resulted from a favorable aggregate demand shock. The second explanation-the most persuasive-suggests that a strong and durable expansion will probably not be achieved on the basis of present policies, but that the benefits of a full liberalization of the economy are likely to be considerable.

### Hernando, Ignacio

**PD** December 2001. **TI** Is There a Bank Lending Channel of Monetary Policy in Spain? **AU** Hernando, Ignacio; Martinez-Pages, Jorge. **AA** Banco de Espana. **SR** European Central Bank Working Paper: 99; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 29. **PR** no charge. **JE** C23, E44, E52, G21. **KW** Bank Lending. Bank Funding. Monetary Transmission Mechanism.

**AB** This paper uses panel data on banks, for the period 1991-98, to test the existence of a bank-lending channel in the Spanish economy. In order to distinguish between loan demand and supply movements, several exercises are performed. First, we analyze the differential responses, to monetary policy changes, of bank lending by banks with different size, liquidity and capitalization. Second, we analyze the response to an exogenous deposit-reducing shock (a tax-induced shift from deposits to mutual fund shares). As this involves a pure loan supply shock, it best solves the above-mentioned identification problem. Our results are mostly against the existence of a bank-lending channel in the period under analysis. This result appears to be related to the important role of many small banks as collectors of savings, meaning they have a large volume of resources available for lending.

### Hildreth, Andrew K. G.

**PD** November 2000. **TI** Environmental Regulation and the Cost of Job Displacement. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 28; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 18. **PR** no charge. **JE** J21, J31, L51. **KW** Environmental Regulation. Worker Displacement. Displacement Cost. **AB** Data from the Displaced Worker Supplement linked to Environment Protection Agency data are aggregated at the industry/state level to examine the impact of environmental regulation on the displacement of workers and the cost of that displacement. The results indicate that environmental regulation did have an effect on the displacement of workers, with approximately 60,000 workers being displaced because of the regulation over the years 1979-92. Workers displaced for reasons of environmental regulation are no worse off than other displaced workers. It appears that environmental regulation, while displacing workers (in which individual cases may suffer some considerable non-pecuniary costs) does not affect their earnings capability vis-a-vis other displaced workers. The cost of job displacement from environmental regulation (as a wage difference for an average year over the 1979-92 time period) appears to lie in the range of \$80 to \$136 million (in 1992

dollars).

**TI** The Measurement of Medicaid Coverage in the SIPP: Evidence from California, 1990-1996. **AU** Card, David; Hildreth, Andrew K. G.; Shore-Sheppard, Lara D.

### Hirshleifer, David

**TI** Covariance Risk, Mispricing, and the Cross Section of Security Returns. **AU** Daniel, Kent D.; Subrahmanyam, Avanidhar; Hirshleifer, David.

**PD** June 2001. **TI** An Economic Approach to the Psychology of Change: Amnesia, Inertia, and Impulsiveness. **AU** Hirshleifer, David; Welch, Ivo. **AA** Hirshleifer: Ohio State University. Welch: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1306; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 52. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D72, D83. **KW** Memory. Inertia. Amnesia. Behavioral Economics.

**AB** This paper models how imperfect memory affects the optimal continuity of policies. We examine the choices of a player (individual or firm) who observes previous actions but cannot remember the rationale for these actions. In a stable environment, the player optimally responds to memory loss with excess inertia, defined as a higher probability of following old policies than would occur under full recall. In a volatile environment, the player can exhibit excess impulsiveness (i.e., be more prone to follow new information signals). The model provides a memory-loss explanation for some documented psychological biases, implies that inertia and organizational routines should be more important in stable environments than in volatile ones, and provides other empirical implications relating memory and environmental variables to the continuity of decisions.

### Hodrick, Robert J.

**TI** Expectations Hypotheses Tests. **AU** Bekaert, Geert; Hodrick, Robert J.

### Holmstrom, Bengt

**PD** September 2000. **TI** LAPM: A Liquidity-Based Asset Pricing Model. **AU** Holmstrom, Bengt; Tirole, Jean. **AA** Holmstrom: MIT. Tirole: IDEI, GREMAQ, CERAS, and MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 98/08R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 28. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** G12, G32, L21. **KW** Asset Pricing. LAPM. Corporate Liquidity.

**AB** The intertemporal CAPM predicts that an asset's price is equal to the expectation of the product of the asset's payoff and a representative consumer's intertemporal marginal rate of substitution. This paper develops an alternative approach to asset pricing based on corporations' desire to hoard liquidity. Our corporate finance approach suggests new determinants of asset prices such as the distribution of wealth within the corporate sector and between the corporate sector and the consumers. Also, leverage ratios, capital adequacy requirements, and the composition of savings affect the corporate demand for liquid assets and thereby interest rates. The paper first sets up a general model of corporate demand for

liquid assets, and obtains an explicit formula for the associated liquidity premia. It then derives some implications of corporate liquidity demand for the equity premium puzzle, for the yield curve, and for the state-contingent volatility of asset prices.

### Holthausen, Cornelia

**PD** June 2000. **TI** Regulation Access to International Large-Value Payment Systems. **AU** Holthausen, Cornelia; Ronde, Thomas J. **AA** Holthausen: European Central Bank. Ronde: University of Mannheim. **SR** European Central Bank Working Paper: 22; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 50. **PR** no charge. **JE** E58, G20, G28. **KW** Payment System. Regulation. Supervision. Systemic Risk.

**AB** This paper studies access regulation to international large-value payment systems when banking supervision is national task. It focuses on the choice between net settlement or imposing real time gross settlement. As a novel feature, the communication between the supervisors is endogenized. It is shown that the national supervisors' preferences regarding the settlement method are not perfectly aligned. As a result, systemic risk is excessive under public regulation. Still, leaving access regulation to the private banks can only be optimal if they have superior information about the risk of their foreign counterparty in the settlement system.

**TI** Interbank Market Integration Under Asymmetric Information. **AU** Freixas, Xavier; Holthausen, Cornelia.

### Holtz-Eakin, Douglas

**PD** March 2000. **TI** Horatio Alger Meets the Mobility Tables. **AU** Holtz-Eakin, Douglas; Rosen, Harvey S.; Weathers, Robert. **AA** Holtz-Eakin: Syracuse University and NBER. Rosen: Princeton University and NBER. Weathers: Syracuse University. **SR** National Bureau of Economic Research Working Paper: 7619; 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** D31, J23. **KW** Income Mobility. Entrepreneurship.

**AB** The question of how entrepreneurship relates to income mobility is cogent given the current public debate about the sources of income inequality and mobility in United States society. We examine how experience with entrepreneurship has affected an individual's place in the earnings distribution. Our basic tack is to follow individuals' positions in the income distribution over time, and to see how their mobility (or lack thereof) was affected by involvement with entrepreneurship. Our main finding is that for low-income individuals there is some merit to the notion that the self-employed moved ahead in the earnings distribution relative to those who remained wage earners. On the other hand, for those at the upper end of the earnings distribution, those who became self-employed often advanced less in the earnings distribution than their salaried counterparts.

### Hong, Han

**TI** Simple 3-Step Censored Quantile Regression and Extramarital Affairs. **AU** Chernozhukov, Victor; Hong, Han.

### Hordahl, Peter

**PD** March 2000. **TI** Estimating the Implied Distribution

of the Future Short Term Interest Rate Using the Longstaff-Schwartz Model. AA European Central Bank. SR European Central Bank Working Paper: 16; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 46. PR no charge. JE C15, E43, E47, G12. KW Implied Distribution. Risk-Neutral Density. Longstaff-Schwartz Model. Density Forecast. Interest Rate Expectations.

AB This paper proposes the use of the two-factor term-structure model of Longstaff and Schwartz (1992a,LS) to estimate the risk-neutral density (RND) of the future short-term interest rate. The resulting RND can be interpreted as the market's estimate of the density of the future short-term interest rate. As such, it provides a useful financial indicator of the perceived uncertainty of future developments in the short-term interest rate. The LS approach used in this paper provides an alternative to option-based estimation procedures, which may be useful in situations where options markets are not sufficiently developed to allow estimation of the implied distribution from observed option prices. A simulation-based comparison of these two approaches reveals that the differences in the results are relatively small in magnitude, at least for short forecast horizons. Furthermore, the LS model is quite successful in capturing the asymmetries of the true distribution. It is therefore concluded that the LS model can be useful for estimating the distribution of future interest rates, when the purpose is to provide a general measure of the market's perceived uncertainty, for example as an indicator for monetary policy purposes.

### Horn, Henrik

PD May 2000. TI Merger Policies and Trade Liberalization. AU Horn, Henrik; Levinsohn, James A. AA Horn: World Trade Organization, Institute for International Economic Studies, and Centre for Economic Policy Research. Levinsohn: University of Michigan. SR CEPR Discussion Paper: 2459; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG not available. PR 5 pounds, \$8 or 8 euros. JE F23, L13. KW Merger Policy. Strategic Competition Policy. Trade Liberalization.

AB As international economic integration has progressed, policy makers have started to ponder the possible conflicts arising from nationally pursued competition policies in more unified goods markets. An idea underlying much of this discussion is the notion that international trade liberalization, by limiting countries' abilities to promote their self-interest with beggar-thy-neighbor trade policies, will induce countries to instead use competition policies to pursue the same goals. This paper argues that one should not expect to find any particular relationship between trade policy and merger policy. Thus, no theoretical presumption is found that international trade liberalization induces countries to pursue merger policies that have more of a beggar-thy-neighbor flavor.

### Horvath, Balazs

PD January 2001. TI The Role of Medium-Term Fiscal Frameworks for Transition Countries: The Case of Bulgaria. AU Horvath, Balazs; Szekely, Istvan P. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/01/11; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 30. PR not available.

JE H11, H61. KW Fiscal Management. Fiscal Framework. AB This paper discusses the foundations for a medium-term fiscal framework for Bulgaria, a transition economy aspiring to join the European Union. The paper argues that a well-designed framework can help to enhance the credibility of macroeconomic policies and facilitate preparations for EU membership. It presents an illustrative scenario for Bulgaria, utilizing a broad concept of net public debt.

### Hubbard, R. Glenn

TI The Share Price Effects of Dividend Taxes and Tax Imputation Credits. AU Harris, Trevor S.; Kemsley, Deen; Hubbard, R. Glenn.

### Hubbard, Thomas N.

TI Contractibility and Asset Ownership: On-Board Computers and Governance in U.S. Trucking. AU Baker, George P.; Hubbard, Thomas N.

### Hughes, Joseph P.

PD May 2000. TI Are Scale Economies in Banking Elusive or Illusive? Evidence Obtained by Incorporating Capital Structure and Risk-Taking into Models of Bank Production. AU Hughes, Joseph P.; Mester, Loretta J.; Moon, Choon-Geol. AA Hughes: Rutgers University. Mester: Federal Reserve Bank of Philadelphia and University of Pennsylvania. Moon: Hanyang University. SR Federal Reserve Bank of Philadelphia Research Working Paper: 00/04; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). PG 25. PR no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D21, G21, L23. KW Banking. Production. Risk. Scale Economies.

AB This paper explores how to incorporate banks' capital structure and risk-taking into models of production. In doing so, the paper bridges the gulf between (1) the banking literature that studies moral hazard effects of bank regulation without considering the underlying microeconomics of production and (2) the literature that uses dual profit and cost functions to study the microeconomics of bank production without explicitly considering how banks' production decisions influence their riskiness. Various production models that differ in how they account for capital structure and in the objectives they impute to bank managers -- cost minimization versus value maximization -- are estimated using U.S. data on highest-level bank holding companies. Estimated scale economies are found to depend critically on how banks' capital structure and risk-taking is modeled. Moreover, better diversification is associated with larger scale economies while increased risk-taking and inefficient risk-taking are associated with smaller scale economies.

PD June 2000. TI Recovering Risky Technologies Using the Almost Ideal Demand System: An Application to U.S. Banking. AU Hughes, Joseph P.; Lang, William; Mester, Loretta J.; Moon, Choon-Geol. AA Hughes: Rutgers University. Lang: Office of the Comptroller of the Currency. Mester: Federal Reserve Bank of Philadelphia and University of Pennsylvania. Moon: Hanyang University. SR Federal Reserve Bank of Philadelphia Research Working Paper: 00/05; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA

19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). PG 18. PR no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE D21, G21, L23. KW Banking. Production. Risk. Efficiency. Agency Problems.

AB We argue for a shift in the focus of modeling production from the traditional assumptions of profit maximization and cost minimization to a more general assumption of managerial utility maximization that can incorporate risk incentives into the analysis of production and recover value-maximizing technologies. We show how this shift can be implemented using the Almost Ideal Demand System. In addition, we suggest a more general way of measuring efficiency that can incorporate a concern for the market value of firms' assets and equity and identify value-maximizing firms. This shift in focus bridges the gap between the risk-incentives literature in banking that ignores the microeconomics of production and the production literature that ignores the relationship between production decisions and risk.

### Hulten, Charles R.

PD December 1999. TI Indian Manufacturing Industry: Elephant or Tiger? New Evidence on the Asian Miracle. AU Hulten, Charles R.; Srinivasan, Sylaja. AA Hulten: University of Maryland and NBER. Srinivasan: University of Southampton. SR National Bureau of Economic Research Working Paper: 7441; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 21. PR \$5.00. JE O11, O47. KW India. Asian Miracle. Manufacturing.

AB We estimate the rate of total factor productivity growth in Indian manufacturing industry for the period 1973-1992, and compare the results to those obtained by Young for the East Asian Tigers. We then interpret our results in light of Krugman's hypothesis that, because the Asian Miracle was driven by capital formation under diminishing marginal returns, it is not sustainable. We suggest a reinterpretation of the sustainability problem that recognizes the true role of TFP as a motive force in output growth. Past studies have compared the TFP residual to the growth rate of output and used this ratio as a measure of the importance of TFP as a source of growth. We argue that this is an erroneous way of assessing the role of TFP, because it ignores the additional capital formation made possible by an increase in productivity and therefore understates productivity's true importance. Our estimates suggest that the understatement may be quite large, and that one might better ask if the growth rate of TFP, rather than capital growth, is sustainable.

### Hunt, Benjamin

PD January 2001. TI The Macroeconomic Effects of Higher Oil Prices. AU Hunt, Benjamin; Isard, Peter; Laxton, Douglas. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/01/14; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 46. PR not available. JE E32, E52. KW Oil Price Shocks. MULTIMOD. Monetary Policy.

AB The paper uses MULTIMOD to analyze the macroeconomic effects of oil price shocks, distinguishing between temporary, more persistent, and permanent shocks. It provides perspectives on several findings in the literature and the key role of monetary policy in influencing macroeconomic outcomes. Specific attention is paid to the channels through

which oil price increases can pass through into core inflation, a possible explanation of the asymmetric relationship between oil prices and economic activity, the role of monetary policy credibility, the implications of delayed policy responses, and the relative merits of leaning in different directions when the correct policy response is uncertain.

### Hunt, Robert M.

PD August 2001. TI Patentability, Industry Structure, and Innovation. AA Federal Reserve Bank of Philadelphia. SR Federal Reserve Bank of Philadelphia Research Working Paper: 01/13; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). PG 26. PR no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE L11, O31, O33. KW Industry Structure. Innovation. Patent Protection.

AB This paper evaluates a model of sequential innovation in which industry structure (the number of firms) is endogenous and a standard of patentability determines the proportion of all inventions that qualify for protection. In equilibrium, the number of firms actively engaged in R&D is the primary determinant of an industry's rate of progress. The patentability standard affects firms' entry decisions because it affects the expected profits associated with innovations. There is a unique, interior standard that maximizes the rate of innovation in a given industry by maximizing the number of firms actively engaged in R&D. This "optimal" standard is more stringent for an industry that tends to innovate rapidly and less stringent for an industry that tends to innovate slowly. If a single standard is applied to heterogeneous industries, it will encourage entry, and therefore innovation, in some industries while discouraging it in others. Finally, the effect of any given standard of patentability on industry structure and innovation will vary as conditions in the industry change. These results lead to interesting insights about changes in patent law in the U.S. and abroad.

### Hurd, Michael

PD December 1999. TI Predictors of Mortality Among the Elderly. AU Hurd, Michael; Merrill, Angela; McFadden, Daniel. AA Hurd: RAND Corporation and NBER. Merrill: UC Berkeley. McFadden: UC Berkeley and NBER. SR National Bureau of Economic Research Working Paper: 7440; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 13. PR \$5.00. JE I12, I12. KW Mortality. Aging. Elderly. Health Economics.

AB The objective of this paper is to find the quantitative importance of some predictors of mortality among the population aged 70 or over. The predictors are socio-economic indicators (income, wealth and education), thirteen health indicators including a history of heart attack or cancer, and subjective probabilities of survival. The estimation is based on mortality between waves 1 and 2 of the Asset and Health Dynamics among the Oldest-Old study. We find that the relationship between socio-economic indicators and mortality declines with age, that the 13 health indicators are strong predictors of mortality and that the subjective survival probabilities predict mortality even after controlling for socio-economic indicators and the health conditions.

**Hyslop, Dean R.**

**TI** Estimating the Dynamic Treatment Effects of an Earnings Subsidy For Welfare-Leavers. **AU** Card, David; Hyslop, Dean R.

**Iacoviello, Matteo**

**PD** April 2000. **TI** House Prices and the Macroeconomy in Europe: Results From a Structural VAR Analysis. **AA** London School of Economics. **SR** European Central Bank Working Paper: 18; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 65. **PR** no charge. **JE** C32, E32, E52, R21. **KW** Monetary Policy. House Prices. Vector Autoregressions. Cointegration. Housing Market.

**AB** A structural vector autoregressive (SVAR) approach is used to identify the forces driving house prices fluctuations in France, Germany, Italy, Spain, Sweden and the UK over the period 1970-1998. Quarterly time series for real house prices, GDP, money, inflation and interest rates are characterized by a multivariate process driven by supply, nominal, monetary, inflationary and demand shocks. It is found that: (1) tight money leads to a concomitant fall in house prices and GDP; (2) the house price responses to a monetary shock can be partly justified by the different housing and financial market institutions across countries; (3) monetary and demand shocks drive most of the short-run house price volatility. The paper also interprets the main house price cycles and their links with the real economy in light of the estimates shocks.

**Ichino, Andrea**

**PD** November 1999. **TI** Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm. **AU** Ichino, Andrea; Maggi, Giovanni. **AA** Ichino: European University Institute, CEPR and IGER. Maggi: Princeton University and NBER. **SR** National Bureau of Economic Research Working Paper: 7415; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 28. **PR** \$5.00. **JE** J22, J28. **KW** Italy. Shirking. Italian Regions.

**AB** The prevalence of shirking within a large Italian bank appears to be characterized by significant regional differentials. In particular, absenteeism and misconduct episodes are substantially more prevalent in the south. We consider a number of potential explanations for this fact: different individual backgrounds; ground-interaction effects; sorting of workers across regions; differences in local attributes; different hiring policies and discrimination against southern workers. Our analysis suggests that individual backgrounds, group-interaction effects and sorting effects contribute to explain the north-south shirking differential. None of the other explanations appears to be of first-order importance.

**Irwin, Douglas A.**

**PD** April 2000. **TI** How Did the United States Become a Net Exporter of Manufactured Goods? **AA** Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 7638; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 25. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F14, N71, Q32. **KW** Iron Exports. Steel Exports. Resource Abundance.

**Manufactured Exports.**

**AB** The United States became a net exporter of manufactured goods around 1910 after a dramatic surge in iron and steel exports began in the mid- 1890s. This paper argues that natural resource abundance fueled the expansion of iron and steel exports in part by enabling a sharp reduction in the price of U.S. exports relative to other competitors. The commercial exploitation of the Mesabi iron ore range for example, reduced domestic ore prices by 60 percent in the mid-1980s and was equivalent to nearly 30 years of industry productivity growth in its effect on iron and steel export prices. The results are consistent with Wright's (1990) finding that U.S. manufactured exports were natural resource intensive at this time and have implications for recent work suggesting that resource abundance may be a curse rather than a blessing for economic development.

**PD** April 2000. **TI** Tariffs and Growth in Late Nineteenth Century America. **AA** Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 7639; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 20. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F13, N11, O47. **KW** Tariffs. Economic Growth. Capital Accumulation.

**AB** Were high import tariffs somehow related to the strong U.S. economic growth during the late nineteenth century? This paper examines this frequently mentioned but controversial question and investigates the channels by which tariffs could have promoted growth during this period. The paper shows that: (i) late nineteenth century growth hinged more on population expansion and capital accumulation than on productivity growth; (ii) tariffs may have discouraged capital accumulation by raising the price of imported capital goods; (iii) productivity growth was most rapid in non-traded sectors (such as utilities and services) whose performance was not directly related to the tariff.

**PD** April 2000. **TI** Could the U.S. Iron Industry Have Survived Free Trade After the Civil War? **AA** Dartmouth College and NBER. **SR** National Bureau of Economic Research Working Paper: 7640; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** F13, N71. **KW** Iron Industry. Tariffs. Pig Iron.

**AB** An unresolved question concerning post-Civil War U.S. industrialization is the degree to which import tariffs protected domestic manufacturers from foreign competition. This paper considers the impact of import tariffs on the domestic pig iron industry, the basic building block of the entire iron and steel industry. After reviewing the contentious political debate surrounding the pig iron duties and estimating the elasticity of substitution between domestic and imported pig iron, a standard trade model provide estimates of how tariff reductions would affect domestic prices, production, imports, and welfare. The results suggest that, had the tariff been eliminated in 1869, domestic output would fall by about 15 percent and the import market share would rise from about 7 percent to nearly 30 percent. These relatively modest effects suggest that a substantial portion of the domestic industry could have survived a significant tariff reduction.

**PD** April 2000. **TI** Ohlin Versus Stolper-Samuelson? **AA** Dartmouth College and NBER. **SR** National Bureau



of Economic Research Working Paper: 7641; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 21. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F13, F16, N71. KW Stolper-Samuelson Theorem. Ohlin. Factor Rewards. Protection.

**AB** This paper examines Bertil Ohlin's analysis of trade policy and factor rewards in the context of the late nineteenth and early twentieth century United States. A leading question of the day was whether labor could benefit from protection. Ohlin suspected that labor could benefit from protection and his writings helped spawn the Stolper-Samuelson theorem, which was different from but consistent with Ohlin's approach. This paper seeks to find evidence on whether U.S. tariffs on imported labor-intensive manufacturers helped enhance the income of labor at the expense of capital and land. The answer is unclear: vastly different conclusions arise from a calibrated general equilibrium Ohlin-style model and a factor content of trade calculation, and indirect evidence from lobbying and voting patterns over the tariff are also ambiguous.

#### Isard, Peter

**PD** January 2001. **TI** Inflation Targeting with NAIRU Uncertainty and Endogenous Policy Credibility. **AU** Isard, Peter; Laxton, Douglas; Eliasson, Ann-Charlotte. **AA** Isard and Laxton: International Monetary Fund. Eliasson: Stockholm School of Economics. **SR** International Monetary Fund Working Paper: WP/01/07; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 40. **PR** not available. **JE** C51, E31, E52. **KW** Inflation Targeting. Monetary Policy Rules. Credibility. NAIRU Uncertainty.

**AB** Stochastic simulations are employed to compare performances of monetary policy rules in linear and nonlinear variants of a small macro model with NAIRU uncertainty under different assumptions about the way inflation expectations are formed. Cases in which policy credibility is ignored or treated as exogenous are distinguished from cases in which credibility and inflation expectations respond endogenously to the monetary authorities' track record in delivering low inflation. It is shown that endogenous policy credibility strengthens the case for forward-looking inflation forecast based rules relative to backward-looking Taylor rules.

**TI** The Macroeconomic Effects of Higher Oil Prices. **AU** Hunt, Benjamin; Isard, Peter; Laxton, Douglas.

#### Ishii, Shogo

**PD** April 2001. **TI** Measures to Limit the Offshore Use of Currencies: Pros and Cons. **AU** Ishii, Shogo; Otker-Rober, Inci; Cui, Li. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/43; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 53. **PR** not available. **JE** F31, F32, G15, G18. **KW** Offshore Currency Trading. Offshore Markets. Speculative Attacks. Exchange Controls. Capital Controls. Currency Internationalization.

**AB** Several Asian emerging market economies have recently adopted measures to limit the offshore trading of their currencies. This paper provides a general overview of such measures and evaluates the experiences of selected countries that resorted to such measures. It concludes that the measures could be effective if they were comprehensive and effectively enforced, and were accompanied by consistent macroeconomic policies and structural reforms. Such measures, however, could

adversely affect investor confidence, financial market development, and non-speculative economic and financial activities, and impose administrative burden on all parties involved.

#### Jaffe, Adam B.

**PD** April 2000. **TI** The Meaning of Patent Citations: Report on the NBER/Case-Western Reserve Survey of Patentees. **AU** Jaffe, Adam B.; Trajtenberg, Manuel; Fogarty, Michael S. **AA** Jaffe: Brandeis University and NBER. Trajtenberg: Tel Aviv University and NBER. Fogarty: Case-Western Reserve University. **SR** National Bureau of Economic Research Working Paper: 7631; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 18. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** O31, O32, O34. **KW** Inventions. Patents.

**AB** A survey of recent patentees was conducted to elicit their perceptions regarding the importance of their inventions, the extent of their communication with other inventors, and the relationship of both importance and communication to observed patent citations. A cohort of 1993 patentees were asked specifically about 2 patents that they had cited, and a third "placebo" patent that was similar but which they did not cite. One of the two cited inventors was also surveyed. We find that inventors report significant communication, at least some of which is in forms that suggest spillovers from the cited inventor to the citing inventor. The perception of such communication was substantively and statistically significantly greater for the cited patents than for the placebos. There is, however, a large amount of noise in citations data; it appears that something like one-half of all citations do not correspond to any perceived communication, or even necessarily to a perceptible technological relationship between the inventions. We also find a significant correlation between the number of citations a patent received and its importance (both economic and technological) as perceived by the inventor.

#### Jappelli, Tullio

**TI** Searching for Non-Linear Effects of Fiscal Policy: Evidence from Industrial and Developing Countries. **AU** Giavazzi, Francesco; Jappelli, Tullio; Pagano, Marco.

#### Jeffrey, Andrew

**PD** May 2001. **TI** Nonparametric Estimation of a Multifactor Heath-Jarrow-Morton Model: An Integrated Approach. **AU** Jeffrey, Andrew; Linton, Oliver; Nguyen, Thong; Phillips, Peter C. B. **AA** Jeffrey: Yale School of Management. Linton: London School of Economics. Nguyen: Bank of America Securities. Phillips: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1311; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 47. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C22. **KW** Measurement Error. Multi-Factor Model. Nonparametric Estimation. Volatility Structure.

**AB** We develop a nonparametric estimator for the volatility structure of the zero coupon yield curve in the Heath-Jarrow-Morton framework. The estimator incorporates cross-sectional restrictions along the maturity dimension, and also allows for measurement errors, which arise from the estimation of the yield curve from noisy data. The estimates are implemented

with daily CRSP bond data.

### Jelovac, Izabela

**PD** February 1998. **TI** Comparing Organizational Structures in Health Services. **AU** Jelovac, Izabela; Macho-Stadler, Ines. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 412/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 30. **PR** no charge. **JE** D82, G22, I11, J33, L23. **KW** Organizational Structure. Two-Sided Moral Hazard. Health Services. Insurance. Contracts.

**AB** The study of organizational choice is crucial to the understanding of firms' efficiency. We consider this issue applied to contracts on health services. In particular, we analyze the circumstances under which it is better for an insurer to contract with both the hospital and the physician instead of contracting exclusively with the hospital, delegating to the latter the power to contract the physician. In both cases, the contract design has to address a two-sided moral hazard: the hospital's investment in medical equipment is not observable to the insurer, and the physician's effort when performing the diagnosis is neither observable to the insurer nor to the hospital.

### Jenkins, Andrew

**TI** Regulatory Opportunism and Asset Valuation: Evidence from the US Supreme Court and UK Regulation. **AU** Grout, Paul A.; Jenkins, Andrew.

**TI** Privatisation of Utilities and the Asset Value Problem. **AU** Grout, Paul A.; Jenkins, Andrew.

### Jensen, Jeffrey L.

**TI** The Influence of Federal Laboratory R&D on Industrial Research. **AU** Adams, James D.; Jensen, Jeffrey L.; Chiang, Eric P.

### Jewitt, Ian

**TI** Team-Based Incentives in the NHS: An Economic Analysis. **AU** Ratto, Marisa; Burgess, Simon; Croxson, Bronwyn; Jewitt, Ian; Propper, Carol.

**TI** Team-Based Incentives in the NHS: An Economic Analysis. **AU** Ratto, Marisa; Burgess, Simon; Croxson, Bronwyn; Jewitt, Ian; Propper, Carol.

**TI** The Economics of Career Concerns, Part 1: Comparing Information Structures. **AU** Dewatripont, Mathias; Jewitt, Ian; Tirole, Jean.

**TI** The Economics of Career Concerns, Part 2: Application to Missions and Accountability of Government Agencies. **AU** Dewatripont, Mathias; Jewitt, Ian; Tirole, Jean.

### Jimeno-Serrano, Juan Francisco

**TI** The Role of the Minimum Wage in the Welfare State: An Appraisal. **AU** Dolado, Juan Jose; Jimeno-Serrano, Juan Francisco; Felgueroso, Florentino.

**TI** The Role of the Minimum Wage in the Welfare State: An Appraisal. **AU** Dolado, Juan Jose; Jimeno-Serrano, Juan Francisco; Felgueroso, Florentino.

### Johannes, Ronald L.

**PD** April 2001. **TI** The Equilibrium Distributions of Value for Risky Stocks and Bonds. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/39; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 35. **PR** not available. **JE** G11, G12. **KW** Capital Assets. Expected Price. Market Fundamentals. Investor Sentiment.

**AB** Within a unified theory for stocks and corporate bonds, based on dynamic optimization by investors, this paper derives analytical expressions for the momentary distributions of expected price, respectively known to approximate lognormal with systematic deviations (high peak, fat tail) and double exponential (for credit risk). Market equilibrium is regarded as a dynamic equilibrium characterized by a time-invariant probability distribution over microfinancial states, marginal redistributions of portfolios are regarded as indistinguishable, and real and fiat assets are regarded as essentially distinct. The formalism provides a basis for decomposing value changes by market fundamentals, investor sentiment, and investor acquisition of securities.

### Johnson, Simon

**TI** The Colonial Origins of Comparative Development: An Empirical Investigation. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

**TI** An African Success Story: Botswana. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

**TI** Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

**PD** December 1999. **TI** Coase v. the Coasians. **AU** Johnson, Simon; Shleifer, Andrei. **AA** Johnson: MIT. Shleifer: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7447; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 35. **PR** \$5.00. **JE** D73, D78, G18, K23. **KW** Coase Theorem. Czech Republic. Poland.

**AB** The Coase theorem implies that, in a world of positive transaction costs, any of a number of strategies, including judicially enforced private contracts, judicially enforced laws, or even government regulation, may be the cheapest way to bring about efficient resource allocation. Unfortunately, some Coasians have ignored the possibility that the last of these strategies may sometimes be the best. This paper compares the regulation of financial markets in Poland and the Czech Republic in the 1990s, when the judicial systems remained underdeveloped in both countries. In Poland, strict enforcement of the securities law by an independent Securities and Exchange Commission was associated with rapid development of the stock market. In the Czech Republic, hands-off regulation was associated with a near collapse of the stock market. These episodes illustrate the centrality of law enforcement in making markets work, and the possible role of regulators in law enforcement.

### Jones, Larry

**PD** April 2000. **TI** Growth and Business Cycles. **AU** Jones, Larry; Manuelli, Rody; Siu, Henry. **AA** Jones: University of Minnesota. Manuelli: University of Wisconsin and NBER. Siu: Northwestern University. **SR** National

Bureau of Economic Research Working Paper: 7633; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 26. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE D92, E32. KW Endogenous Growth. Convexities.

AB Our purpose in this paper is to present a class of convex endogenous growth models, and to analyze their performance in terms of both growth and business cycle criteria. The models we study have close analogs in the real business cycle literature. In fact, we interpret the exogenous growth rate of productivity as an endogenous growth rate of human capital. This perspective allows us to compare the strengths of both classes of models. In order to highlight the mechanism that gives endogenous growth models the ability to improve upon their exogenous growth relatives, we study models that are symmetric in terms of human and physical capital formation -- our two engines of growth. More precisely, we analyze models in which the technology used to produce human capital is identical to the technologies used to produce consumption and investment goods, and in which the technology shocks in the two sectors are perfectly correlated. We find that endogenous growth models can generate levels of labor volatility close to those observed in the data, as well as positively correlated growth rates of output. We also find that these models outperform a related exogenous growth version in most dimensions.

**Jun, Yu**

PD March 2001. TI Gaussian Estimation of Continuous Time Models of the Short Term Interest Rate. AU Jun, Yu; Phillips, Peter C. B. AA Jun: University of Auckland. Phillips: Yale University. SR Yale Cowles Foundation Discussion Paper: 1309; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 22. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C14, C22, G12. KW Gaussian Estimation. Nonlinear Diffusion. Normalizing Transformation.

AB This paper proposes a Gaussian estimator for nonlinear continuous time models of the short term interest rate. The approach is based on a stopping time argument that produces a normalizing transformation facilitating the use of a Gaussian likelihood. A Monte Carlo study shows that the finite sample performance of the proposed procedure offers an improvement over the discrete approximation method proposed by Nowman (1997). An empirical application to U.S. and British interest rates is given.

**Kahn, Matthew E.**

TI Why Do the Poor Live in Cities? AU Glaeser, Edward L.; Rappaport, Jordon; Kahn, Matthew E.

**Kapetanios, George**

TI Testing the Rank of the Hankel Matrix: A Statistical Approach. AU Camba-Mendez, Gonzalo; Kapetanios, George.

TI Spectral Based Methods to Identify Common Trends and Common Cycles. AU Camba-Mendez, Gonzalo; Kapetanios, George.

**Kaplow, Louis**

PD July 2002. TI A Framework for Assessing Estate and

Gift Taxation. AA Harvard University and National Bureau of Economic Research. SR National Bureau of Economic Research Working Paper: 7775; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 51. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE H21, H23, H24, K34. KW Estate Tax. Redistribution of Income. Income tax.

AB Whether and how estates and gifts should be taxed has long been a controversial subject, and the approach to estate and gift taxation varies among developed countries. Arguments for and against various forms of transfer taxation have focused on concerns about the distribution of income and wealth, intergenerational equity, raising revenue, savings incentives, and other economic and philosophical issues. This two purposes of this essay are first to examine the conceptual basis for various arguments for and against the current estate and gift tax regime and proposed alternatives and second to integrate policy analysis of transfer taxation with that of the rest of the tax system, notably, the income tax. The analysis begins by considering how it would be optimal to tax transfers if they are viewed simply one of many forms of expenditure by donors, and then it explores how the distinctive features of gifts and bequests may alter the conclusions.

**Karacadag, Cem**

PD December 2000. TI The Role of Subordinated Debt in Market Discipline: The Case of Emerging Markets. AU Karacadag, Cem; Shrivastava, Animesh. AA Karacadag: International Monetary Fund. Shrivastava: University of Reading. SR International Monetary Fund Working Paper: WP/00/215; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 30. PR not available. JE F33, G21. KW Subordinated Debt. Capital Standards. Banking Regulation.

AB This paper evaluates the potential role of mandatory subordinated debt (MSD) in enhancing market discipline in emerging markets. The conceptual merits and key preconditions of MSD are first reviewed. Then, the extent to which emerging markets satisfy these preconditions -- among them the monitorability of bank assets, the presence of nonbank financial investors, and liquid and "clean" capital markets -- are evaluated. We find that emerging markets do not satisfy the preconditions for the successful implementation of a MSD policy. Therefore, efforts to enhance market discipline should first focus on satisfying these preconditions and improving the overall incentive environment and market infrastructure.

**Katz, Lawrence**

TI Prevailing Wage Laws and Construction Labor Markets. AU Kessler, Daniel P.; Katz, Lawrence.

**Katzman, Brett**

PD November 1999. TI Optimal Monetary Impulse-Response Functions in a Matching Model. AU Katzman, Brett; Kennan, John; Wallace, Neil. AA Katzman: University of Miami. Kennan: University of Wisconsin and NBER. Wallace: Pennsylvania State University. SR National Bureau of Economic Research Working Paper: 7425; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 22. PR \$5.00. JE D82, E32, E42. KW Matching Model. Optimal Lag Length. Monetary Policy.

AB The effects on ex ante optima of a lag in seeing monetary

realizations are studied using a matching model of money. The main new ingredient in the model is meetings in which producers have more information than consumers. A consequence is that increases in the amount of money that occur with small enough probability can have negative impact effects on output, because it is optimal to shut down trade in such low probability meetings rather than have lower output when high probability realizations occur. The information lag also produces prices that do not respond much to current monetary realizations.

### Kaufmann, Sylvia

PD December 2001. TI Asymmetries in Bank Lending Behavior: Austria During the 1990s. AA Oesterreichische Nationalbank, Vienna. SR European Central Bank Working Paper: 97; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 32. PR no charge. JE C11, C23, E51. KW Asymmetry. Bank Lending. Markov Switching. Markov Chain Monte Carlo.

AB This paper investigates both cross-sectional asymmetry (related to bank-specific characteristics like size and liquidity) and asymmetries overtime (potentially related to the overall state of the economy) in Austrian bank lending reaction to monetary policy. The first type of asymmetry is accounted for by including interaction terms, and the second type is captured by latent state-dependent parameters. Estimation is cast into a Bayesian framework, and the posterior inference is obtained using Markov chain Monte Carlo simulation methods. The results document a significant asymmetric effect of interest rate changes over time on bank lending. During economic recovery, lagged interest rate changes have no significant effect on lending. Where the effects are significant, liquidity emerges as the bank characteristic that determines cross-sectional asymmetry.

### Ke, Bin

PD November 1999. TI The Impact of State Taxes on Self-Insurance. AU Ke, Bin; Shackelford, Douglas A.; Petroni, Kathy. AA Ke: Penn State University. Shackelford: University of North Carolina and NBER. Petroni: Michigan State University. SR National Bureau of Economic Research Working Paper: 7453; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 28. PR \$5.00. JE D12, G22, H22, H25. KW State Taxes. Self-Insurance.

AB This paper assesses whether insurers' state taxes reduce purchases of property-casualty coverage. Tests are conducted using state aggregates of insurer-level data from publicly-available, annual accounting reports for 1993, 1994, and 1995. A positive relation between self-insurance and state taxes is detected, consistent with consumers opting to self-insure rather than bear the incidence of higher insurer taxes. The primary empirical estimates imply that a 1 percent increase in the state premium tax rate reduces non-automobile insured losses by 0.18 percent to 0.28 percent. These elasticities suggest that for the mean state, a standard deviation increase in the state tax rate (0.5 percent) would lower insured losses by approximately \$140 million or 7.5 percent of current coverage. As expected, tax effects vary with the elasticity of demand. When demand is largely inelastic, e.g., automobile liability coverage, taxes do not affect self-insurance.

### Keller, Christian

TI Social Sector Reform in Transition Countries. AU Heller, Peter S.; Keller, Christian.

### Kemsley, Deen

TI The Share Price Effects of Dividend Taxes and Tax Imputation Credits. AU Harris, Trevor S.; Kemsley, Deen; Hubbard, R. Glenn.

### Kennan, John

TI Optimal Monetary Impulse-Response Functions in a Matching Model. AU Katzman, Brett; Kennan, John; Wallace, Neil.

### Kessler, Daniel P.

PD December 1999. TI Prevailing Wage Laws and Construction Labor Markets. AU Kessler, Daniel P.; Katz, Lawrence. AA Kessler: Stanford University and NBER. Katz: Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 7454; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 23. PR \$5.00. JE J31, J41, J51. KW Construction Workers. Prevailing Wage Laws. Wage Differentials.

AB Prevailing wage laws, which require that construction workers employed by private contractors on public projects be paid at least the wages and benefits that are "prevailing" for similar work in or near the locality in which the project is located, have been the focus of an extensive policy debate. We find that the relative wages of construction workers decline slightly after the repeal of a state prevailing wage law. However, the small overall impact of law repeal masks substantial differences in outcomes for different groups of construction employees. Repeal is associated with a sizeable reduction in the union wage premium and a significant narrowing of the black/nonblack wage differential for construction workers.

### Khan, Aubhik

PD August 2000. TI Costly Technology Adoption and Capital Accumulation. AU Khan, Aubhik; Ravikumar, B. AA Khan: Federal Reserve Bank of Philadelphia. Ravikumar: Pennsylvania State University. SR Federal Reserve Bank of Philadelphia Research Working Paper: 00/07; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). PG 27. PR no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE O31, O33. KW Capital Accumulation. Irrecoverable Cost. Costly Adoption.

AB We develop a model of costly technology adoption where the cost is irrecoverable and fixed. Households must decide when to switch from an existing technology to a new, more productive technology. Using a recursive approach, we show that there is a unique threshold level of wealth above which households will adopt the new technology and below which they will not. This threshold is independent of preference parameters and depends only on technology parameters. Prior to adoption, households invest at increasing rates, but consumption growth is constant. We also show that richer households adopt sooner and that income inequality increases over time. Both these results are consistent with the evidence

from the Green Revolution.

**PD** September 2000. **TI** Nonconvex Factor Adjustments in Equilibrium Business Cycle Models: Do Nonlinearities Matter? **AU** Khan, Aubhik; Thomas, Julia K. **AA** Khan: Federal Reserve Bank of Philadelphia. Thomas: Carnegie-Mellon University and University of Minnesota. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/10; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 27. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E22, E32. **KW** Nonconvexities. Nonlinearities. Capital Adjustment. Investment Demand.

**AB** Using an equilibrium business cycle model, we search for aggregate nonlinearities arising from the introduction of nonconvex capital adjustment costs. We find that while such adjustment costs leads to nontrivial nonlinearities in aggregate investment demand, equilibrium investment is effectively unchanged. Our finding, based on a model in which aggregate fluctuations arise through exogenous changes in total factor productivity, is robust to the introduction of shocks to the relative price of investment goods.

**PD** October 2000. **TI** Optimal Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L. **AA** Khan: Federal Reserve Bank of Philadelphia. King: Boston University. Wolman: Federal Reserve Bank of Richmond. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/05; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 39. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E52, E58. **KW** Optimal Monetary Policy. Keynesian Friction. Monetarist Friction.

**AB** Optimal monetary policy maximizes welfare, given frictions in the economic environment. Constructing a model with two sets of frictions - the Keynesian friction of costly price adjustment by imperfectly competitive firms and the Monetarist friction of costly exchange of wealth for goods -- we find optimal monetary policy is governed by two familiar principles. First, the average level of the nominal interest rate should be sufficiently low, as suggested by Milton Friedman, that there should be deflation on average. Yet, the Keynesian frictions imply that the optimal nominal interest rate is positive. Second, as various shocks occur to the real and monetary sectors, the price level should be largely stabilized, as suggested by Irving Fisher, albeit around a deflationary trend path. (In modern language, there is only small "base drift" for the price level path.) Since expected inflation is roughly constant through time, the nominal interest rate must therefore vary with the Fisherian determinants of the real interest rate -- as there is expected growth or contraction of real economic activity.

### Khan, Mohsin S.

**PD** April 2001. **TI** Inflation and Financial Depth. **AU** Khan, Mohsin S.; Senhadji, Abdelhak S.; Smith, Bruce D. **AA** Khan and Senhadji: International Monetary Fund. Smith: University of Texas. **SR** International Monetary Fund Working Paper: WP/01/44; International Monetary Fund, 700

19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** E31, G15, G23, G24. **KW** Inflation. Financial Depth.

**AB** There is now a substantial theoretical literature arguing that inflation impedes financial deepening. Furthermore, it has been hypothesized that the relationship is a nonlinear one, in that there is a threshold level of inflation below which inflation has a positive effect on financial depth, but above which the effect turns negative. Using a large cross-country sample, empirical support is found for the existence of such a threshold. The estimates indicate that the threshold level of inflation is generally between 3 and 6 percent a year, depending on the specific measure of financial depth that is used.

### Kilian, Lutz

**PD** November 2001. **TI** Why is it so Difficult to Beat the Random Walk Forecast of Exchange Rates? **AU** Kilian, Lutz; Taylor, Mark P. **AA** Kilian: University of Michigan, European Central Bank, and CEPR. Taylor: University of Warwick and CEPR. **SR** European Central Bank Working Paper: 88; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 31. **PR** no charge. **JE** C53, F31, F47. **KW** Purchasing Power Parity. Real Exchange Rate. Random Walk. Exchange Rate Determination. Long-Horizon Tests.

**AB** We propose a nonlinear econometric model that can explain both the observed volatility and the persistence of real and nominal exchange rates. The model implies that near equilibrium, the nominal exchange rate will be well approximated by a random walk process. Large departures from fundamentals, in contrast, imply mean-reverting behavior toward fundamentals. Moreover, the predictability of the nominal exchange rate relative to the random walk benchmark tends to improve at longer horizons. We test the implications of the model and find strong evidence of exchange rate predictability at horizons of two to three years, but not at shorter horizons.

### King, Robert G.

**TI** Optimal Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L.

### Kinney, Daniel

**TI** Foreign and Domestic Bank Participation in Emerging Markets: Lessons from Mexico and Argentina. **AU** Goldberg, Linda; Kinney, Daniel; Dages, B. Gerard.

### Kleiner, Morris M.

**PD** November 1999. **TI** Do Industrial Relations Affect Plant Performance? The Case of Commercial Aircraft Manufacturing. **AU** Kleiner, Morris M.; Leonard, Jonathan S.; Pilarski, Adam M. **AA** Kleiner: University of Minnesota and NBER. Leonard: University of California, Berkeley. Pilarski: AVITAS, DNV. **SR** National Bureau of Economic Research Working Paper: 7414; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$5.00. **JE** J31, J51, J53, L21. **KW** Plant Performance. Industrial Relations. Unions.

**AB** This study analyzes the impact of major industrial relations variables on productivity within a plant that assembles large commercial aircraft. The analysis combines the deep

firm-specific knowledge of management and labor typical of the best of traditional industrial relations with formal statistical tests. We use a before and after research design over an 18-year period with monthly data, as well as information from the participants in the industrial relations events. Strikes, slowdowns, and tough union leaders influenced the productivity of this plant by both large percentages and absolute dollar amounts during the period they were occurring. In contrast with much of the firm performance literature, we find small initial productivity impacts of movements from traditional adversarial management, which is the norm in this industry, to total quality management (TQM) and back again. Finally, simulations from a counterfactual case show that major industrial relations events like strikes, slowdowns, and the TQM program did not have long term productivity effects, and that the firm we studied returned to pre-event levels of production within one to four months.

#### Klenow, Peter J.

TI Quantifying Quality Growth. AU Bills, Mark; Klenow, Peter J.

#### Klosek, Malgorzata M.

TI Pricing Upward-Only Adjusting Leases. AU Ambrose, Brent W.; Hendershott, Patric H.; Klosek, Malgorzata M.

#### Knowles, John

PD December 1999. TI Racial Bias in Motor Vehicle Searches: Theory and Evidence. AU Knowles, John; Todd, Petra; Persico, Nicola. AA University of Pennsylvania. SR National Bureau of Economic Research Working Paper: 7449; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. PG 26. PR \$5.00. JE J71, K42. KW Discrimination. Racial Bias. Motor Vehicles.

AB African-American motorists in the United States are much more likely than white motorists to have their cars searched by police checking for illegal drugs and other contraband. We discuss why a simple test for racial bias commonly applied by the courts is inadequate and develop a model of law enforcement that suggests an alternative test. The model assumes a population with two racial types who also differ along other dimensions relevant to criminal behavior. Using the model, we construct a test for whether racial disparities in motor vehicle searches reflect racial prejudice, or instead are consistent with the behavior of non-prejudiced police maximizing drug interdiction. The test is valid even when the set of characteristics observed by the police is only partially observed. Finally, we present a simple analysis of the tradeoff between efficiency of drug interdiction and racial fairness in policing. WE show that in some circumstances there is no trade-off: constraining the police to be color-blind may achieve greater efficiency in drug interdiction.

#### Kodres, Laura

TI Euro-Area Banking at the Crossroads. AU Belaisch, Agnes; Kodres, Laura; Levy, Joaquim; Ubide, Angel.

#### Koeva, Petya

PD January 2001. TI Time-to-Build and Convex Adjustment Costs. AA International Monetary Fund. SR International Monetary Fund Working Paper: WP/01/09; International Monetary Fund, 700 19th Street, Washington, DC

20431. PG 22. PR not available. JE C81, D24, E22. KW Time-to-Build. Investment.

AB This paper incorporates time-to-build into the standard investment model with convex adjustment costs. The empirical Euler equation is estimated using a U.S. firm-level panel from Compustat. In spite of the introduction of time-to-build, the magnitude of the implied adjustment costs is unrealistically high. Exploiting another approach, I directly test the restrictions imposed by time-to-build on the investment equation. The results indicate that these restrictions cannot be rejected for five of the sixteen industries in the sample. Finally, I show that time-to-build can explain approximately one-third of the variation in persistence of structures investment across four-digit industries.

#### Kolko, Jed

TI Consumer City. AU Glaeser, Edward L.; Kolko, Jed; Saiz, Albert.

#### Kollintzas, Tryphon

PD May 2000. TI Rent Seeking/Corruption and Growth: A Simple Model. AU Kollintzas, Tryphon; Angeletos, George-Marios. AA Kollintzas: Athens University of Economics and Business, Centre for Economic Policy Research, and IMO II. Angeletos: Harvard University. SR CEPR Discussion Paper: 2464; 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, \$8 or 8 euros. JE E10, H20, O10. KW Rent Seeking. Corruption. Growth. Property Rights.

AB The goal of this paper is to propose a simple paradigm for understanding rent seeking and corruption in the growth context. An endogenous growth model is developed where entrepreneurs, as intermediate-good producers, may engage in rent-seeking activities. The latter are defined by the following properties: (i) their internal effect is positive; (ii) their external effect is negative; and (iii) they use real resources. Our formulation may be viewed as a parable for theft and fraud; organized crime; industrial espionage; lobbying and policy influence; misgovernance, institutional inefficiency, tax evasion, etc. The economy is shown to fall into a trap of high rent seeking/corruption and low growth. Agents' perceptions about the external effects of rent seeking, and the complementarity or substitutability of intermediate inputs, are crucial. Contrary to conventional wisdom, higher returns to capital and more competition can be detrimental for welfare and growth, as they induce more rent seeking/corruption. Finally, our paradigm yields insights into the relationship of R&D, politicoeconomic equilibrium, income distribution, and growth, as well as the design of tax/growth policies in the presence of rent seeking/corruption.

#### Konan, Denise

TI FDI in the Restructuring of the Japanese Economy. AU Blomstrom, Magnus; Konan, Denise; Lipsey, Robert E.

#### Kostial, Kristina

TI The Disappearing Tax Base: Is Foreign Direct Investment Eroding Corporate Income Taxes? AU Gropp, Reint; Kostial, Kristina.

**Kovalenkov, Alexander**

**PD** June 1997. **TI** Three Theorems on Non-Emptiness of Approximate Cores Part 1. Game Theoretic Results. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz. **AA** Kovalenkov: Universitat Autònoma de Barcelona. Wooders: University of Toronto. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 390/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 32. **PR** no charge. **JE** C71, D71. **KW** Cooperative Games. Side Payments. Large Games. Approximate Cores. Effective Small Groups.

**AB** We introduce the framework of parameterized collections of games and provide three nonemptiness of approximate core theorems for arbitrary games without (and with) side payments. The framework and theorems are sufficiently general to encompass results in the literature on nonemptiness of approximate cores of games derived from pregames. The theorems are based on a new notion of strongly balanced profiles and approximately strongly balanced profiles.

**PD** June 1997. **TI** Three Theorems on Non-Emptiness of Approximate Cores Part 2. Economies with Clubs. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz. **AA** Kovalenkov: Universitat Autònoma de Barcelona. Wooders: University of Toronto. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 391/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 13. **PR** no charge. **JE** C71, D71, H40. **KW** Club Economies. Multiple Memberships. Large Games. Approximate Cores. Effective Small Groups.

**AB** We present a new model of an economy with clubs, where players may belong to multiple clubs and where clubs may engage in a variety of club activities. The activities of each club may be unique to that club and may include provision of private goods, public goods, or simply conviviality. Three nonemptiness of approximate core results are presented.

**PD** June 1997. **TI** Epsilon Cores of Games and Economies with Limited Side Payments. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz. **AA** Kovalenkov: Universitat Autònoma de Barcelona. Wooders: University of Toronto. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 392/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 29. **PR** no charge. **JE** C71, D71. **KW** Cooperative Games. Side Payments. Large Games. Approximate Cores. Effective Small Groups.

**AB** We introduce the concept of a parameterized collection of games with limited side payments, ruling out large transfers of utility. Under the assumption that the payoff set of the grand coalition is convex, we show that a large game with limited side payments has a nonempty epsilon-core. Our second result is that, when some degree of side-paymentness within nearly-effective small groups is assumed, then all payoffs in the epsilon-core treat all players of the same approximate type approximately equally. A bound on the distance between epsilon-core payoffs of any two players of the same approximate type is given in terms of the parameters describing the game.

**PD** June 1997. **TI** An Explicit Bound on Epsilon for Non-Emptiness of the Epsilon-Core of an Arbitrary Game with Side Payments. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz. **AA** Kovalenkov: Universitat Autònoma de Barcelona. Wooders: University of Toronto. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 393/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 17. **PR** no charge. **JE** C71, D71. **KW** Cooperative Games. Side Payments. Approximate Cores. Effective Small Groups. Collections of Games.

**AB** We introduce the concept of a parameterized collection of games with side payments and determine a bound on epsilon so that all sufficiently large games in such a collection have non-empty epsilon-cores. A parameterized collection of games is described by (a) the number of approximate player types and the accuracy of this approximation, (b) the size of approximately effective small groups, and (c) the size of the bound on maximal per capita payoffs achievable in coalitions. An explicit relationship between the required size of epsilon, the parameters describing the collection, and the number of players in the game under consideration is established. Given the parameters, the larger the number of players in a game, the smaller the epsilon that can be chosen.

**PD** June 1997. **TI** An Explicit Bound on Epsilon for Non-Emptiness of the Epsilon-Core of an Arbitrary Game Without Side Payments. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz. **AA** Kovalenkov: Universitat Autònoma de Barcelona. Wooders: University of Toronto. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 394/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 28. **PR** no charge. **JE** C71, D71. **KW** Cooperative Games. Side Payments. Approximate Cores. Effective Small Groups. Collections of Games.

**AB** We consider parameterized collection of games without side payments and determine a bound on epsilon so that all sufficiently large games in the collection have non-empty epsilon-cores. The required size of epsilon depends on (a) the number of approximate player types and the accuracy of this approximation; (b) the size of approximately effective small groups; (c) the size of the bound on maximal per capita payoffs achievable in coalitions; and (d) a measure on the extent to which the payoff sets of the games are bounded away from being "flat". Our result makes explicit the relationship between the required size of epsilon for non-emptiness of the epsilon-core, the parameters describing the collection of games, and the size of the total player set. Given the parameters describing the collection, the larger the game, the smaller the epsilon that can be chosen. Results are provided both for the case where the size of effective coalitions is bounded in absolute size of membership and for the case where relative sizes of effective coalitions are small.

**Kraay, Aart**

**PD** July 2000. **TI** Product Prices and the OECD Cycle. **AU** Kraay, Aart; Ventura, Jaume. **AA** Kraay: The World Bank. Ventura: University of Chicago, National Bureau of Economic Research and Massachusetts Institute of Technology. **SR** National Bureau of Economic Research Working Paper: 7788; National Bureau of Economic Research, 1050

Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 9. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE E30, F10, F40. KW Prices. Business Cycles. Organisation for Economic Co-operation and Development (OECD).

AB It is well known that business cycles in countries belonging to the Organization for Economic Co-operation and Development (OECD) exhibit a remarkable degree of synchronization. Much less known is that the peak of the OECD cycle is associated with high prices of labor-intensive products and low prices of capital-intensive ones. This paper documents this cyclical behavior of product prices and argues that it offers an important clue as to why business cycles are so synchronized. Positive shocks in one or more countries raise the prices of labor-intensive products and, as a result, the demand for labor throughout the industrialized world. This generates increases in wages, employment and output in all industrial countries. Through this channel, shocks are positively transmitted across countries, creating a force towards the synchronization of business cycles.

PD December 2000. TI Comparative Advantage and the Cross-Section of Business Cycles. AU Kraay, Aart; Ventura, Jaume. AA Kraay: The World Bank. Ventura: MIT. SR Massachusetts Institute of Technology, Department of Economics Working Paper: 98/09R; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. PG 36. PR \$7.00 U.S., Canada, Mexico; \$10.00 other international. JE E32, F12. KW Business Cycles. Comparative Advantage. Traditional Technologies. New Technologies. AB Business cycles are both less volatile and more synchronized with the world cycle in rich countries than in poor ones. We develop two alternative explanations based on the idea that comparative advantage causes rich countries to specialize in industries that use new technologies operated by skilled workers, while poor countries specialize in industries that use traditional technologies operated by unskilled workers. Since new technologies are difficult to imitate, the industries of rich countries enjoy more market power and face more inelastic product demands than those of poor countries. Since skilled workers are less likely to exit employment as a result of changes in economic conditions, industries in rich countries face more inelastic labor supplies than those of poor countries. We show that either asymmetry in industry characteristics can generate cross-country differences in business cycles that resemble those we observe in the data.

#### Kremer, Michael

PD May 2000. TI Creating Markets for New Vaccines Part I: Rationale. AA Harvard University and NBER. SR National Bureau of Economic Research Working Paper: 7716; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 43. PR \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). JE H42, I12, I18, I31, O15. KW Vaccines. Research Expenditures. Development. Pharmaceuticals.

AB Malaria, tuberculosis, and the strains of HIV common in Africa kill approximately 5 million people each year. Yet research on vaccines for these diseases remains minimal -- largely because potential vaccine developers fear that they would not be able to sell enough vaccine at a sufficient price to recoup their research expenditures. Enhancing markets for new

vaccines could create incentives for vaccine research and increase accessibility of any vaccines developed. Under such programs, the public pays only if a successful vaccine is actually developed. This gives pharmaceutical firms and scientists strong incentives to self-select research projects that have a reasonable chance of leading to a vaccine, and to focus on developing a viable vaccine rather than pursuing other goals. Committing to purchase vaccines and make them available to poor countries may be attractive relative to other ways of rewarding vaccine developers of new vaccines would place the entire burden of financing vaccines on those needing these other pharmaceuticals. Increasing prices for current vaccines without explicit incentives for development of new vaccines would be insufficient to spur new research.

TI Worms: Education and Health Externalities in Kenya. AU Miguel, Edward; Kremer, Michael.

#### Krishna, Kala

PD March 2000. TI Can Subsidies for MARs be Procompetitive? AU Krishna, Kala; Roy, Suddhasatwa; Thursby, Marie C. AA Krishna: Pennsylvania State University and NBER. Roy: California State University. Thursby: Purdue University and NBER. SR National Bureau of Economic Research Working Paper: 7624; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). PG 13. PR \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). JE F13, F14. KW Subsidies. MARs. Japan. USA.

AB In contrast to recent literature, we show that market access requirements (MARs) can be implemented in a procompetitive manner even in the absence of threats in related markets. By focusing on subsidies that are paid only when the requirement is met, we show that a MAR can increase aggregate output relative to free trade provided that the right set of firms is targeted. In the context of a model with multiple Japanese and US firms, we show that a MAR on US imports is procompetitive as long as the US firms are the ones targeted to receive the subsidy.

#### Krishnamurthy, Arvind

TI Dollarization of Liabilities: Underinsurance and Domestic Financial Underdevelopment. AU Caballero, Ricardo J.; Krishnamurthy, Arvind.

TI A "Vertical" Analysis of Crises and Intervention: Fear of Floating and Ex-Ante Problems. AU Caballero, Ricardo J.; Krishnamurthy, Arvind.

TI Smoothing Sudden Stops. AU Caballero, Ricardo J.; Krishnamurthy, Arvind.

#### Krueger, Alan B.

PD January 2000. TI From Bismarck to Maastricht: The March to European Union and the Labor Compact. AA Princeton University and NBER. SR National Bureau of Economic Research Working Paper: 7456; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). PG 20. PR \$5.00. JE F15, J29, J61. KW EU. Labor Compact. Social Protection.

AB This paper considers the likely impact that European Union (EU) will have on the labor compact. It is argued that, despite increased economic integration in Europe, countries will still be able to maintain distinct labor practices if they are



willing to bear the cost of those practices. Evidence is presented suggesting that labor mobility among EU countries has not increased after the elimination of remaining restrictions on intra-EU labor mobility in 1993. Moreover, immigration from non-EU countries, which is much larger than intra-EU migration, has declined since 1993. Evidence is also reviewed suggesting that the demand for social protection rises when countries are more open, and therefore subject to more severe external shocks. This finding suggests that increased economic integration and European Monetary Union could lead to greater demand for social protection. The U.S. experience with state workers' compensation insurance programs is offered as an example of enduring differences in labor market protections in highly integrated regional economies with a common currency.

**TI** Instrumental Variables and the Search for Identification: From Supply and Demand to Natural Experiments. **AU** Angrist, Joshua; Krueger, Alan B.

### Krueger, Anne O.

**PD** December 1999. **TI** Trade Creation and Trade Diversion Under NAFTA. **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 7429; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 22. **PR** \$5.00. **JE** F13, F15. **KW** Trade Creation. Trade Diversion. NAFTA.

**AB** Aggregate and more micro data on trade between the U.S., Canada, and Mexico are used to attempt to assess the early effects of Mexican entry into NAFTA. Although the fraction of Mexican trade with the U.S. and Canada has risen sharply, a number of factors have contributed to this result. Mexican reduction of tariffs and quantitative restrictions and the Mexican alteration of exchange rate policy at the end of 1994 were both important. Based on early returns, the impact of NAFTA over its first three years does not appear to have been large relative to the effects of these other events.

### Kuersteiner, Guido M.

**TI** Asymptotically Unbiased Inference for a Dynamic Panel Model with Fixed Effects When Both  $n$  and  $T$  are Large. **AU** Hahn, Jinyong; Kuersteiner, Guido M.

**TI** Bias Corrected Instrumental Variables Estimation for Dynamic Panel Models with Fixed Effects. **AU** Hahn, Jinyong; Hausman, Jerry; Kuersteiner, Guido M.

### Kvassov, Dmitry

**TI** Barter For Price Discrimination? **AU** Guriev, Sergei; Kvassov, Dmitry.

### Kyriazidou, Ekaterini

**TI** Credit Constraints in the Market for Consumer Durables: Evidence from Micro Data on Car Loans. **AU** Attanasio, Orazio P.; Goldberg, Pinelopi K.; Kyriazidou, Ekaterini.

### La Ferrara, Eliana

**TI** The Determinants of Trust. **AU** Alesina, Alberto; La Ferrara, Eliana.

### La Porta, Rafael

**PD** March 2000. **TI** Government Ownership of Banks. **AU** La Porta, Rafael; Shleifer, Andrei; Lopez-de-Silanes, Florencio. **AA** Harvard University and NBER.

**SR** National Bureau of Economic Research Working Paper: 7620; 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** G21, L32, O11. **KW** Public Ownership. Banks.

**AB** In this paper, we investigate a neglected aspect of financial systems of many countries around the world: government ownership of banks. We assemble data which establish four findings. First, government ownership of banks is large and pervasive around the world. Second, such ownership is particularly significant in countries with low levels of per capita income, underdeveloped financial systems, interventionist and inefficient governments, and poor protection of property rights. Third, government ownership of banks is associated with slower subsequent financial development. Finally, government ownership of banks is associated with lower subsequent growth of per capita income, and in particular with lower growth of productivity rather than slower factor accumulation. This evidence is inconsistent with the optimistic "development" theories of government ownership of banks common in the 1960s, but supports the more recent "political" theories of the effects of government ownership of firms.

**PD** December 1999. **TI** Investor Protection: Origins, Consequences, Reform. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert. **AA** La Porta, Lopez-de-Silanes, and Shleifer: Harvard University and NBER. Vishny: University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 7428; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** \$5.00. **JE** G21, G28, G32. **KW** Investor Protection. Legal Protection. Property Rights. Corporate Governance.

**AB** Recent research has documented large differences between countries in ownership concentration in publicly traded firms, in the breadth and depth of capital markets, in dividend policies, and in the access of firms to external finance. We suggest that there is a common element to the explanations of these differences, namely how well investors, both shareholders and creditors, are protected by law from expropriation by the managers and controlling shareholders of firms. We describe the differences in laws and the effectiveness of their enforcement across countries, discuss the possible origins of these differences, summarize their consequences, and assess potential strategies of corporate governance reform. We argue that the legal approach is a more fruitful way to understand corporate governance and its reform than the conventional distinction between bank-centered and market-centered financial systems.

### Lach, Saul

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

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

### Lalive, Rafael

**TI** The Impact of Active Labor Market Policies and Benefit Entitlement Rules on the Duration of Unemployment. **AU** van Ours, Jan C.; Zweimuller, Josef; Lalive, Rafael.

**Lambrecht, Stephane**

**PD** November 2001. **TI** Public Pensions and Growth. **AU** Lambrecht, Stephane; Michel, Philippe; Vidal, Jean-Pierre. **AA** Lambrecht: GREMARS, University of Lille. Michel: Institut Universitaire de France, GREQAM, and University of Aix-Marseille. Detken: European Central Bank. **SR** European Central Bank Working Paper: 90; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 23. **PR** no charge. **JE** D91, H55, I21. **KW** Public Pension. Education. Growth.

**AB** This paper investigates the relationship between the size of an unfunded public pension system and economic growth in an overlapping generation economy, in which altruistic parents finance the education of their children and leave bequests. Unlike the existing literature, we model intergenerational altruism by assuming that children's income during adulthood is an argument of parental utility. Unfunded public pensions can promote growth when families face liquidity constraints preventing them from investing optimally in the education of their children. We consider two alternative ways of financing a public pension system, either by levying social contributions in a lump-sum manner or in proportion to labor income. We find that there is no case for unfunded public pensions in economies where bequests are operative. By contrast, there exists a growth-maximizing size of the public pension system in economies where bequests are not operative and individuals are sufficiently patient.

**Lang, William**

**TI** Recovering Risky Technologies Using the Almost Ideal Demand System: An Application to U.S. Banking. **AU** Hughes, Joseph P.; Lang, William; Mester, Loretta J.; Moon, Choon-Geol.

**Lavy, Victor**

**TI** New Evidence on Classroom Computers and Pupil Learning. **AU** Angrist, Joshua; Lavy, Victor.

**Laxton, Douglas**

**TI** Inflation Targeting with NAIRU Uncertainty and Endogenous Policy Credibility. **AU** Isard, Peter; Laxton, Douglas; Eliasson, Ann-Charlotte.

**TI** The Macroeconomic Effects of Higher Oil Prices. **AU** Hunt, Benjamin; Isard, Peter; Laxton, Douglas.

**Lazear, Edward P.**

**PD** November 1999. **TI** Output-Based Pay: Incentives or Sorting? **AA** Stanford University and NBER. **SR** National Bureau of Economic Research Working Paper: 7419; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 34. **PR** \$5.00. **JE** J32, J33, M12. **KW** Variable Pay. Management Incentives.

**AB** Variable pay, defined as pay that is tied to some measure of a firm's output, has become more important for executives of the typical American firm. Variable pay is usually touted as a way to provide incentives to managers whose interests may not be perfectly aligned with those of owners. Managers and industry specialists may have information about a firm's prospects that is unavailable to outside investors. In order to induce managers to be truthful about prospects, owners may

require managers to "put their money where their mouths are," forcing them to extract some of their compensation in the form of variable pay. The selection or sorting explanation is consistent with the low elasticities of pay to output that are commonly observed, with the fact that the elasticity is higher in small and new firms, and with the fact that variable pay is more prevalent in industries with very technical production technologies. It does not explain why some firms give stock options even to very low-level workers.

**Leaver, Clare**

**PD** May 2000. **TI** Passive Industry Interests in a Large Polity: A Large Poisson Game Approach to Endogenous Lobby Formation. **AU** Leaver, Clare; Makris, Miltos. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/21; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 40. **PR** no charge. **JE** D72. **KW** Lobbying. Collective Action. Common Agency. Large Poisson Games.

**AB** This paper offers a theory of lobby formation that is consistent with passive industry groups. The focus is on the variable "political influence" costs associated with direct transfers and the decision to contribute towards these costs in a large polity. Modeling the latter decision as a Large Poisson Game, it is shown that it can never be an equilibrium for more than one lobby to attempt to solicit policy favors. Rather, a single group that does not oppose the legislator's prior preference dominates the policy process. Direct corollaries are that "money never changes hands" and lobbying is purely counteractive.

**PD** June 2001. **TI** Squawk and Capture: Influencing Appointed Regulators. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/32; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 31. **PR** no charge. **JE** D72, D73, J45. **KW** Regulatory Capture. Minimal Squawk Behavior. Career Concerns. Tenure Length.

**AB** A regulator appointed on a finite contract has an incentive to signal her worth to the job market. This paper shows that, if her tenure is sufficiently short, a regulated firm can exploit this incentive to secure policy favors. The firm captures its regulator by encouraging her to engage in "minimal squawk" behavior (Hilton, 1972). Specifically, it reveals the quality of unfavorable decisions, aware that the regulator will set favorable policies more often to keep it silent and her professional reputation intact. Further results suggest that capture may be limited by explicit incentive schemes and changes in the regulatory pool.

**Leduc, Sylvain**

**PD** 2000. **TI** Incomplete Markets, Borrowing Constraints, and the Foreign Exchange Risk Premium. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/03; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 22.

**PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** F31, F41, G12. **KW** Currency Speculation. Risk Premium. Borrowing Constraints.

**AB** A large body of literature documents that returns from currency speculation are highly volatile and possess a predictable component, which is itself highly volatile and serially correlated. Explaining the returns from currency speculation through the presence of a risk premium has proven difficult, however. In particular, models with complete markets and time-separable preferences generate risk premium that are nearly constant. This paper solves a model consisting of two monetary economies with incomplete markets, in which agents are subject to borrowing constraints. The paper investigates if such a framework is able to account for the volatility and the size of the foreign exchange risk premium. The model succeeds in increasing substantially the volatility of the risk premium to about 40 percent of that in the data. However, this more volatile risk premium does not translate into sufficiently large predictable excess returns. It thus appears unlikely that excess returns from currency speculation can be uniquely explained by a time-varying risk premium in an incomplete-markets economy with borrowing constraints.

**PD** 2000. **TI** Exchange-Rate Puzzles in a Model with Arbitrage. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/11; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 32. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** F11, F31, F33, F41. **KW** Exchange Rates. Liquidity Model.

**AB** This paper documents the implications of arbitrage costs on the behavior of exchange rates in an open-economy liquidity model. The main motivation behind the paper is the growing evidence that the well-documented departures from purchasing power parity are due to a failure of the law of one price. The paper quantifies the importance of arbitrage costs for the variability, persistence, and autocorrelation of real and nominal exchange rates and compares the results with those of a model with nominal rigidities and firms pricing to market; Second the paper studies the impact of currency risk due to the failure of the law of one price on uncovered interest parity.

**PD** July 2001. **TI** A Quantitative Analysis of Oil-Price Shocks, Systematic Monetary Policy, and Economic Downturns. **AU** Leduc, Sylvain; Sill, Keith. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/09; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 17. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** E32, E52, Q32. **KW** Oil Price Shocks. Monetary Policy.

**AB** Are the recessionary consequences of oil-price shocks due to oil-price shocks themselves or to contractionary monetary policies that arise in response to inflation concerns engendered by rising oil prices? Can systematic monetary policy be used to alleviate the consequences of oil shocks on the economy? This paper builds a dynamic general equilibrium

model of monopolistic competition in which oil and money matter to study these questions. The economy's response to oil-price shocks is examined under a variety of monetary policy rules in environments with flexible and sticky prices. We find that easy-inflation policies amplify the negative output response to positive oil shocks and that systematic money policy accounts for up to two thirds of the fall in output. On the other hand, we show that a monetary policy that targets the (overall) price level substantially alleviates the impact of oil-price shocks.

**TI** A Quantitative Welfare Analysis of the Trade-Off Between the Current Regime and Macroeconomic Stabilization. **AU** Dedola, Luca; Leduc, Sylvain.

### Lee, David S.

**PD** April 2001. **TI** The Electoral Advantage to Incumbency and Voters' Valuation of Politicians' Experience: A Regression Discontinuity Analysis of Close Elections. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 31; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 24. **PR** no charge. **JE** C93, D71, D72. **KW** Incumbency Advantage. Elections. House of Representatives.

**AB** Using data on elections to the United States House of Representatives (1946-1998), this paper exploits a quasi-experiment generated by the electoral system in order to determine if political incumbency provides an electoral advantage -- an implicit first-order prediction of most principal-agent theories of politician and voter behavior. Candidates who just barely won an election (barely became the incumbent) are likely to be ex ante comparable in all other ways to candidates who barely lost, and so their differential electoral outcomes in the next election should represent a true incumbency advantage. The regression discontinuity analysis provides evidence that incumbency has a significant causal effect of raising the probability of subsequent electoral success -- by about 0.40 to 0.45. Simulation -- using estimates from a structural model of individual voting behavior -- imply that about two-thirds of the apparent electoral success of incumbents can be attributed to voters' valuation of politicians' experience. The quasi-experimental analysis also suggest that heuristic "fixed effects" and "instrumental variable" modeling approaches would have led to misleading inferences in this context.

**TI** The Impact of Unionization on Establishment Closure: A Regression Discontinuity Analysis of Representation Elections. **AU** DiNardo, John; Lee, David S.

**PD** March 2002. **TI** Are Politicians Accountable to Voters? Evidence from U.S. House Roll Call Voting Records. **AU** Lee, David S.; Moretti, Enrico; Butler, Matthew J. **AA** Lee: UC Berkeley and NBER. Moretti: UCLA. Butler: UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 50; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 35. **PR** no charge. **JE** D71, D72. **KW** Median Voter. Democratic Vote Share. House Of Representatives.

**AB** To what extent is the median voter theorem empirically

relevant for the political economy of the United States? We assess the empirical relevance of the median voter theorem -- and quantify any departures from the theory's predictions -- in the context of roll call voting patterns among members of the U.S. House of Representatives. We exploit a regression discontinuity design inherent in the electoral system in order to account for unobservable voter preferences and omitted determinants of politicians' behavior. Our empirical results reject the most extreme form of the median voter theorem, and a surprising fact emerges: there is virtually no correlation between the liberalness of a Representative's voting record and the Democratic vote share. The evidence on roll call votes is neither consistent with strong nor weak accountability, suggesting that evidence of politician accountability would more likely be found in analyses of different aspects of politicians' actions.

**PD** March 2002. **TI** Trimming for Bounds on Treatment Effects with Missing Outcomes. **AA** UC Berkeley and NBER. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 51; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 12. **PR** no charge. **JE** C13, C24, C34. **KW** Missing Outcomes. Treatment Effects.

**AB** Even if there is perfect compliance of a treatment that is randomly assigned, identification of average treatment effects in not straightforward when outcome data are missing in a non-random way. There already exist simple procedures that assume bounded support of the outcome in order to generate bounds of the effects. These procedures suggest that when the outcome has unbounded (or very large support), narrower bounds must necessarily rely on further stochastic restrictions. This paper describes how imposing a monotonicity restriction on the censored sample selection process permits a bounding analysis of treatment effects with missing outcomes, when the outcome has unbounded support. The model implies that a simpler and intuitive trimming procedure will yield the tightest bounds (given the model) on treatment effects that are consistent with the observed data. The inclusion of baseline covariates in the analysis tightens the bounds further.

### Lee, Young

**TI** Do Taxes Affect Corporate Debt Policy? Evidence From U.S. Corporate Tax Return Data. **AU** Gordon, Roger H.; Lee, Young.

### Lemieux, Thomas

**TI** Did Draft Avoidance Raise College Attendance During the Vietnam War? **AU** Card, David; Lemieux, Thomas.

### Leonard, Jonathan S.

**TI** Do Industrial Relations Affect Plant Performance? The Case of Commercial Aircraft Manufacturing. **AU** Kleiner, Morris M.; Leonard, Jonathan S.; Pilarski, Adam M.

### Leone, Alfredo M.

**TI** Inflation Targeting in the Context of IMF-Supported Adjustment Programs. **AU** Blejer, Mario I.; Leone, Alfredo M.; Rabanal, Pau; Schwartz, Gerd.

### Levin, Andrew

**PD** July 2001. **TI** The Performance of Forecast-Based Monetary Policy Rules Under Model Uncertainty. **AU** Levin, Andrew; Wieland, Volker; Williams, John C. **AA** Levin and Williams: Federal Reserve Board. Wieland: Goethe University and European Central Bank. **SR** European Central Bank Working Paper: 68; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 55. **PR** no charge. **JE** E31, E52, E58, E61. **KW** Inflation Forecast Targeting. Optimal Monetary Policy.

**AB** We investigate the performance of forecast-based monetary policy rules using five macroeconomic models that reflect a wide range of views on aggregate dynamics. We identify the key characteristics of rules that are robust to model uncertainty: such rules respond to the one-year ahead inflation forecast and to the current output gap, and incorporate a substantial degree of policy inertia. In contrast, rules with longer forecast horizons are less robust and are prone to generating indeterminacy. In light of these results, we identify a robust benchmark rule that performs very well in all five models over a wide range of policy preferences.

**TI** Data Uncertainty and the Role of Money as an Information Variable for Monetary Policy. **AU** Coenen, Gunter; Levin, Andrew; Wieland, Volker.

### Levin, Jonathan

**TI** The Value of Information in Monotone Decision Problems. **AU** Athey, Susan; Levin, Jonathan.

**TI** Information and Competition in U.S. Forest Service Timber Auctions. **AU** Athey, Susan; Levin, Jonathan.

### Levinsohn, James A.

**TI** Merger Policies and Trade Liberalization. **AU** Horn, Henrik; Levinsohn, James A.

### Levinson, Arik

**TI** Reexamining the Empirical Evidence for an Environmental Kuznets Curve. **AU** Harbaugh, William; Wilson, David; Levinson, Arik.

### Levy, Frank

**TI** The Skill Content of Recent Technological Change: An Empirical Exploration. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J.

### Levy, Joaquim

**TI** Euro-Area Banking at the Crossroads. **AU** Belaisch, Agnes; Kodres, Laura; Levy, Joaquim; Ubide, Angel.

### Lewellen, Jonathan

**PD** May 2000. **TI** Estimation Risk, Market Efficiency, and the Predictability of Returns. **AU** Lewellen, Jonathan; Shanken, Jay. **AA** Lewellen: MIT. Shanken: University of Rochester and NBER. **SR** National Bureau of Economic Research Working Paper: 7699; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 45. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** C11, D83, G12, G14. **KW** Estimation Risk. Asset Pricing. Mispricing Assets. Volatility Bounds. Market Efficiency.

**AB** In asset pricing, estimation risk refers to investor uncertainty about the parameters of the return or cashflow process. We show that with estimation risk the observable properties of prices and returns can differ significantly from the properties perceived by rational investors. In particular, parameter uncertainty will tend to induce return predictability in ways that resemble irrational mispricing, and prices can violate familiar volatility bounds when investors are rational. Cross-sectionally, expected returns deviate from the CAPM even if investors attempt to hold mean-variance efficient portfolios, and these deviations can be predictable based on past dividends and prices. In short, estimation risk can be important for characterizing and testing market efficiency.

**Li, Xiaowei**

**PD** March 2001. **TI** Mortgage Market Development, Savings, and Growth. **AA** Stanford University. **SR** International Monetary Fund Working Paper: WP/01/36; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 26. **PR** not available. **JE** E21, E44. **KW** Middle East. Mortgage. Savings. Growth.

**AB** Jappelli and Pagano (1994) argue that tightening the borrowing constraints in the mortgage markets promotes savings. Employing a six- period overlapping generations model with endogenous growth and a method of simulation calibrated on the Middle East, this paper demonstrates that the above argument is tenable only if consumers do not alter their tenure choices. Consumers do, however, postpone or forsake the purchase of a house under severely restrictive borrowing constraints, causing the savings and growth rates to fall. Therefore, for countries with scarce mortgage availability like those in the Middle East, expanding the mortgage markets to some extent is conducive to savings and growth.

**Lieberman, Offer**

**PD** April 2001. **TI** Second Order Expansions for the Distribution of the Maximum Likelihood Estimator of the Fractional Difference Parameter. **AU** Lieberman, Offer; Phillips, Peter C. B. **AA** Lieberman: Technion-Israel Institute of Technology. Phillips: Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1308; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: cowles.econ.yale.edu/. **PG** 14. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C22, C32. **KW** ARFIMA. Edgeworth Expansion. Fractional Differencing. Pivotal Statistic.

**AB** The maximum likelihood estimator (MLE) of the fractional difference parameter in the Gaussian ARFIMA(0,d,0) model is well known to be asymptotically  $N(0,6/\pi^2)$ . This paper develops a second order asymptotic expansion to the distribution of this statistic. The correction term for the density is shown to be independent of d, so that the MLE is second order pivotal for d. This feature of the MLE is unusual, at least in time series contexts. Simulations show that the normal approximation is poor and that the expansions make significant improvements in accuracy.

**Lindbeck, Assar**

**PD** June 2000. **TI** Pensions and Contemporary Socioeconomic Change. **AA** Stockholm University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7770; 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** H55. **KW** Pensions. Social Security.

**AB** The paper discusses the consequences for the functioning of different pension systems of various types of socioeconomic changes, mainly demographic developments, variations in productivity growth and changes in real interest rates. Two of the pension systems have exogenous and four have endogenous contribution rates. It analyzes both marginal and radical pension reforms for the purpose of making pension systems more stable, avoiding arbitrary redistributions between generations and dealing with increased heterogeneity of the population in terms of family structure and international mobility. The advantages of combining PAYGO and actuarially fair systems are described.

**Linton, Oliver**

**TI** Nonparametric Estimation of a Multifactor Heath-Jarrow-Morton Model: An Integrated Approach. **AU** Jeffrey, Andrew; Linton, Oliver; Nguyen, Thong; Phillips, Peter C. B.

**Lipsey, Robert E.**

**PD** March 2000. **TI** Outward FDI and Parent Exports and Employment: Japan, the United States, and Sweden. **AU** Lipsey, Robert E.; Ramstetter, Eric D.; Blomstrom, Magnus. **AA** Lipsey: NBER and CUNY. Ramstetter: International Centre for the Study of East Asian Development, Japan. Blomstrom: European Institute of Japanese Studies, Stockholm School of Economics, and NBER. **SR** National Bureau of Economic Research Working Paper: 7623; 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** F14, F23, L23. **KW** FDI. Japan. USA. Sweden. Multinational Firms.

**AB** Within Japanese multinational firms, parent exports from Japan to a foreign region are positively related to production in that region by affiliates of that parent, given the parent's home production in Japan and the region's size and income level. This relationship is similar to that found for Swedish and U.S. multinationals in parallel studies. A Japanese parent's worldwide exports tend to be larger, relative to its output, the larger the firm's overseas production. In this respect also, Japanese firms resembled U.S. multinationals. A Japanese parent's employment, given the level of its production, tends to be higher, the greater the production abroad by the firm's foreign affiliates. Japanese firms' behavior in this respect is similar to that of Swedish firms, but contrasts with that of U.S. firms. U.S. firms appear to reduce employment at home, relative to production, by allocating labor- intensive parts of their production to affiliates in developing countries. Swedish firms seem to allocate the more capital-intensive parts of their production to their foreign affiliates, mostly in high- wage countries. We conclude that in Japanese firms, supervisory and ancillary employment at home to service foreign operations outweighs any allocation of labor-intensive production to developing countries.

**TI** FDI in the Restructuring of the Japanese Economy. **AU** Blomstrom, Magnus; Konan, Denise; Lipsey, Robert E.

**Liu, Jun**

**TI** Why Stocks May Disappoint. **AU** Ang, Andrew; Bekaert, Geert; Liu, Jun.

**Lo, Andrew W.**

**PD** March 2000. **TI** Foundations of Technical Analysis: Computational Algorithms, Statistical Inference, and Empirical Implementation. **AU** Lo, Andrew W.; Mamaysky, Harry; Wang, Jiang. **AA** Lo and Wang: MIT and NBER. Mamaysky: MIT. **SR** National Bureau of Economic Research Working Paper: 7613; 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** C14, G12, G14. **KW** Kernel Regression. Charting. Technical Analysis.

**AB** Technical analysis, also known as "charting", has been part of financial practice for many decades, but this discipline has not received the same level of academic scrutiny and acceptance as more traditional approaches such as fundamental analysis. One of the main obstacles is the highly subjective nature of technical analysis -- the presence of geometric shapes in historical price charts is often in the eyes of the beholder. In this paper, we propose a systematic and automatic approach to technical pattern recognition using nonparametric kernel regression, and apply this method to a large number of U.S. stocks from 1962 to 1996 to evaluate the effectiveness to technical analysis. By comparing the unconditional empirical distribution of daily stock returns to the conditional distribution -- conditioned on specific technical indicators such as head-and-shoulders or double-bottoms -- we find that over the 31-year sample period, several technical indicators do provide incremental information and may have some practical value.

**PD** March 2000. **TI** Trading Volume: Definitions, Data Analysis, and Implications of Portfolio Theory. **AU** Lo, Andrew W.; Wang, Jiang. **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7625; 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** G12, G14. **KW** Two Fund Separation. Portfolio Theory. Trading Volume.

**AB** We examine the implications of portfolio theory for the cross-sectional behavior of equity trading volume. Two-fund separation theorems suggest a natural definition for trading activity: share turnover. If two-fund separation holds, share turnover must be identical for all securities. If (K+1)-fund separation holds, we show that turnover satisfies an approximately linear K-factor structure. These implications are examined empirically using individual weekly turnover data the NYSE and AMEX securities from 1962 to 1996. We find strong evidence against two-fund separation, and a principal-components decomposition suggests that turnover is well approximated by a two-factor linear model.

**Locarno, Alberto**

**TI** The Sources of Unemployment Fluctuations: An Empirical Application to the Italian Case. **AU** Fabiani, Silvia; Locarno, Alberto; Oneto, Giampaolo; Sestito, Paolo.

**TI** Monetary Policy Transmission in the Euro Area: What do Aggregate and National Structural Models Tell Us? **AU** Van Els, Peter; Locarno, Alberto; Morgan, Julian; Villetelle, Jean-Pierre.

**Lommerud, Kjell Erik**

**PD** February 2000. **TI** Mommy Tracks and Public Policy: On Self-Fulfilling Prophecies and Gender Gaps in Promotion.

**AU** Lommerud, Kjell Erik; Vagstad, Steinar. **AA** Lommerud: University of Bergen and CEPR. Vagstad: University of Bergen. **SR** CEPR Discussion Paper: 2378; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, \$8 or 8 euros. **JE** D13, J16, J22, J71. **KW** Self-Fulfilling Prophecies. Gender Discrimination. Promotion.

**AB** Consider a model with two types of jobs. The profitability of promoting a worker to a fast-track job depends not only on his or her observable talent, but also on incontractible effort. We investigate whether self-fulfilling expectations may lead to women meeting tougher promotion standards than men. If employers expect women to do more household work than men and by that exert less effort in the paid job, the more talented she must be to make promotion profitable. Moreover, specialization in the family will then make women do most of the household work. Such self-fulfilling prophecies can be broken: Both affirmative action and family policy can make women spend more effort in the market, which can lead the economy to a non-discriminatory equilibrium. However, we find that it is unlikely that temporary policy can move the economy to a symmetric equilibrium; policy must be made permanent. Anti-discrimination policy need not enhance efficiency, and from a distribution viewpoint this is a policy with both winners and losers.

**Lopez-de-Silanes, Florencio**

**TI** Government Ownership of Banks. **AU** La Porta, Rafael; Shleifer, Andrei; Lopez-de-Silanes, Florencio.

**TI** Investor Protection: Origins, Consequences, Reform. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert.

**Loss, Frederic**

**TI** Competition Policy and Agreements Between Firms. **AU** Berges-Sennou, Fabian; Loss, Frederic; Malavolti, Estelle; Verge, Thibaud.

**Lutz, Stefan**

**PD** February 2000. **TI** Skills, Labor Costs and Vertically Differentiated Industries: A General Equilibrium Analysis. **AU** Lutz, Stefan; Turrini, Alessandro. **AA** Lutz: Purdue University. Turrini: Universita di Bergamo, CEPR, and Centro Studi Luca d'Agliano. **SR** CEPR Discussion Paper: 2373; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 28. **PR** 5 pounds, \$8 or 8 euros. **JE** D43, D58, F23, J22, J23, L11, L13. **KW** Vertical Trade. Intra-Industry Trade. Quality Differentiation. Skills. Productivity. Labor Cost.

**AB** The effect of labor costs on industry profits, employment and labor income is at the heart of the current European debate on industry competitiveness. High wages paid in European countries such as Germany are generally considered harmful for industry profitability. Although, high wages also appear to be associated with high labor skills and then with superior product quality. In this paper we analyze the trade-off between labor costs and industry profits by means of a simple general equilibrium model where one industry is oligopolistic and vertically differentiated. The manufacturing of products of a higher quality requires the employment of a larger amount of skilled labor. Given an underlying skills distribution, the model

determines profits, wages and aggregate income and welfare. Results show that high net wages due to a low skills endowment in the economy are typically associated with low profits. Labor taxation unambiguously raises gross wages, but has little effect on net wages. Depending on how the tax revenue is redistributed, higher taxation may either depress or boost industry profits.

### MacDonald, Ronald

**PD** March 2001. **TI** PPP and the Balassa Samuelson Effect: The Role of the Distribution Sector. **AU** MacDonald, Ronald; Ricci, Luca. **AA** MacDonald: University of Strathclyde. Ricci: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/38; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 39. **PR** not available. **JE** C33, F31. **KW** Exchange Rates. Purchasing Power Parity. Balassa-Samuelson. Distribution Sector. PPP Puzzle.

**AB** This paper investigates the impact of the distribution sector on the real exchange rate, controlling for the Balassa-Samuelson effect, as well as other macro variables. Long-run coefficients are estimated using a panel dynamic OLS estimator. The main result is that an increase in the productivity and competitiveness of the distribution sector with respect to foreign countries leads to an appreciation of the real exchange rate, similarly to what a relative increase in the domestic productivity of tradables does. This contrasts with the result that one would expect by considering the distribution sector as belonging to the non-tradable sector. One explanation may lie in the use of the services from the distribution sector in the tradable sector. Our results also contribute to explaining the so-called PPP puzzle.

### Machin, Stephen

**TI** Changes in Intergenerational Mobility in Britain. **AU** Blanden, Jo; Goodman, Alissa; Gregg, Paul; Machin, Stephen.

### Macho-Stadler, Ines

**TI** Comparing Organizational Structures in Health Services. **AU** Jelovac, Izabela; Macho-Stadler, Ines.

### Maeso-Fernandez, Francisco

**PD** November 2001. **TI** Determinants of the Euro Real Effective Exchange Rate: A BEER/PEER Approach. **AU** Maeso-Fernandez, Francisco; Osbat, Chiara; Schnatz, Bernd. **AA** European Central Bank. **SR** European Central Bank Working Paper: 85; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 34. **PR** no charge. **JE** F31, F32. **KW** Euro. Equilibrium Exchange Rates. Cointegration Analysis. Gonzalo-Granger Decomposition. Fundamentals. BEER. PEER.

**AB** This paper presents an empirical analysis of the medium-term determinants of the euro effective exchange rate. The empirical analysis builds on synthetic quarterly data from 1975 to 1998, and derives a Behavioral Equilibrium Exchange Rate (BEER) and a Permanent Equilibrium Exchange Rate (PEER). Four different model specifications are retained, due to the difficulties encountered in specifying an encompassing model. Results indicate that differentials in real interest rates and productivity, and (in some specifications) the relative fiscal stance and the real price of oil, have a significant influence on

the euro effective exchange rate. Assessing the existence and the extent of the over- or undervaluation of the exchange rate is not straightforward, since these different specifications often lead to contrasting findings. However, all four models point unambiguously to the undervaluation of the euro in 2000, although the extent of this undervaluation largely depends on the specification chosen.

### Maggi, Giovanni

**TI** Work Environment and Individual Background: Explaining Regional Shirking Differentials in a Large Italian Firm. **AU** Ichino, Andrea; Maggi, Giovanni.

### Mairesse, Jacques

**PD** December 1999. **TI** Firm-Level Investment in France and the United-States: An Exploration of What We Have Learned in Twenty Years. **AU** Mairesse, Jacques; Mulkay, Benoit; Hall, Bronwyn H. **AA** Mairesse: INSEE, CREST and NBER. Mulkay: Universite des Antilles et de la Guyane and CEREGMIA. Hall: UC Berkeley, Nuffield College, IFS and NBER. **SR** National Bureau of Economic Research Working Paper: 7437; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 31. **PR** \$5.00. **JE** C33, E22, O32. **KW** Firm-Level Investment. France. USA.

**AB** Our two related goals in this paper are the following: Firstly and mainly, we want to examine the effects of major changes in modeling strategy and econometric methodology, over the past twenty years, on estimation of firm-level investment equations using panel data. Secondly, we try to assess whether the differences in the estimated investment equations, as between recent years and ten to twenty years ago in the French and U.S. Manufacturing industries, are "real" and economically meaningful. Thus our paper consists of series of comparisons: a simple accelerator-profit specification versus one with error correction, traditional between-and within-firm estimation versus GMM estimation, the investment behavior of French firms versus that of U.S. firms, and investment behavior in recent years versus ten to twenty years ago. Although the important econometric advances of the past twenty years have been far from being as successful as we had hoped for, we do find some significant improvement in the specification, estimation and interpretation of firm investment equations; we also find some real changes in the investment behavior of French and U.S. firms during these twenty years.

### Makris, Miltos

**TI** Passive Industry Interests in a Large Polity: A Large Poisson Game Approach to Endogenous Lobby Formation. **AU** Leaver, Clare; Makris, Miltos.

### Malavolti, Estelle

**TI** Competition Policy and Agreements Between Firms. **AU** Berges-Sennou, Fabian; Loss, Frederic; Malavolti, Estelle; Verge, Thibaud.

### Mamaysky, Harry

**TI** Foundations of Technical Analysis: Computational Algorithms, Statistical Inference, and Empirical Implementation. **AU** Lo, Andrew W.; Mamaysky, Harry; Wang, Jiang.

**Manacorda, Marco**

**PD** July 2000. **TI** The Evolution of Returns to Education in Italy, 1978-1992 Changing Institutions or Changing Supply and Demand? **AA** UC Berkeley and University College London. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 26; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: violet.berkeley.edu/~ir/cle/index.html. **PG** 25. **PR** no charge. **JE** J31, J51. **KW** Italy. SHIW. Scala Mobile. Wage Indexation. Returns to Education.

**AB** In this paper I use SHIW micro data between 1978 and 1992 to study changes in returns to education in Italy. I show that between 1977 and 1985 the average return to one extra year of education decreased by approximately 0.4 percentage points and it increased by approximately 0.6 percentage points in the following seven years. I analyze the role played by the Scala Mobile, a wage indexation mechanism reducing wage dispersion as prices rose. I show that the Scala Mobile was substantially responsible for the compression in returns to education between the late 1970s and the mid 1980s. If the Scala Mobile had not been curbed, the return to one extra year of education would have decreased by approximately 0.4 percentage points in 14 years, as opposed to an actual increase of 0.2 percentage points. Controlling explicitly for changes in the demand and supply of different educational labor inputs does not affect my basic conclusion.

**Mandler, Michael**

**PD** August 2001. **TI** Accessible Pareto-Improvements: Using Market Information to Reform Inefficiencies. **AA** Yale University and Royal Holloway College. **SR** Yale Cowles Foundation Discussion Paper: 1320; Yale University, Cowles Foundation Library, P.O. 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** D51, D61, F11, H11, H21, L51, P31, R13. **KW** Pareto Improvements. Transition Economics. International Trade. Rent Control. Deregulation.

**AB** We study Pareto improvements whose implementation require knowledge of only market prices and traded quantities, not utility and demand functions. Quantity stabilization gives agents the right to repeat the net trades they previously conducted, but requires policymakers to have records of those trades. While reasonable in some partial equilibrium contexts, such an assumption is implausible in general equilibrium. To diminish informational requirements further, we also consider price stabilization which holds constant the relative prices that consumers face. Although price stabilizations do not achieve first-best efficiency, they lead to Pareto-improvements and production efficiency. Moreover, the production efficiency advantage persists under price stabilization but not under quantity stabilization when some firms are not profit-maximizers; this difference can be critical in transition policies for planned economies. In addition to planning, we consider several other applications of quantity and price stabilization, both partial equilibrium and general equilibrium: removal of rent controls, deregulation of a cross-subsiding public utility, and the entry of autarkic economy into world trade.

**Manganelli, Simone**

**PD** August 2001. **TI** Value at Risk Models in Finance. **AU** Manganelli, Simone; Engle, Robert F. **AA** Manganelli:

European Central Bank. Engle: New York University and University of California, San Diego. **SR** European Central Bank Working Paper: 75; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 28. **PR** no charge. **JE** C22, G22. **KW** Value at Risk; CAViaR; Extreme Value Theory.

**AB** The main objective of this paper is to survey and evaluate the performance of the most popular univariate VaR methodologies, paying particular attention to their underlying assumptions and to their logical flaws. In the process, we show that the Historical Simulation method and its variants can be considered as special cases of the CAViaR framework developed by Engle and Manganelli (1999). We also provide two original methodological contributions. The first one introduces the extreme value theory into the CAViaR model. The second one concerns the estimation of the expected shortfall (the expected loss, given that the return exceeded the VaR) using a regression technique. The performance of the models surveyed in the paper is evaluated using a Monte Carlo simulation. We generate data using GARCH processes with different distributions and compare the estimated quantiles to the true ones. The results show that CAViaR models perform best with heavy-tailed DGP.

**Manna, Michele**

**TI** The Microstructure of the Euro Money Market. **AU** Hartmann, Philipp; Manna, Michele; Manzanares, Andres.

**Manski, Charles F.**

**PD** April 1999. **TI** Using Performance Standards to Evaluate Social Programs with Incomplete Outcome Data: General Issues and Application to a Higher Education Block Grant Program. **AU** Manski, Charles F.; Newman, John; Pepper, John, V. **AA** Manski: Northwestern University. Newman: World Bank. Pepper: University of Virginia. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/008; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www/bris.ac.uk/cmppo/publications.htm. **PG** 38. **PR** no charge. **JE** H43, H52. **KW** Performance Standards. Social Programs.

**AB** Agencies operating social programs often use performance standards to evaluate success in achieving outcomes of interest. An evaluation using a performance standard should specify not only the threshold to be used, but also the action to be taken if outcomes do not meet the threshold. Discussions of performance standards are often disappointingly vague about this critical matter. However, the idea usually seems to be that the threshold should be set equal to an outcome level thought achievable by some alternative, perhaps by a change in the management of the program being evaluated or perhaps with an entirely different program. Then a possible action is to replace the program being evaluated with the alternative. Evaluation using performance standards is clearly appealing in principle. The hard questions concern implementation. This paper examines two problems of outcome measurement that confront efforts to implement standards.

**Manuel, Victor**

**TI** Price Convergence During the EC Lifetime.



AU Gomez, Montuenga; Manuel, Victor.

**Manuelli, Rody**

TI Growth and Business Cycles. AU Jones, Larry; Manuelli, Rody; Siu, Henry.

**Manzanares, Andres**

TI The Microstructure of the Euro Money Market. AU Hartmann, Philipp; Manna, Michele; Manzanares, Andres.

**Marin Uribe, Pedro L.**

TI An Empirical Evaluation of the Determinants of Research Joint Venture Formation. AU Siotis, Georges; Hernan, Roberto; Marin Uribe, Pedro L.

**Markowitz, Sara**

TI The Impact of Maternal Alcohol and Illicit Drug Use on Children's Behavior Problems: Evidence from the Children of the National Longitudinal Survey of Youth. AU Chatterji, Pinka; Markowitz, Sara.

**Markusen, James R.**

PD May 2000. TI Foreign Direct Investments in Services and the Domestic Market for Expertise. AU Markusen, James R.; Rutherford, Thomas F.; Tarr, David. AA Markusen: University of Colorado at Boulder and NBER. Rutherford: University of Colorado at Boulder. Tarr: World Bank. SR National Bureau of Economic Research Working Paper: 7700; 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 F13, F23. KW Foreign Direct Investment. Managerial Services. Engineering Services. Expertise.

AB Producer services such as managerial and engineering consulting can provide domestic firms with the substantial benefits of specialized knowledge that would be costly in terms of both time and money for domestic firms to develop on their own. These intermediate services are often non-traded, or costly to trade, and are best transferred through foreign direct investment. This has important implications for public policy since policies that impact on foreign investment are often quite different from those that impact on trade in goods. We develop a model of these services in this paper. Results show that: (1) while imported services are partial-equilibrium substitutes for domestic skilled labor, they may be general-equilibrium complements, (2) imported services lead to differential productivity effects in final goods production so that, for example, the pattern of trade in goods can reverse when FDI is permitted, and (3) the optimal tax on FDI (which we do not advocate as a practical matter) is negative.

**Marmol, Francesc**

PD June 1997. TI On the Finite Sample Behaviour of the Durbin-Watson Test in the Presence of Nonsense Regressions. AU Marmol, Francesc; Reboredo, Juan Carlos. AA Marmol: Universidad Carlos III de Madrid. Reboredo: Universitat Autònoma de Barcelona. SR Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 379/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. PG 21.

PR no charge. JE C12, C15, C22. KW Spurious Relationships. Nonstationary Processes. Fractionally Integrated. Durbin-Watson Statistic. Monte Carlo.

AB It is a well-known fact that in linear regressions involving the levels of nonstationary fractionally integrated processes spuriously related, the Durbin-Watson statistic converges in probability to zero. In this paper, however, we prove using Monte Carlo experiments that the behavior of this statistic in finite samples could be completely different from the expected one in large samples. In particular, we show that, in the mean reverting case, i.e., when the memory parameters of the underlying series are less than one, this statistic converges to two if the innovations driving the series have moderate moving average parameters, and even to four when these parameters are large.

PD June 1997. TI Detecting Unbalanced Regressions Using the Durbin-Watson Test. AU Marmol, Francesc; Reboredo, Juan Carlos. AA Marmol: Universidad Carlos III de Madrid. Reboredo: Universitat Autònoma de Barcelona. SR Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 380/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. PG 39. PR no charge. JE C12, C15, C22, C32. KW Unbalanced Regressions. Nonstationary Processes. Fractionally Integrated. Durbin-Watson Statistic. Monte Carlo.

AB The aim of this paper is to provide a simulation-based analysis on the behavior of the Durbin-Watson statistic as a misspecification test against the presence of unbalanced regressions among nonstationary fractionally integrated processes. Theoretically, it is well-known that this statistic converges in probability to zero under this setup. In finite samples, however, from our Monte Carlo experiments it shows up a rather surprising behavior with respect to the expected asymptotic one. Particularly, in the mean reverting case, we show that the Durbin-Watson statistic tends to two or even to four in the presence of innovations terms with large moving average parameters, independently of the sample size.

**Marquez, Robert**

TI Flight to Quality or to Captivity: Information and Credit Allocation. AU Dell'Ariccia, Giovanni; Marquez, Robert.

**Martinez-Giralt, Xavier**

PD September 1997. TI Iceberg Transport Costs I. Monopoly. AU Martinez-Giralt, Xavier; Usategui, Jose M., III. AA Martinez-Giralt: Universitat Autònoma de Barcelona. Usategui: Universidad del País Vasco. SR Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 399/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. PG 18. PR no charge. JE D42, L12, R12. KW Spatial Competition. Iceberg Transport Costs. Monopoly. Pricing.

AB We present a model of spatial competition where transport costs are dependent on the price a monopolist sets in the market. Several specifications of the transport costs are modeled. We find that, in contrast with a standard Hotelling model, the monopolist decides to cover all the market regardless of both the reservation price and the size of the market in all cases but one.

**TI** Public and Private Provision of Health Care.  
**AU** Barros, Pedro P.; Martinez-Giralt, Xavier.

### Martinez-Pages, Jorge

**TI** Is There a Bank Lending Channel of Monetary Policy in Spain? **AU** Hernando, Ignacio; Martinez-Pages, Jorge.

### Masso, Jordi

**PD** March 1999. **TI** Maximal Domain of Preferences in the Division Problem. **AU** Masso, Jordi; Neme, Alejandro. **AA** Masso: Universitat Autònoma de Barcelona. Neme: Universidad Nacional de San Luis and CONICET. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 434/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 19. **PR** no charge. **JE** D61, D63, D71, D78. **KW** Strategy-Proofness. Single-Peakedness. Efficiency. Symmetry. Allocation.

**AB** The division problem consists of allocating an amount  $M$  of a perfectly divisible good among a group of  $n$  agents. Sprumont showed that, given  $M$ , if agents have single-peaked preferences over their shares, the uniform allocation rule is the unique strategy-proof, efficient, and anonymous rule. Ching and Serizawa extended this result by demonstrating that, when the rule depends not only on the preferences of the agents but also on the amount  $M$  to be allocated, the domain of single-plateaued preferences exhibits the properties of strategy-proofness, efficiency, and symmetry. We characterize the maximal domain for each value of  $M$  and  $n$  and show that it is larger than the set of single-plateaued preferences. In addition, we show that their intersection, as  $M$  varies from 0 to  $f$ , is precisely the domain of single-plateaued preferences, a result that implies that of Ching and Serizawa.

### Masson, Paul

**PD** March 2001. **TI** Monetary Union in West Africa: An Agency of Restraint for Fiscal Policies? **AU** Masson, Paul; Pattillo, Catherine. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/34; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** E58, E61, E62, F33. **KW** Monetary Union. West Africa. Fiscal Rules. Fiscal Discipline. ECOWAS.

**AB** Could a West African monetary union (either of the non-CFA countries, or all ECOWAS members) be an effective "agency of restraint" on fiscal policies? We discuss how monetary union could affect fiscal discipline and the arguments for explicit fiscal restraints considered in the European Monetary Union literature, and their applicability to West Africa. The empirical evidence, EMU literature, and CFA experience suggest that monetary union could create the temptation for fiscal profligacy through prospects of a bailout, or costs diluted through the membership. Thus, a West African monetary union could promote fiscal discipline only if the hands of the fiscal authorities are also tied by a strong set of fiscal restraints.

### Matovu, John M.

**TI** A Quest for Revenue and Tax Incidence in Uganda.  
**AU** Chen, Duanjie; Matovu, John M.; Reinikka, Ritva.

### Mauro, Paolo

**PD** February 2001. **TI** Physical Capital Adjustment within Spain: Long-Run and Short-Run Analysis. **AU** Mauro, Paolo; Spilimbergo, Antonio. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/17; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 17. **PR** not available. **JE** E22, E24, J24, J61. **KW** Regional Shocks. Capital Flows. Labor Movement.

**AB** This paper considers the adjustment of physical capital within a country in the long run and in the short run. It uses a unique data set on income, labor, human capital, and private and public physical capital in the Spanish regions over the past two decades. In the long run, the movement of physical capital is consistent with its estimated relative rates of return. In the short run, an adverse shock to a region results in a sharp drop in employment and a gradual decline of physical capital; the system returns to its initial capital/labor ratio after four years. The sharp drop in employment is consistent with the view that wages are rigid. The analysis of adjustment in the short run relies on a vector autoregression methodology in which shocks are identified as the interaction between oil prices and the share of manufacturing in a region's employment.

### Mazumder, Bhashkar

**PD** March 2001. **TI** Earnings Mobility in the US: A New Look at Intergenerational Inequality. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 34; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: violet.berkeley.edu/~ir/cle/index.html. **PG** 39. **PR** no charge. **JE** I32, J12, J62. **KW** Intergenerational Inequality. Mobility. Earnings Histories. Intergenerational Elasticity.

**AB** This study uses a new data set which merges the Social Security earnings histories of parents and children in the 1984 Survey of Income and Program Participation to measure the intergenerational elasticity in earnings in the United States. By using many more years of fathers' earnings than earlier studies, the intergenerational elasticity between fathers and sons is estimated to be 0.6 or higher implying significantly less mobility in the U.S. than previous research indicated. The elasticity in earnings between fathers and daughters is of a similar magnitude. The evidence also suggests that family income might have an even larger effect than parents' earnings on children's future labor market success. Intergenerational mobility is lower for families with low net worth, offering some empirical support for theoretical models that predict differences due to borrowing constraints. Some evidence of lower economic mobility among blacks is found but the results are not conclusive.

### McAdam, Peter

**PD** December 2001. **TI** The Monetary Transmission Mechanism at the Euro-Area Level: Issues and Results Using Structural Macroeconomic Models. **AU** McAdam, Peter; Morgan, Julian. **AA** European Central Bank. **SR** European Central Bank Working Paper: 93; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 39. **PR** no charge. **JE** C52, E52. **KW** Monetary Transmission Mechanism. Euro Area. Macro Models.

**AB** This paper addresses some of the issues faced by macroeconomic model builders in analyzing the monetary transmission mechanism. These include the sensitivity of the policy simulation results to changes in the monetary and fiscal policy rule and the introduction of forward-looking behavior in the model. To illustrate the importance of these issues the paper reports the results of variant monetary policy simulations at the euro-area level using the AWM and NiGEM models.

### McCrary, Justin

**PD** September 2001. **TI** Do Electoral Cycles in Police Hiring Really Help Us Estimate the Effect of Police on Crime? **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 35; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. **Website:** violet.berkeley.edu/~ir/cle/index.html. **PG** 12. **PR** no charge. **JE** D72, D73, K42. **KW** Police. Crime. Electoral Cycle.

**AB** This paper replicates a well-known article by Steven Levitt (AER, 1997). Levitt argues that an electoral cycle in police hiring generates exogenous variation in city police force size which may be used to estimate the causal effect of police on crime. I point out that a weighting error in Levitt's computer program led to incorrect inferences for the key results of his paper. Replication estimates using the correct (and intended) weighting scheme are all statistically insignificant at even the 10 percent level. In addition to correcting the weighting error, I present results based on a new mayoral election year indicator. This new measure suggests that the electoral cycle in police hiring is (moderately) stronger than reported in Levitt. However, two-stage least squares estimates using this new measure are even less precise than (correctly weighted) estimates using Levitt's original measure, despite the stronger first-stage relationship.

### McFadden, Daniel

**TI** Predictors of Mortality Among the Elderly. **AU** Hurd, Michael; Merrill, Angela; McFadden, Daniel.

### Mendoza, Enrique G.

**PD** June 2000. **TI** On the Instability of Variance Decompositions of the Real Exchange Rate Across Exchange-Rate-Regimes: Evidence from Mexico and the United States. **AA** Duke University and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7768; 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** F30, F41, G11. **KW** Exchange Rates. United States. Mexico.

**AB** Variance decompositions of the Mexico-United States real exchange rate are examined using monthly data on consumer prices and the nominal exchange rate for the period January, 1969 to February, 2000. The results show that the robust result found in industrial-country data that most of the variation of the real exchange rate is due to fluctuations in prices of tradable goods and nominal exchange rates holds only in periods in which Mexico was not under a regime of exchange-rate management. In periods in the sample in which Mexico had a managed exchange-rate regime, the variability of prices of non-tradable goods relative to tradable goods

accounts for up to 70 percent of the variability of the peso-dollar real exchange rate.

### Merrill, Angela

**TI** Predictors of Mortality Among the Elderly. **AU** Hurd, Michael; Merrill, Angela; McFadden, Daniel.

### Mester, Loretta J.

**TI** Are Scale Economies in Banking Elusive or Illusive? Evidence Obtained by Incorporating Capital Structure and Risk-Taking into Models of Bank Production. **AU** Hughes, Joseph P.; Mester, Loretta J.; Moon, Choon-Geol.

**TI** Recovering Risky Technologies Using the Almost Ideal Demand System: An Application to U.S. Banking. **AU** Hughes, Joseph P.; Lang, William; Mester, Loretta J.; Moon, Choon-Geol.

**PD** March 2001. **TI** Checking Accounts and Bank Monitoring. **AU** Mester, Loretta J.; Nakamura, Leonard I.; Renault, Micheline. **AA** Mester: Federal Reserve Bank of Philadelphia and University of Pennsylvania. Nakamura: Federal Reserve Bank of Philadelphia. Renault: Universite du Quebec a Montreal. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/03; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **Website:** www.phil.frb.org/econ/wps/index.html. **PG** 21. **PR** no charge except overseas airmail, \$3.00: checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** D82, G21. **KW** Checking Accounts. Bank Monitoring. Credit Ratings.

**AB** Do checking accounts help banks monitor borrowers? If they do, the rationale both for allowing regulated providers of liquidity to also make risky loans to commercial borrowers and for the government's providing deposit insurance becomes clearer. Using a unique set of data that includes monthly and annual information on small-business borrowers at an anonymous Canadian bank, we provide evidence that a bank has exclusive access to a continuous stream of borrower data that helps it to monitor the borrower, namely, the firm's checking account balances at the bank. In this paper, which to our knowledge is the first direct empirical test of the usefulness of checking account information in monitoring commercial borrowers, we provide "smoking gun" evidence that banks are special. We also provide detailed evidence of how a commercial bank uses this information to determine its credit ratings of borrowers and adjust the intensity of its monitoring activity.

**TI** Explaining the Dramatic Changes in Performance of U.S. Banks: Technological Change, Deregulation, and Dynamic Changes in Competition. **AU** Berger, Allen N.; Mester, Loretta J.

### Mestre, Ricardo

**TI** Alternative Measures of the NAIRU in the Euro Area: Estimates and Assessment. **AU** Fabiani, Silvia; Mestre, Ricardo.

**TI** An Area Wide Model (AWM) for the Euro Area. **AU** Fagan, Gabriel; Henry, Jerome; Mestre, Ricardo.

**TI** A Multi-Country Trend Indicator for Euro Area Inflation: Computation and Properties. **AU** Angelini, Elena; Henry, Jerome; Mestre, Ricardo.

**TI** Diffusion Index-Based Inflation Forecasts for the Euro Area. **AU** Angelini, Elena; Henry, Jerome; Mestre, Ricardo.

**TI** A System Approach for Measuring the Euro Area NAIRU. **AU** Fabiani, Silvia; Mestre, Ricardo.

#### **Metcalf, Paul**

**TI** Incentive Pay and Product Market Competition. **AU** Burgess, Simon; Metcalfe, Paul.

**TI** The Use of Incentive Schemes in the Public and Private Sectors: Evidence from British Establishments. **AU** Burgess, Simon; Metcalfe, Paul.

**TI** Incentives in Organisations: A Selective Overview of the Literature with Application to the Public Sector. **AU** Burgess, Simon; Metcalfe, Paul.

#### **Michel, Philippe**

**TI** Public Pensions and Growth. **AU** Lambrecht, Stephane; Michel, Philippe; Vidal, Jean-Pierre.

#### **Midelfart Knarvik, Karen-Helene**

**PD** May 2000. **TI** Vertical Industry Linkages: Sources of Productivity Gains and Cumulative Causation. **AU** Midelfart Knarvik, Karen-Helene; Steen, Frode. **AA** Midelfart Knarvik: Norwegian School of Economics and Business Administration and Centre for Economic Policy Research. Steen: Norwegian School of Economics and Business Administration. **SR** CEPR Discussion Paper: 2467; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** L80, O40, R10. **KW** External Economies of Scale. Industrial Agglomeration. Productivity Growth.

**AB** In this paper we analyze vertical industry linkages, and the extent to which these work as channels for externalities. First, we test for activity-based externalities stemming from output growth and output level in vertically linked industries. Second, we aim at revealing the importance of a large home market for upstream industries. Eventually, by comparing results on localized inter-industry externalities and on the impact of local sales, we try to identify to what extent the geographical agglomeration of an industry is self-reinforcing. A number of Norwegian maritime transport and services sectors are analyzed. The results are promising in the sense that the model distinguishes empirically between different sources of externalities, and unveils which vertical linkages that give rise to endogenous agglomeration.

#### **Miguel, Edward**

**PD** December 2000. **TI** Ethnic Diversity and School Funding in Kenya. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 29; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 31. **PR** no charge. **JE** H41, I21, O15. **KW** Local Public Goods. Ethnic Diversity. Social Capital. Education. Kenya. Africa.

**AB** The impact of ethnic diversity on the provision of local public goods and collective action in Africa remains largely unexplored. To address this gap, this paper explores the relationship between ethnic diversity and local primary school

funding in rural western Kenya. The econometric identification strategy relies on the stable, historically determined patterns of ethnic land settlement in western Kenya. The main empirical result is that higher levels of local ethnic diversity is associated with sharply lower primary school funding and worse school facilities in western Kenya. The theory examines school choice and funding decisions when pupil mobility among schools is limited by land market imperfections and ethnic divisions, the relevant case for rural Africa, and predicts that local pupil transfers may lead to upward bias in OLS estimates of the impact of ethnic diversity. This theoretical prediction is confirmed in the data.

**PD** July 2001. **TI** Worms: Education and Health Externalities in Kenya. **AU** Miguel, Edward; Kremer, Michael. **AA** Miguel: UC Berkeley. Kremer: Harvard University. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 40; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 44. **PR** no charge. **JE** I12, I21, I31, I38. **KW** Education. Intestinal Worms. Externalities.

**AB** Intestinal helminths -- including hookworm, roundworm, schistosomiasis, and whipworm -- infect more than one-quarter of the world's population. A randomized evaluation of a project in Kenya suggests that school-based mass treatment with de-worming drugs reduced school absenteeism in treatment schools by one quarter. Gains are especially large among the youngest children. De-worming is found to be cheaper than alternative ways of boosting school participation. By reducing disease transmission, de-worming creates substantial externality health and school participation benefits among untreated children in the treatment schools and among children in neighboring schools. These externalities are large enough to justify fully subsidizing treatment. We do not find evidence that de-worming improves academic test scores. Existing experimental studies, in which treatment is randomized among individuals in the same school, find small and insignificant de-worming treatment effects on education; however, these studies underestimate true treatment effects if de-worming creates positive externalities for the control group and reduce reduces treatment group attrition.

#### **Miles, David K.**

**PD** February 2000. **TI** Funded and Unfunded Pensions: Risk, Return and Welfare. **AA** Imperial College and CEPR. **SR** CEPR Discussion Paper: 2369; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 44. **PR** 5 pounds, \$8 or 8 euros. **JE** D91, G22, H55, J14. **KW** Pensions. Annuities. Risk-Sharing.

**AB** This paper uses stochastic simulations on calibrated models to assess the optimal degree of reliance on funded pensions and on a particular type of unfunded (PAYG) pension. Surprisingly little is known about the optimal split between funded and unfunded systems when there are sources of uninsurable risk that are allocated in different ways by different types of pension system. This paper calculates the expected welfare of agents in different economies where in the steady state the importance of PAYG pensions differs. We estimate how the optimal level of unfunded, state pensions depends on rate of return and income risks and also upon the actuarial

fairness of annuity contracts.

### Milesi-Ferretti, Gian Maria

**PD** February 2001. **TI** Electoral Systems and Public Spending. **AU** Milesi-Ferretti, Gian Maria; Perotti, Roberto; Rostagno, Massimo. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/22; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 44. **PR** not available. **JE** H11, H55. **KW** Electoral Rules. Proportionality. Public Spending. Transfers.

**AB** We study the effects of electoral institutions on the size and composition of public expenditure in OECD and Latin American countries. We present a model emphasizing the distinction between purchases of goods and services, which are easier to target geographically, and transfers, which are easier to target across social groups. Voters have an incentive to elect representatives more prone to transfer spending in proportional systems. The model also predicts higher primary spending in proportional systems when the share of transfer spending is high. After defining rigorous measures of proportionality, we find considerable empirical support for our predictions.

### Miller, Douglas

**TI** Public Policy and Extended Families: Evidence from South Africa. **AU** Bertrand, Marianne; Mullainathan, Sendhil; Miller, Douglas.

### Miravete, Eugenio J.

**PD** July 1997. **TI** Time-Consistent Protection with Learning by Doing. **AA** INSEAD and Institut d'Anàlisi Econòmica, CSIC. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 395/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 24. **PR** no charge. **JE** C73, F12, F13, L12. **KW** Infant Industry. Time Consistency. Infinite Horizon. Markov Perfect Equilibria. Tariffs.

**AB** This paper studies whether it is possible to characterize an optimal, time-consistent tariff to protect an infant-industry in the presence of learning effects. A domestic monopolist decides how much to produce, taking into account learning effects induced by its current production, while the government decides on the level of tariff protection. In order to ensure time consistency and characterize the optimal policy, I solve the case where learning leads to lower fixed costs. Assuming that domestic and foreign products are imperfect substitutes for each other, I use a complete linear demand system to represent domestic consumers' preferences. The analytic Markov Perfect Equilibria of this game are derived by solving a linear-quadratic differential game. Tariff protection of an infant-industry will eventually lead to future liberalization of trade, which arises as an equilibrium feature of the time-consistent equilibrium strategies.

### Mishkin, Frederic S.

**PD** March 2000. **TI** Monetary Policy Strategies for Latin America. **AU** Mishkin, Frederic S.; Savastano, Miguel A. **AA** Mishkin: Columbia University and NBER. Savastano: International Monetary Fund. **SR** National Bureau of Economic Research Working Paper: 7617; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: www.nber.org. **PG** 59. **PR** \$10.00 per

copy (plus \$10.00 per order for shipping outside U.S.). **JE** E52, F41, O54. **KW** Latin America. Constraining Discretion. Monetary Policy.

**AB** The paper examines possible monetary policy strategies for Latin America that may help lock-in the gains in the fight against inflation attained by the region during the 1990s. We start by calling for a refocus of the debate about the conduct of monetary policy away from thinking that it is about whether the nominal exchange rate should be fixed or flexible. Instead we argue that the focus should be on whether the monetary policy regime appropriately constrains discretion in monetary policymaking. This focus suggests that there are three basic frameworks that deserve serious discussion as possible, long-run strategies for monetary policy in Latin America: a hard exchange-rate peg, monetary targeting, and inflation targeting. We look at the advantages and disadvantages of each of these strategies and then examine the recent track record of monetary policy in some Latin American countries for clues as to which of the three strategies might be best suited to economies in the region.

**PD** March 2000. **TI** Inflation Targeting in Emerging Market Countries. **AA** Columbia University and NBER. **SR** National Bureau of Economic Research Working Paper: 7618; 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, E52. **KW** Inflation Targeting. Monetary Policy. Emerging Markets.

**AB** This paper outlines what inflation targeting involves for emerging market/transition countries and discusses the advantages and disadvantages of this monetary policy strategy. The discussion suggests that although inflation targeting is not a panacea and may not be appropriate for many emerging market countries, it can be a highly useful monetary policy strategy in a number of them.

### Mitchell, Janet

**TI** Banking Crises and Bank Rescues: The Role of Reputation. **AU** Corbett, Jennifer; Mitchell, Janet.

### Mitrusi, Andrew

**PD** May 2000. **TI** The Distribution of Payroll and Income Tax Burdens, 1979-1999. **AU** Mitrusi, Andrew; Poterba, James. **AA** Mitrusi: NBER. Poterba: MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7707; National Bureau of Economic Research, 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 the U.S.). **JE** H2. **KW** Payroll Tax. Income Tax. Tax Burden Distribution.

**AB** This paper presents new evidence on the level and distribution of income and payroll tax burdens for U.S. families over the 1979 to 1999 period. During this period, payroll taxes have become an increasingly important component of the tax burden for many low- and middle-income families. This paper uses a new and expanded version of the NBER TAXSIM program to analyze the impact of legislative changes in income and payroll taxes. Averaged over all families, the combined 1999 payroll and income tax burden was quite similar to what it would have been if the 1979 income and payroll tax laws had remained in force for the last two decades, with only inflation-based adjustments to tax brackets. The mix of income and payroll taxes has changed, however. As a result of the

expansion of the Earned Income Tax Credit in the late 1980s and early 1990s, as well as other changes in the federal personal income tax, payroll tax liabilities now exceed income tax liabilities for nearly two thirds of families. In 1979, payroll taxes exceeded income taxes for 44 percent of families.

### Mocan, H. Naci

**PD** October 1999. **TI** Economic Conditions, Deterrence and Juvenile Crime: Evidence from Micro Data. **AU** Mocan, H. Naci; Rees, Daniel I. **AA** Mocan: University of Colorado at Denver and NBER. Rees: University of Colorado at Denver. **SR** National Bureau of Economic Research Working Paper: 7405; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 18. **PR** \$5.00. **JE** J13, K42. **KW** Crime Economics. Juveniles. Micro-Data.

**AB** This is the first paper to test the economic model of crime for juveniles using micro data. It uses a nationally representative sample of 16,478 high school children surveyed in 1995. The sample includes detailed information on offenses and also data on personal, family and neighborhood characteristics as well as deterrence measures. We analyze the determinants of selling drugs, committing assault, robbery, burglary and theft, separately for males and females. We find that an increase in violent crime arrests reduces the probability of selling drugs and assaulting someone for males, and reduces the probability of selling drugs and stealing for females. An increase in local unemployment increases the propensity to commit crimes, as does local poverty. Similarly, family poverty increases the probability to commit robbery, burglary and theft for males, and assault and burglary for females. local characteristics are more important for females than males. The results also indicate that family supervision has an impact on delinquent behavior. These results show that juveniles do respond to incentives and sanctions as predicted by economic theory. Employment opportunities, increased family income and more strict deterrence are effective tools to reduce juvenile crime.

### Mojon, Benoit

**PD** November 2000. **TI** Financial Structure and the Interest Rate Channel of ECB Monetary Policy. **AA** European Central Bank. **SR** European Central Bank Working Paper: 40; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 46. **PR** no charge. **JE** E43, E52, G21. **KW** Transmission Mechanism. EMU. Financial Structure.

**AB** This paper analyzes differences in financial structure across euro area countries and their implications for the interest rate channel of the monetary transmission mechanism. It focuses on those differences in financial structure across countries, which remain in spite of the start of Stage Three of EMU. First, the paper examines the pass-through of money market rates to various bank retail rates and measures how this has evolved over the past two interest rate cycles. An analysis of panel data suggests that current "country asymmetries" in the response of bank rates to monetary policy should decrease over time by virtue of the implementation of the single monetary policy, money market integration and the growth of debt securities markets. The paper also shows that competition among banks reduces the "interest rate cycle asymmetry" of the pass-through. Second, recent developments in the balance sheet

structure of households and firms are examined, showing that, at the start of Stage Three of EMU, the income effects of monetary policy are fairly homogenous in the four largest countries of the euro area. However, given the large share of bonds in the financial assets held by Italian households, wealth effects should be stronger in Italy.

**PD** October 2001. **TI** Investment and Monetary Policy in the Euro Area. **AU** Mojon, Benoit; Smets, Frank; Vermeulen, Philip. **AA** European Central Bank. **SR** European Central Bank Working Paper: 78; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 16. **PR** no charge. **JE** E22, E32, E52. **KW** Investment. Cost of Capital. Monetary Transmission. Euro Area.

**AB** This paper analyses the effects of a change in monetary policy on firms' investment in Germany, France, Italy and Spain using a data set which provides aggregated balance sheet and profit and loss account data for 17 different industries and 3 different size classes. The main findings are twofold. First, in each of the four countries a change in the user cost of capital, which in turn is affected by interest rate, has both statistically and economically significant effects on investment. Second, while the average interest rate on debt is generally higher for small firms than for large firms, there is little evidence that the effects of monetary policy on small firms are larger.

**PD** December 2001. **TI** A VAR Description of the Effects of Monetary Policy in the Individual Countries of the Euro Area. **AU** Mojon, Benoit; Peersman, Gert. **AA** Mojon: European Central Bank. Peersman: Bank of England and Ghent University. **SR** European Central Bank Working Paper: 92; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 24. **PR** no charge. **JE** C32, E52. **KW** Euro Area Countries. Monetary Policy. VARs.

**AB** This paper presents a complete set of results describing the effects of monetary policy in 10 countries of the euro area for the pre-EMU period. For each country, we impose one of three identification schemes depending on its monetary integration with Germany, the nominal anchor of the ERM. The first identification scheme applies to Germany, the second to countries of the core EMS (Austria, Belgium and the Netherlands) and the third to all the other countries. An unexpected rise in the short-term interest rate leads to a decrease in GDP. (with investment and exports falling more than consumption) and a gradual decrease in prices for all countries. We also show that, given the width of the error bands around the estimate, we cannot reject that the effects of monetary policy on GDP and on prices are broadly similar in the individual countries of the euro area.

**TI** Some Stylised Facts on the Euro Area Business Cycle. **AU** Agresti, Anna-Maria; Mojon, Benoit.

### Mongelli, Francesco Paolo

**TI** Convergence of Fiscal Policies in the Euro Area. **AU** De Bandt, Olivier; Mongelli, Francesco Paolo.

### Monticelli, Carlo

**PD** May 1999. **TI** What Does the Single Monetary Policy Do? A SVAR Benchmark for the European Central Bank. **AU** Monticelli, Carlo; Tristani, Oreste. **AA** Monticelli: Banca d'Italia, Roma. Tristani: European Central Bank. **SR** European Central Bank Working Paper: 02; European

Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 31. PR no charge. JE C32; E58. KW European Central Bank. Monetary Union. VARs.

AB This paper puts forward a characterization of the structural features of the economic system relevant to the monetary-policy decisions of the European Central Bank. The econometric analysis adopts a parsimonious VAR (value at risk) representation of three key macroeconomic variables (interest rates, prices and GDP) aggregated across countries to obtain area-wide time series. The exogenous disturbances driving the multivariate system are identified imposing restrictions based on economic theory. The dynamic properties of the estimated models are analyzed and compared with the available evidence for the US. The robustness of this characterization is corroborated by the estimates from a different sample period and by the findings from an alternative model that singles out German monetary policy in view of its anchor role within the ERM (exchange rate mechanism).

### Moon, Choon-Geol

TI Are Scale Economies in Banking Elusive or Illusive? Evidence Obtained by Incorporating Capital Structure and Risk-Taking into Models of Bank Production. AU Hughes, Joseph P.; Mester, Loretta J.; Moon, Choon-Geol.

TI Recovering Risky Technologies Using the Almost Ideal Demand System: An Application to U.S. Banking. AU Hughes, Joseph P.; Lang, William; Mester, Loretta J.; Moon, Choon-Geol.

### Morana, Claudio

PD November 2000. TI Measuring Core Inflation in the Euro Area. AA University of Piemonte Orientale, Italy. SR European Central Bank Working Paper: 36; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 59. PR no charge. JE C22, E31, E52. KW ARFIMA. Core Inflation. Euro Area. Markov Switching.

AB This paper proposes a measure of core inflation which is derived from a Markov switching ARFIMA model. The Markov switching ARFIMA model generalizes the standard ARFIMA model allowing mean reversion to take place with respect to a changing unconditional mean. By imposing a co-switching restriction for nominal money growth and HICP inflation we are able to identify three regimes and establish a linkage between the long-run dynamics of inflation and money growth. The last regime has been found to be coherent with the objective of price stability and can be tentatively named EMU regime. The core inflation model has been contrasted with other models suggested in the literature and found to be superior in terms of forecasting power.

### Moreira, Marcelo J.

PD September 2001. TI Tests With Correct Size When Instruments Can Be Arbitrarily Weak. AA UC Berkeley. SR University of California, Berkeley, The Center for Labor Economics Working Paper: 37; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). PG 18. PR no charge. JE C12, C31. KW Structural Model. Power Envelope. Similar Test. Score Test. Confidence Regions. LIML Estimator.

AB Classical exponential-family statistical theory is employed to characterize the class of exactly similar tests for a structural coefficient in a simultaneous equations model with normal errors and a known reduced-form covariance matrix. A score test and a variant of the Anderson-Rubin test are shown to be members of the class. When identification is strong, the power surface for the score test is generally close to the power envelope for the class of similar tests. However, when identification is weak, the score test no longer has power close to the envelope. Dropping the restrictive assumptions of normality and known covariance matrix, the results are shown to remain valid in large samples even in the presence of weak instruments.

### Moretti, Enrico

TI Are Politicians Accountable to Voters? Evidence from U.S. House Roll Call Voting Records. AU Lee, David S.; Moretti, Enrico; Butler, Matthew J.

### Morgan, Julian

PD October 2001. TI What can Changes in Structural Factors Tell us About Unemployment in Europe? AU Morgan, Julian; Mourougane, Annabelle. AA European Central Bank. SR European Central Bank Working Paper: 81; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 26. PR no charge. JE C33, E24, J64. KW Structural Unemployment. Labor Market Institutions. Panel Estimation.

AB This paper examines the impact of temporal variation in labor market institutions and other structural factors on unemployment in Europe. These include the influence of trade unions, social security benefits, employment security, mismatch between job seekers and vacancies, the minimum wage and factors which drive a wedge between consumer and producer prices. With this aim, a system including a labor demand and a wage equation is estimated on pooled time-series data for the six largest EU countries for the 1980s and 1990s, allowing for country-specific fixed-effects, institutional effects and adjustment terms. Our estimates suggest that changes in regional mismatch, trade union density and the ratio between consumer and producer prices are positively associated with structural unemployment. This result is robust to a wide variety of different specifications of the model, including a larger sample of eight EU countries. No consistent role is found for the other institutional factors.

TI The Monetary Transmission Mechanism at the Euro-Area Level: Issues and Results Using Structural Macroeconomic Models. AU McAdam, Peter; Morgan, Julian.

TI Monetary Policy Transmission in the Euro Area: What do Aggregate and National Structural Models Tell Us? AU Van Els, Peter; Locarno, Alberto; Morgan, Julian; Villetelle, Jean-Pierre.

### Morris, Stephen

PD March 2001. TI Global Games: Theory and Applications. AU Morris, Stephen; Shin, Hyun Song. AA Morris: Yale University. Shin: London School of Economics. SR Yale Cowles Foundation Discussion Paper: 1275R; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 69. PR no charge up to 3

papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D82. **KW** Common Knowledge. Coordination. Currency Crisis. Global Games. Higher Order Beliefs. Unique Equilibrium.

**AB** Global games are games of incomplete information whose type space is determined by the players each observing a noisy signal of the underlying state. With strategic complementarities, global games often have a unique, dominance solvable equilibrium, allowing analysis of a number of economic models of coordination failure. For symmetric binary action global games, equilibrium strategies in the limit (as noise becomes negligible) are simple to characterize in terms of "diffuse" beliefs over the actions of others. We describe a number of economic applications that fall in this category. We also explore the distinctive roles of public and private information in this setting, review results for general global games, discuss the relationship between global games and a literature on higher order beliefs in game theory and describe the relationship to local interaction games and dynamic games with payoff shocks.

**PD** June 2001. **TI** The CNBC Effect: Welfare Effects of Public Information. **AU** Morris, Stephen; Shin, Hyun Song. **AA** Morris: Yale University. Shin: London School of Economics. **SR** Yale Cowles Foundation Discussion Paper: 1312; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 35. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D81, D82, E58. **KW** Transparency. Disclosures. Coordination. Overreaction to Public Information.

**AB** What are the welfare effects of enhanced dissemination of public information through the media and disclosures by market participants with high public visibility? For instance, is it always desirable to have frequent and timely publications of economic statistics by government agencies and the central bank? We examine the impact of public information in a setting where agents take actions appropriate to the underlying fundamentals, but they also have a coordination motive arising from a strategic complementarity in their actions. When the agents have no private information, greater provision of public information always increases welfare. However, when agents also have access to independent sources of information, the welfare effect of increased public disclosures is ambiguous.

**PD** July 2001. **TI** Faulty Communication: Some Variations on the Electronic Mail Game. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1271R; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 28. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C72, D81, D82. **KW** Electronic Mail. Common Knowledge. Communication.

**AB** The electronic mail game of Rubinstein (1989) showed that a lack of common knowledge generated by faulty communication can make coordinated action impossible. This paper shows how this conclusion is robust to having a more realistic timing structure of messages, more than two players who meet publicly but not as a plenary group, and may be robust to strategic decisions about whether to communicate.

#### Morton, Fiona Scott

**PD** May 2000. **TI** The Strategic Positioning of Store

Brands in Retailer -- Manufacturer Bargaining. **AU** Morton, Fiona Scott; Zettelmeyer, Florian. **AA** Morton: Yale University and NBER. Zettelmeyer: UC Berkeley. **SR** National Bureau of Economic Research Working Paper: 7712; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 33. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** D43, L11, L12, M31. **KW** Store Brands. Retailer Bargaining. Strategic Bargaining. Product Placement. National Brands.

**AB** We argue in this paper that retailers can strategically position store brands in product space to strengthen their bargaining position when negotiating supply terms with manufacturers of national brands. Using a bargaining framework we model a retailer's decision whether to carry an additional national brand or a store brand, and if the retailer chooses to introduce the latter, where in product space to locate the store brand. We test our model on a cross-section of categories using supermarket data from multiple retailers. The paper finds results that are consistent with the theory. We find that retailers are more likely to carry a store brand in a category if the share of the leading national brand is higher, but that the leading national brand share does not affect the market share of the store brand. This indicates that there may be a bargaining motive for the introduction of the store brand. We propose that this is because the retailer can position the store brand to mimic the leading national brand and present data that shows that store brands frequently imitate brand packaging on multiple dimensions.

#### Mourougane, Annabelle

**TI** What can Changes in Structural Factors Tell us About Unemployment in Europe? **AU** Morgan, Julian; Mourougane, Annabelle.

#### Muhleisen, Martin

**TI** Japan: Demographic Shock and Fiscal Sustainability. **AU** Faruqee, Hamid; Muhleisen, Martin.

#### Mulkay, Benoit

**TI** Firm-Level Investment in France and the United-States: An Exploration of What We Have Learned in Twenty Years. **AU** Mairesse, Jacques; Mulkay, Benoit; Hall, Bronwyn H.

#### Mullainathan, Sendhil

**PD** September 2000. **TI** A Memory Based Model of Bounded Rationality. **AA** MIT and NBER. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/28; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 42. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** A12, B41, E21. **KW** Psychology. Biology. Bayes Rule. Personal Economic History. Consumption.

**AB** How do memory limitations affect economic behavior? I develop a model of memory grounded in psychology and biology research to investigate this question. Using this model, I study the case where people apply Bayes rules to the history they recall as if it were the true history. The resulting beliefs exhibit over-reaction on average. They also exhibit under-reaction with the model providing enough structure to allow predictions about which effect dominates when. I then apply this general framework to an otherwise standard model of



consumption. It predicts the broad structure of consumption predictability as well as difference in marginal propensity to consume across different income streams. Most importantly, because it ties the extent of bias to a measurable aspect of the stochastic process being forecasted, the model makes novel, testable empirical predictions.

**TI** Public Policy and Extended Families: Evidence from South Africa. **AU** Bertrand, Marianne; Mullainathan, Sendhil; Miller, Douglas.

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

### Mulligan, Casey B.

**PD** May 2000. **TI** Merit Motives and Government Intervention: Public Finance in Reverse. **AU** Mulligan, Casey B.; Philipson, Tomas J. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 7698; 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** H11, H22, H23, L51. **KW** Merit Motives. Redistribution. Progressivity. Tax Incidence. Fiscal Transfers.

**AB** A common view in public finance is that there is an efficiency-redistribution tradeoff in which distortions are tolerated in order to redistribute income. However, the fact that so much public- and private redistributive activity involves in-kind transfers rather than cash may be indicative of merit motives on the part of the payers rather than a preference for the well-being of the recipients. Efficiency-enhancing public policy in a merit good economy has the primary purpose of creating distortions and may only redistribute income from rich to poor in order to create those distortions -- the reverse of the conventional efficiency-redistribution tradeoff. We discuss why the largest programs on the federal and local level in the US -- including Social Security, Medicare and Medicaid, and Public Schooling -- seem consistent with the reverse tradeoff rather than the classic one. Transfers are not lump sum in a merit good economy, and explicitly accounting for this when calculating tax incidence reduces the estimated progressivity of government policy. When the distortions outweigh fiscal transfers the classic efficiency-redistribution tradeoff cannot justify the program and the program is far less progressive than conventional analysis suggests.

### Murnane, Richard J.

**TI** The Skill Content of Recent Technological Change: An Empirical Exploration. **AU** Autor, David H.; Levy, Frank; Murnane, Richard J.

### Musso, Alberto

**PD** April 2001. **TI** Comparing Projections and Outcomes of IMF-Supported Programs. **AU** Musso, Alberto; Phillips, Steven. **AA** Musso: European University Institute. Phillips: International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/45; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 34. **PR** not available. **JE** C52, E31, E37. **KW** IMF. Programs. Projections. Forecasts.

**AB** "Program numbers" from a sample of IMF-supported programs are studied as if they were forecasts, through

statistical analyses of the relationship between projections and outcomes for growth, inflation, and three balance of payments concepts. Statistical bias is found only for projections of inflation and official reserves. Statistical efficiency can be rejected for all variables except growth, suggesting that some program projections were less accurate than they might have been. Nevertheless, most projections are found to have some predictive value. Since several findings are shown to be sample-dependent, the full-sample results should be interpreted cautiously.

### Nachege, Jean-Claude

**PD** March 2001. **TI** A Cointegration Analysis of Broad Money Demand in Cameroon. **AA** International Finance Corporation. **SR** International Monetary Fund Working Paper: WP/01/26; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 37. **PR** not available. **JE** E41, E52, F41. **KW** Cameroon. Cointegration. Money Demand. Inflation. Exchange Rates.

**AB** This paper applies cointegration analysis and error-correction modeling to investigate the behavior of broad money demand in Cameroon over 1963/64-1993/94. The cointegrated VAR analysis first describes an open-economy model of money, prices, income, and a vector of rates of return, within which three steady state relations are identified: a stable money demand function, an excess aggregate demand relationship, and the uncovered interest rate relation under fixed exchange rates and perfect capital mobility. Empirical support is thereafter provided for both PPP and the international Fisher parity between Cameroon and France, and the stability of the short-run dynamics of the broad money demand function is confirmed.

### Nakamura, Leonard I.

**PD** November 2000. **TI** Education and Training in an Era of Creative Destruction. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/13; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. **Website:** www.phil.frb.org/econ/wps/index.html. **PG** 23. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** I21, O33. **KW** Education. Training. Creative Destruction.

**AB** Over the course of the 20th century, the US economy has moved from rote to creativity, from a mass production workforce to a white-collar workforce whose focus is developing new products for sale. In the process, economic change has been accelerated, so that our educational process and goals are increasingly inappropriate. As an example, even the intensive education of medical doctors is inadequate to the current pace of change. In this paper, I delineate the impact of the electronic revolution that has automated routine and made creativity more profitable and therefore more powerful. I examine the high school movement (1910-1940) and the college movement (1940-1970) as successful responses to technological challenges that increased equality. I then attempt a tentative discussion of the electronic revolution's impact on the educational process.

**TI** Checking Accounts and Bank Monitoring. **AU** Mester, Loretta J.; Nakamura, Leonard I.; Renault, Micheline.

**PD** June 2001. **TI** Banking and Finance in Argentina in the Period 1900-35. **AU** Nakamura, Leonard I.; Zarazaga, Carlos E. J. M. **AA** Nakamura: Federal Reserve Bank of Philadelphia. Zarazaga: Federal Reserve Bank of Dallas. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/07; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 31. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** G22, N26. **KW** Argentina. Banking. Financial Development.

**AB** From 1900 to 1935, Argentina evolved from an economy highly dependent on external, primarily British, finance to one more nearly self-sufficient. We examine the failure of domestic finance to adequately fill the void left by the decline of London and the breakdown of the world financial system in the interwar period, when neither the Buenos Aires Bolsa nor the private domestic banks developed rapidly enough to fully replace British investors as efficient channels for financing private investment. One consequence is that Argentine investable funds were increasingly concentrated in a single institution, the Banco de la Nacion Argentina (BNA), creating a lopsided financial structure that was vulnerable to rent seeking and to authoritarian capture. Nevertheless, several measures, including gold reserves, interest rates, money supply, bank credit, and the market capitalization of domestic corporations, attest to the very high level of financial development achieved by Argentina.

**TI** Measuring American Rents: A Revisionist History. **AU** Crone, Theodore M.; Nakamura, Leonard I.; Voith, Richard.

#### **Narayan, Ambar**

**TI** Is Literacy Shared Within Households? Theory And Evidence From Bangladesh. **AU** Basu, Kaushik; Narayan, Ambar; Ravallion, Martin.

#### **Neme, Alejandro**

**TI** Maximal Domain of Preferences in the Division Problem. **AU** Masso, Jordi; Neme, Alejandro.

#### **Newman, John**

**TI** Using Performance Standards to Evaluate Social Programs with Incomplete Outcome Data: General Issues and Application to a Higher Education Block Grant Program. **AU** Manski, Charles F.; Newman, John; Pepper, John, V.

#### **Nguyen, Thong**

**TI** Nonparametric Estimation of a Multifactor Heath-Jarrow-Morton Model: An Integrated Approach. **AU** Jeffrey, Andrew; Linton, Oliver; Nguyen, Thong; Phillips, Peter C. B.

#### **Nicoletti Altimari, Sergio**

**PD** May 2001. **TI** Does Money Lead Inflation in the Euro Area? **AA** European Central Bank. **SR** European Central Bank Working Paper: 63; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 51. **PR** no charge. **JE** C32, E31, E47. **KW** Euro Area. Inflation. Leading Indicators. Money. P-Star.

**AB** This paper investigates the properties of monetary and

credit aggregates as indicators for future price developments in the euro area. The forecasting performance of models including indicators based on money and credit is assessed in a simulated out-of-sample forecasting exercise for forecast horizons varying from one quarter to three years ahead. The performance of these models is compared with that of models which include indicators based on financial markets, real activity, the labor market and various cost and price measures. The results support the idea that monetary and credit aggregates provide significant and independent information for future price developments in the euro area, especially at medium term horizons.

#### **Nicolo, Antonio**

**PD** April 1998. **TI** Nash Implementation in Truthful Strategies, Strategy-Proofness and Efficiency on the Restricted Domain of Leontief Preferences. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 418/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 26. **PR** no charge. **JE** D51, D71, D82. **KW** Strategy-Proofness. Efficiency. Social Choice. Truthful Strategies. Leontief Preferences.

**AB** In exchange economies where agents have private information, strategy-proof social choice functions defined on large domains of preferences, are not efficient. We provide a restricted domain of preferences, namely the set of generalized Leontief utility functions, where there exist mechanisms that are strategy-proof and efficient. For the particular case of economies with two agents and two goods we are able to characterize the class of mechanisms that are efficient and Nash implementable in truthful strategies, a stronger requirement than strategy-proofness for social choice functions. In the general case with two agents and  $n$  goods or  $m$  agents and  $n$  goods we provide sufficient conditions in order to obtain strategy-proof and efficient mechanisms.

#### **Norberg, Karen**

**TI** Explaining the Rise in Youth Suicide. **AU** Cutler, David M.; Norberg, Karen; Glaeser, Edward L.

#### **O'Rourke, Kevin H.**

**PD** February 2000. **TI** The Heckscher-Ohlin Model Between 1400 and 2000: When It Explained Factor Price Convergence, When It Did Not, and Why. **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G. **AA** O'Rourke: University College Dublin. Williamson: Harvard University. **SR** CEPR Discussion Paper: 2372; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 76. **PR** 5 pounds, \$8 or 8 euros. **JE** F14, N70. **KW** Globalization. Factor Prices. History.

**AB** There are two contrasting views of pre-19th century trade and globalization. First there are the world history scholars like Andre Gunder Frank who attach globalization "big bang" significance to the dates 1492 (Christopher Columbus stumbles on America in search of spices) and 1498 (Vasco da Gama makes an end run around Africa snatching monopoly rents away from Arab and Venetian spice traders). Such scholars are on the side of Adam Smith who believed that these were the two most important events in recorded history. Second, there is the view that the world economy was still fragmented before

the 19th century. This paper offers a novel way to discriminate between these competing views and we use it to show that there is no evidence that the Ages of Discovery and Commerce had the economic impact on the global economy the world historians assign to them, while there is plenty of evidence of a very big bang in the 19th century. The test involves a close look at the connections between factor prices, commodity prices and endowments world-wide.

**PD** April 2000. **TI** When Did Globalization Begin? **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G. **AA** O'Rourke: University College Dublin. Williamson: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7632; 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** F14, N70. **KW** Globalization. Price Convergence. Commodity Price Equalization.

**AB** See the abstract for O'Rourke, Kevin H.; Williamson, Jeffrey G. November 1999, "The Heckscher-Ohlin Model Between 1400 and 2000: When it Explained Factor Price Convergence. When it Did Not, and Why". National Bureau of Economic Research Working Paper: 7411; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org.

**PD** November 1999. **TI** The Heckscher-Ohlin Model Between 1400 and 2000: When it Explained Factor Price Convergence. When it Did Not, and Why. **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G. **AA** O'Rourke: University College Dublin. Williamson: Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7411; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 33. **PR** \$5.00. **JE** F14, N71, N73. **KW** Heckscher-Ohlin Model. Factor-Price Convergence. Commodity Prices.

**AB** There are two contrasting views of pre-19th century trade and globalization. First, there are the world history scholars like Andre Gunder Frank who attach globalization "big bang" significance to the dates 1492 (Christopher Columbus stumbles on the Americas in search of spices) and 1498 (Vasco da Gama makes an end run around Africa and snatches monopoly rents away from the Arab and Venetian spice traders). Such scholars are on the side of Adam Smith who believed that these were the two most important events in recorded history. Second, there is the view that the world economy was fragmented and completely de-globalized before the 19th century. This paper offers a novel way to discriminate between these two competing views and we use it to show that there is no evidence that the Ages of Discovery and Commerce had the economic impact on the global economy that world historians assign to them, while there is plenty of evidence of a very big bang in the 19th century. The test involves a close look at the connections between factor prices, commodity prices and endowments world wide.

### Obstfeld, Maurice

**PD** July 2000. **TI** The Six Major Puzzles in International Macroeconomics: Is There a Common Cause? **AU** Obstfeld, Maurice; Rogoff, Kenneth. **AA** Obstfeld: University of California, Berkeley and National Bureau of Economic Research. Rogoff: Harvard University and National Bureau of

Economic Research. **SR** National Bureau of Economic Research Working Paper: 7777; National Bureau of Economic Research, 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 the U.S.). **JE** F10, F30, F40. **KW** International Trade. Trade Costs. Puzzles.

**AB** The central claim in this paper is that by explicitly introducing costs of international trade (narrowly, transport costs but more broadly, tariffs, nontariff barriers and other trade costs), one can go far toward explaining a great number of the main empirical puzzles that international macroeconomists have struggled with over twenty-five years. Our approach elucidates J. McCallum's home bias in trade puzzle, the Fedstein-Horioka saving-investment puzzle, the French-Poterba equity home bias puzzle, and the Backus-Kehoe-Kydland consumption correlations puzzle. That one simple alteration to an otherwise canonical international macroeconomic model can help substantially to explain such a broad arrange of empirical puzzles, including some that previously seemed intractable, suggests a rich area for future research. The paper also addresses a variety of international pricing puzzles, including the purchasing power parity puzzle emphasized by Rogoff, and what we term the "exchange-rate disconnect puzzle." The latter category of riddles includes both the Meese-Rogoff exchange rate forecasting puzzle and the Baxter-Stockman neutrality of exchange rate regime puzzle. Here, although many elements need to be added to this extremely simple model, it still shows that trade costs play an essential role.

### Ockenfels, Axel

**TI** Measuring Motivations for the Reciprocal Responses Observed in a Simple Dilemma Game. **AU** Bolton, Gary E.; Brandts, Jordi; Ockenfels, Axel.

### Olivella, Pau

**PD** October 1997. **TI** Cost Reducing Strategies. **AU** Olivella, Pau; Pastor, Maite. **AA** Olivella: Universitat Autònoma de Barcelona. Pastor: Centro de Estudios Universitarios San Pablo, Elche. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 402/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 38. **PR** no charge. **JE** D82, L13, L42. **KW** Oligopoly. Vertical Foreclosure. Asymmetric Information.

**AB** We analyze an industry where a dominant buyer may foreclose its rivals (with whom it competes a la Cournot in the final good market) from access to an efficient supplier of an intermediate good. We prove that the presence of asymmetric information between this dominant buyer and its supplier may mitigate the incentives for the dominant buyer to exert such a vertical restraint. If the dominant buyer's bargaining power is not too strong, the presence of such an informational asymmetry has a positive impact on welfare.

### Olters, Jan-Peter

**PD** January 2001. **TI** Modeling Politics with Economic Tools: A Critical Survey of the Literature. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/10; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 62. **PR** not available. **JE** A12, B22, D72, E61. **KW** Endogenous Politics.

**Political Business Cycles. Government Behavior.**

**AB** Whereas the economics discipline possesses a highly refined theoretical apparatus to analyze the effects of government behavior on the economy, it has not (yet) managed to fully develop a positively formulated "economic theory of politics" that would permit the integration of the decision-making processes of voters, parties, and governments with those of consumers and firms. Considerable recent advances notwithstanding, the large and heterogeneous body of literature has (so far) remained outside the economic mainstream. This paper surveys the main approaches used to endogenize democratic elements and assesses the underlying reasons for researchers' renewed interest in this field.

**Oneto, Giampaolo**

**TI** The Sources of Unemployment Fluctuations: An Empirical Application to the Italian Case. **AU** Fabiani, Silvia; Locarno, Alberto; Oneto, Giampaolo; Sestito, Paolo.

**Oreopoulos, Philip**

**PD** September 2001. **TI** The Long-Run Consequence from living In a Poor Neighborhood. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 39; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: violet.berkeley.edu/~ir/cle/index.html. **PG** 32. **PR** no charge. **JE** I31, I32, J38. **KW** Neighborhood Quality. Labor Market Outcomes.

**AB** I examine the effect of neighborhood quality on long-run labor market outcomes among adults who grew up in substantially different public housing projects in Toronto. I match census data, longitudinal administrative records, and criminal occurrence data to public housing addresses and track participants outcomes, in some cases, a decade or more after leaving the program. The main finding is that differences in neighborhood quality play little or no role in determining adult earnings, education attainment, or social assistance participation, but do affect residents' exposure to crime. Living in contrasting housing projects cannot explain large variances in labor market outcomes, but family differences, as measured by sibling outcome correlations, account for up to 30 percent of the total variance in the data. Overall, the results suggest that policies aimed at improving long-run outcomes among children from low-income households are more likely to succeed by addressing family, rather than neighborhood, circumstances.

**Orphanides, Athanasios**

**PD** March 2000. **TI** The Quest for Prosperity without Inflation. **AA** Federal Reserve Board. **SR** European Central Bank Working Paper: 15; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 68. **PR** no charge. **JE** E30, E52, E58. **KW** Activist Monetary Policy. Taylor Rule. Prudent Policy Rule. Real-Time Data. Full Employment.

**AB** In recent years, activist monetary policy rules responding to inflation and the level of economic activity have been advanced as a means of achieving effective output stabilization without inflation. Advocates of such policies suggest that their flexibility may yield substantial stabilization benefits while avoiding the excesses of overzealous discretionary fine-tuning such as is thought to characterize the experience of the 1960s

and 1970s. This paper demonstrates that these conclusions are misguided. To illustrate this fact, a database with data available to policymakers in real time from 1965 to 1993 is constructed and, using an estimated model, performs counterfactual simulations under alternative informational assumptions regarding the knowledge policymakers can reasonably have had about the state of the economy when policy decisions were made. Using realistic informational assumptions overturns findings favoring activist policies in favor of prudent policies that ignore short-run stabilization concerns altogether. The evidence points to misperceptions of the economy's productive capacity as the primary underlying cause of the 1970s inflation and suggests that apparent differences in the framework governing monetary policy decisions during the 1970s compared to the more recent past have been greatly exaggerated.

**PD** October 1999. **TI** Inflation Zone Targeting. **AU** Orphanides, Athanasios; Wieland, Volker. **AA** Federal Reserve Board. **SR** European Central Bank Working Paper: 08; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 58. **PR** no charge. **JE** E31, E52, E58, E61. **KW** Inflation Targeting. Price Stability. Optimal Monetary Policy.

**AB** This paper studies optimal monetary policy design in a simple model that deviates from the linear-quadratic paradigm and provides a rationale for the practice of inflation zone targeting. It shows that the presence of either zone-quadratic preferences or a zone-linear relationship between inflation and economic activity provides strong incentives to deviate from conventional linear policies. It calibrates the model based on parameters for the U.S. and the euro area and employs a numerical dynamic programming algorithm to derive the optimal policies. With this algorithm, the role of uncertainty, model structure and relative preference towards economic stability in determining the width of the implied targeted inflation zone is examined.

**Osbat, Chiara**

**TI** Determinants of the Euro Real Effective Exchange Rate: A BEER/PEER Approach. **AU** Maeso-Fernandez, Francisco; Osbat, Chiara; Schnatz, Bernd.

**Otker-Rober, Inci**

**TI** Measures to Limit the Offshore Use of Currencies: Pros and Cons. **AU** Ishii, Shogo; Otker-Rober, Inci; Cui, Li.

**Pacula, Rosalie Liccardo**

**PD** May 2000. **TI** Marijuana and Youth. **AU** Pacula, Rosalie Liccardo; Grossman, Michael; Chaloupka, Frank J.; O'Malley, Patrick M.; Johnston, Lloyd D.; Farrelly, Matthew C. **AA** Pacula: RAND and NBER. Grossman: NBER. Chaloupka: University of Illinois and NBER. O'Malley and Johnston: University of Michigan. Farrelly: Research Triangle Institute. **SR** National Bureau of Economic Research Working Paper: 7703; National Bureau of Economic Research, 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 the U.S.). **JE** I11, I12. **KW** Marijuana Prices. Price Sensitivity. Youth.

**AB** This paper contains the first estimates of the price sensitivity of the prevalence of youth marijuana use. Survey data on marijuana use by high school seniors from the

Monitoring the Future Project are combined with data on marijuana prices and potency from the Drug Enforcement Administration Office of Intelligence Division. Our estimates of the price elasticity of annual marijuana participation range from -0.06 to -0.47, while those for thirty day participation range from -0.002 to -0.69. These estimates clearly imply that changes in the real, quality adjusted price of marijuana contributed significantly to the trends in youth marijuana use between 1982 and 1998, particularly during the contraction in use from 1982 to 1992. Similarly, changes in youth perceptions of the harms associated with regular marijuana use had a substantial impact on both the contraction in use during the 1982 through 1992 period and the subsequent expansion in use after 1992. These findings underscore the usefulness of considering price in addition to more traditional determinants in any analysis of marijuana consumption decisions made by youths.

**Pagano, Marco**

**TI** Searching for Non-Linear Effects of Fiscal Policy: Evidence from Industrial and Developing Countries. **AU** Giavazzi, Francesco; Jappelli, Tullio; Pagano, Marco.

**Pages, Carmen**

**TI** The Cost of Job Security Regulation: Evidence from Latin America Labor Markets. **AU** Heckman, James J.; Pages, Carmen.

**Paiva, Claudio**

**PD** February 2001. **TI** Competitiveness and the Equilibrium Exchange Rate in Costa Rica. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/23; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 28. **PR** not available. **JE** C22, E61, F31, F32. **KW** Exchange Rate. Current Account. Competitiveness. External Vulnerability.

**AB** This paper evaluates several indicators of external vulnerability and estimates the equilibrium real exchange rate for Costa Rica. While current indicators are mostly positive, declining market shares of domestic exports, the expected decline in foreign direct investment, and the desirability of strengthening the reserve position recommend an improvement in the current account. Costa Rica's equilibrium real exchange rate is then estimated using the CGER and the FEER methodologies. The overall conclusion is that while there are no signs of serious external vulnerability, the real exchange rate appears to be somewhat overvalued, a situation that would be best addressed through increased fiscal discipline.

**Park, In-Uck**

**TI** Promoting Competition in the Presence of Essential Facilities. **AU** Grout, Paul A.; Park, In-Uck.

**Pastor, Lubos**

**PD** July 2000. **TI** The Equity Premium and Structural Breaks. **AU** Pastor, Lubos; Stambaugh, Robert F. **AA** Pastor: University of Chicago. Stambaugh: University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7778; National Bureau of Economic Research, 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 the U.S.). **JE** C11, G10.

**KW** Equity Premium. Bayesian Analysis.

**AB** A long return history is useful in estimating the current equity premium even if the historical distribution has experienced structural breaks. The long series helps not only if the timing of breaks is uncertain but also if one believes that large shifts in the premium are unlikely or that the premium is associated, in part, with volatility. The framework of this study incorporates these features along with a belief that prices are likely to move opposite to contemporaneous shifts in the premium. The estimated premium since 1834 fluctuates between four and six percent and exhibits its sharpest drop in the last decade.

**PD** July 2000. **TI** Evaluating and Investing in Equity Mutual Funds. **AU** Pastor, Lubos; Stambaugh, Robert F. **AA** Pastor: University of Chicago. Stambaugh: University of Pennsylvania and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7779; National Bureau of Economic Research, 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 the U.S.). **JE** C11, G11, G12. **KW** Bayesian Analysis. Mutual Funds. Portfolio Choice. Asset Pricing.

**AB** This framework for evaluating and investing in mutual funds combines observed returns on funds and passive assets with prior beliefs that distinguish pricing-model inaccuracy from managerial skill. A fund's "alpha" is defined using passive benchmarks. This shows that returns on non-benchmark passive assets help estimate that alpha more precisely for most funds. The resulting estimates generally vary less than standard estimates across alternative benchmark specifications. Optimal portfolios constructed from a large universe of equity funds can include actively managed funds even when managerial skill is precluded. The fund universe offers no close substitutes for the Fama-French and momentum benchmarks.

**Pastor, Maite**

**TI** Cost Reducing Strategies. **AU** Olivella, Pau; Pastor, Maite.

**Pattillo, Catherine**

**TI** Monetary Union in West Africa: An Agency of Restraint for Fiscal Policies? **AU** Masson, Paul; Pattillo, Catherine.

**Peersman, Gert**

**PD** March 2001. **TI** Are the Effects of Monetary Policy in the Euro Area Greater in Recessions Than in Booms? **AU** Peersman, Gert; Smets, Frank. **AA** Peersman: Ghent University. Smets: European Central Bank. **SR** European Central Bank Working Paper: 52; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 29. **PR** no charge. **JE** E42, E44, E52. **KW** Monetary Transmission Mechanism. Euro Area.

**AB** This paper investigates whether monetary policy impulses have asymmetric effects on output growth in seven countries of the euro area (Germany, France, Italy, Spain, Austria, Belgium and the Netherlands). First, it is shown that these seven countries share the same business cycle. Next, strong evidence is presented that area-wide monetary policy impulses, measured as the contribution of monetary policy shocks to the short-term interest rate in a simple VAR for the euro area economy, have significantly larger effects on output

growth in recessions than in booms. These differences are most pronounced in Germany, France, Italy, Spain, and Belgium while they are much smaller in Austria and the Netherlands.

**PD** December 2001. **TI** The Monetary Transmission Mechanism in the Euro Area: More Evidence from VAR Analysis. **AU** Peersman, Gert; Smets, Frank. **AA** Peersman: Ghent University. Smets: European Central Bank. **SR** European Central Bank Working Paper: 91; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 27. **PR** no charge. **JE** C32, E52. **KW** Monetary Transmission Mechanism. Vector Autoregressions.

**AB** This paper applies the identified VAR methodology to synthetic euro area data from 1980 till 1998 to study the macro-economic effects of an unexpected change in monetary policy in the euro area. The focus is on the area-wide monetary transmission. It is shown that the overall macro-economic effects of a monetary policy shock in the euro area are very similar to those estimated for the United States and are surprisingly stable over time. In addition, the paper contains a number of robustness checks with alternative identification schemes and examines how various real and financial variables (such as the GDP or money components) respond to an area-wide monetary policy impulse.

**TI** A VAR Description of the Effects of Monetary Policy in the Individual Countries of the Euro Area. **AU** Mojon, Benoit; Peersman, Gert.

### Pennings, Enrico

**PD** June 2000. **TI** The Choice and Timing of Foreign Market Entry under Uncertainty. **AU** Pennings, Enrico; Sleuwaegen, Leo. **AA** Universita Bocconi. **SR** CEPR Discussion Paper: 2470; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** not available. **PR** 5 pounds, \$8 or 8 euros. **JE** D92, F21, G31, L20. **KW** Irreversible Investment. Joint Ventures. Nash Bargaining. Tax Policy. Uncertainty.

**AB** This paper sheds new light on why timing and entry mode should be considered simultaneously. It derives the profit levels at which it is optimal to switch from exporting to setting up a wholly owned subsidiary, creating a joint venture, or licensing production to a local firm. The preferred entry mode depends on uncertainty about future profits, tax differentials between the home and the foreign country, the cost advantages of local firms, institutional requirements, and the degree of cooperation between partners in a joint venture.

### Pepper, John, V.

**TI** Using Performance Standards to Evaluate Social Programs with Incomplete Outcome Data: General Issues and Application to a Higher Education Block Grant Program. **AU** Manski, Charles F.; Newman, John; Pepper, John, V.

### Perez-Castrillo, David

**PD** May 1998. **TI** A Simple Selling and Buying Procedure. **AU** Perez-Castrillo, David; Sotomayor, Marilda. **AA** Perez-Castrillo: Universitat Autònoma de Barcelona. Sotomayor: Univeridade de Sao Paulo, Brazil. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 421/98; Departament d'Economia i d'Historia Economica, Facultat de Ciències Econòmiques, Campus

Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 23. **PR** no charge. **JE** C78, D78. **KW** Matching Models. Assignment Models. Mechanisms. Implementation.

**AB** For the assignment game, we analyze the following mechanism: sellers, simultaneously, fix their prices first; then buyers, sequentially, decide which object to buy, if any, among the remaining objects. The first phase of the game determines the potential prices, while the second phase determines the actual matching. We prove that the set of subgame perfect equilibria in pure strategies in the strong sense of the mechanism coincides with the set of sellers' optimal stable outcomes when buyers use maximal strategies. That is, the mechanism leads to the maximum equilibrium prices and to an optimal matching.

### Perez-Quiros, Gabriel

**TI** This is What the US Leading Indicators Lead. **AU** Camacho, Maximo; Perez-Quiros, Gabriel.

**PD** April 2001. **TI** Business Cycle Asymmetries in Stock Returns: Evidence from Higher Order Moments and Conditional Densities. **AU** Perez-Quiros, Gabriel; Timmermann, Allan. **AA** Perez-Quiros: European Central Bank. Timmermann: University of California, San Diego. **SR** European Central Bank Working Paper: 58; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 55. **PR** no charge. **JE** C22, C52. **KW** Markov Switching. Density Modeling. Mixtures of Distributions. Business Cycle Risk.

**AB** Markov switching models with time-varying means, variances and mixing weights are applied to characterize business cycle variation in the probability distribution and higher order moments of stock returns. This allows us to provide a comprehensive characterization of risk that goes well beyond the mean and variance of returns. Several mixture models with different specifications of the state transition are compared and we propose a new mixture of Gaussian and student-t distributions that captures outliers in returns. The models produce very similar expected returns and volatilities but imply very different time series for conditional skewness, kurtosis and predictive density. Consistent with economic theory, the gains in predictive accuracy from considering two-state mixture models rather than a single-state specification are higher for small firms than for large firms.

**PD** June 2001. **TI** The Daily Market for Funds in Europe: Has Something Changed with the EMU? **AU** Perez-Quiros, Gabriel; Rodriguez Mendizabal, Hugo. **AA** Perez-Quiros: European Central Bank. Rodriguez Mendizabal: Universitat Autònoma de Barcelona. **SR** European Central Bank Working Paper: 67; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 38. **PR** no charge. **JE** E44, E52. **KW** Overnight Rates. Reserve Demand. Martingale Hypothesis.

**AB** This paper presents evidence that the existence of deposit and lending facilities combined with an averaging provision for the reserve requirement are powerful tools to stabilize the overnight rate. We reach this conclusion by comparing the behavior of this rate in Germany before and after the beginning of the EMU. The analysis of the German experience is useful because it allows us to isolate specifically the effect on the

overnight rate of these particular instruments of monetary policy. To show that this outcome is general and not a particular result for the German market, we develop a theoretical model of reserve management which is able to reproduce our empirical findings.

**TI** The ECB Monetary Policy Strategy and the Money Market. **AU** Gaspar, Vitor; Perez-Quiros, Gabriel; Sicilia, Jorge.

### Perkins, Andy

**TI** Do Doctors Respond to Financial Incentives? **UK** Family Doctors and the GP Fundholder Scheme. **AU** Croxson, Bronwyn; Propper, Carol; Perkins, Andy.

### Perotti, Roberto

**TI** Electoral Systems and Public Spending. **AU** Milesi-Ferretti, Gian Maria; Perotti, Roberto; Rostagno, Massimo.

### Persico, Nicola

**TI** Racial Bias in Motor Vehicle Searches: Theory and Evidence. **AU** Knowles, John; Todd, Petra; Persico, Nicola.

### Petith, Howard

**PD** June 1997. **TI** Meek, Dickinson and Marx's Falling Rate of Profit. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 389/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 15. **PR** no charge. **JE** B24, E11. **KW** Marxian Models. Falling Rate of Profit. Capital Accumulation. Economic History.

**AB** In the 1950's and 60's Meek and Dickinson argued that, in a Marxian model, the rate of profit would first rise and then fall as capital accumulated. In their recent *A History of Marxian Economics*, Howard and King accord this argument the same status as the Okishio theorem. This paper reassesses the argument. It shows that Dickinson's argument violates a basic tenet of the neo-Marxian model but that Meek's example may be consistent with an extended version of the same model.

**PD** January 1998. **TI** Capital Accumulation, the Organic Composition of Capital, the Rate of Profit and the Rate of Exploitation in a Provisional Marxian Model. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 410/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 36. **PR** no charge. **JE** B24, E11, E22, E23, O41. **KW** Marxian Models. Organic Composition. Capital. Rate of Exploitation. Production.

**AB** Marglin's neo-Marxian one sector model with continuous substitution is amplified by adding land as a factor of production and technical progress and specialized by using a specific production function and the most simple of saving functions. It is then shown that, under a simple condition on the production function, the accumulation of capital eventually causes the organic composition of capital to rise, the rate of profit to fall and the rate of exploitation to rise. The inclusion of land is extensively justified and then the result is placed in the context of Marxian thought in a detailed manner.

**PD** April 1998. **TI** A Formalization of Elster's Version of the Marxian Revolution, Viewed as a Contingent Event. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 420/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 15. **PR** no charge. **JE** B24, E11, O41. **KW** Marxian Models. Revolution. Land. Technological Progress. Growth.

**AB** A formalization of Elster's interpretation of Marx's theory of revolution is presented in terms of a one sector model with continuous substitution, land as a factor of production and a particular population theory. A long justification for calling such a model Marxian is given. Then it is shown that the revolution may occur only if the drag caused by the fixed supply of land is greater than the force of technical progress.

**PD** November 1998. **TI** Georgescu-Roegen versus Solow/Stiglitz and the Convergence to the Cobb-Douglas. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 432/98; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 55. **PR** no charge. **JE** E13, E22, O13, O40, Q30. **KW** Exhaustible Resources. Elasticity of Substitution. Innovation. Possibility Frontier. Capital.

**AB** The value of the elasticity of substitution of capital for resources is a crucial element in the debate over whether continual growth is possible. It is generally held that the elasticity has to be at least one to permit continual growth and that there is no way of estimating this outside the range of the data. This paper presents a model in which the elasticity is determined endogenously and may converge to one. It is concluded that the general opinion is wrong: that the possibility of continual growth does not depend on the exogenously given value of the elasticity and that the value of the elasticity outside the range of the data can be studied by econometric methods.

### Petroni, Kathy

**TI** The Impact of State Taxes on Self-Insurance. **AU** Ke, Bin; Shackelford, Douglas A.; Petroni, Kathy.

### Philippon, Thomas

**TI** Monetary Independence in Emerging Markets: Does the Exchange Rate Regime Make a Difference? **AU** Borensztein, Eduardo; Zettelmeyer, Jeromin; Philippon, Thomas.

### Philipson, Tomas J.

**TI** Merit Motives and Government Intervention: Public Finance in Reverse. **AU** Mulligan, Casey B.; Philipson, Tomas J.

**PD** November 1999. **TI** The Long-Run Growth in Obesity as a Function of Technological Change. **AU** Philipson, Tomas J.; Posner, Richard A. **AA** University of Chicago. **SR** National Bureau of Economic Research Working Paper: 7423; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 29. **PR** \$5.00. **JE** I12, O33. **KW** Obesity. Technological Change. Public Policy.

**AB** This paper analyzes the factors contributing to the worldwide long-run rise in obesity and the effects of public interventions on its continued growth. The growth of obesity in

a population results from an increase in calorie consumption relative to physical activity. Yet in developed countries, obesity has grown with modest rises in calorie consumption and with a substantial increase in both dieting and recreational exercise. We consider the economic incentives that give rise to a growth in obesity by stimulating intake of calories while discouraging the expending of calories on physical activity. We argue that technological change provides a natural interpretation of the long-run growth in obesity despite a rise in dieting and exercise, that it predicts that the effect of income on obesity falls with economic development, and that it implies that the growth in obesity may be self-limiting.

### Phillips, Peter C. B.

**TI** Gaussian Estimation of Continuous Time Models of the Short Term Interest Rate. **AU** Jun, Yu; Phillips, Peter C. B.

**TI** Second Order Expansions for the Distribution of the Maximum Likelihood Estimator of the Fractional Difference Parameter. **AU** Lieberman, Offer; Phillips, Peter C. B.

**PD** May 2001. **TI** Regression with Slowly Varying Regressors. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1310; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 46. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** C13, C22. **KW** Asymptotic Expansion. Collinearity. Karamata Representation. Slow Variation. Smooth Variation. Trend Regression.

**AB** Slowly varying regressors are asymptotically collinear in linear regression. Usual regression formulae for asymptotic standard errors remain valid but rates of convergence are affected and the limit distribution of the regression coefficients is shown to be one dimensional. Some asymptotic representations of partial sums of slowly varying functions and central limit theorems with slowly varying weights are given that assist in the development of a regression theory. Multivariate regression and polynomial regression with slowly varying functions are considered and shown to be equivalent, up to standardization, to regression on a polynomial in a logarithmic trend. The theory involves second, third, and higher order forms of slow variation. Some applications to trend regression are discussed.

**TI** Nonparametric Estimation of a Multifactor Heath-Jarrow-Morton Model: An Integrated Approach. **AU** Jeffrey, Andrew; Linton, Oliver; Nguyen, Thong; Phillips, Peter C. B.

### Phillips, Steven

**TI** Comparing Projections and Outcomes of IMF-Supported Programs. **AU** Musso, Alberto; Phillips, Steven.

### Pilarski, Adam M.

**TI** Do Industrial Relations Affect Plant Performance? The Case of Commercial Aircraft Manufacturing. **AU** Kleiner, Morris M.; Leonard, Jonathan S.; Pilarski, Adam M.

### Pindyck, Robert S.

**TI** Consumption Externalities and Diffusion in Pharmaceutical Markets: Anti-ulcer Drugs. **AU** Berndt, Ernst R.; Pindyck, Robert S.; Azoulay, Pierre.

### Pitt, Alexander

**PD** March 2001. **TI** Sustaining Fixed Exchange Rates: A Model with Debt and Institutions. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/27; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** E42, N23, O16. **KW** Exchange Rates. Currency Attacks. Competition Policy. Financial Supervision. Productivity.

**AB** Fixed exchange rate regimes have come into disrepute, as their defense has become all but impossible. Yet, while a determined attack on a currency cannot be prevented or, ultimately, withstood, policies can reduce the vulnerability of a country to such attacks. The paper develops an analytical framework of costs and benefits of a fixed exchange rate, based on the ability of a developing country to meet its external obligations while achieving a maximum rate of long-term output growth. The focus is on how structural policies and institutions influence the degree of dependence of a country on a fixed exchange rate regime.

### Pivovarsky, Alexander

**PD** April 2001. **TI** How Does Privatization Work? Ownership Concentration and Enterprise Performance in Ukraine. **AA** Harvard University. **SR** International Monetary Fund Working Paper: WP/01/42; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 43. **PR** not available. **JE** G32, G37, L33, P31. **KW** Corporate Governance. Ownership. Privatization. Transition.

**AB** This paper investigates the relationship between ownership concentration and enterprise performance in Ukraine. Using data on 376 medium and large enterprises, it finds that ownership concentration is positively associated with enterprise performance in Ukraine. The paper also finds that concentration of ownership by foreign companies and banks is associated with better performance than ownership concentrated by the domestic owners. Ownership by Ukrainian investment funds and holding companies does not have a positive effect on performance. In contrast to predictions by many observers of early transition, privatization methods had a lasting effect on ownership structure in Ukraine.

### Poirson, Helene

**PD** April 2001. **TI** How Do Countries Choose Their Exchange Rate Regime? **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/46; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 33. **PR** not available. **JE** F33, F41, O11. **KW** Exchange Rates. Developing Countries. Dollarization. Optimal Currency Areas.

**AB** This paper investigates the determinants of exchange rate regime choice in 93 countries during 1990-98. Cross-country analysis of variations in international reserves and nominal exchange rates shows that (i) truly fixed pegs and independent floats differ significantly from other regimes and (ii) significant discrepancies exist between de jure and de facto flexibility. Regression results highlight the influence of political factors (political instability and government temptation to inflate), adequacy of reserves, dollarization (currency substitution), exchange rate risk exposure, and some traditional optimal currency area criteria, in particular capital mobility, on exchange rate regime selection.



**Polo, Clemente**

**TI** VIVAT -- A Definitive VAT System for Europe?  
**AU** Fehr, Hans; Polo, Clemente.

**Pommeret, Aude**

**TI** Recursive Utility, Endogenous Growth, and the Welfare Cost of Volatility. **AU** Epaulard, Anne; Pommeret, Aude.

**Posner, Richard A.**

**TI** The Long-Run Growth in Obesity as a Function of Technological Change. **AU** Philipson, Tomas J.; Posner, Richard A.

**Poterba, James**

**TI** The Distribution of Payroll and Income Tax Burdens, 1979-1999. **AU** Mitrusi, Andrew; Poterba, James.

**Povel, Paul E. M.**

**TI** Liquidity Constraints, Production Costs and Output Decisions. **AU** Raith, Michael; Povel, Paul E. M.

**Powell, Andrew**

**TI** Can Emerging Market Bank Regulators Establish Credible Discipline? The Case of Argentina, 1992-1999. **AU** Calomiris, Charles W.; Powell, Andrew.

**Propper, Carol**

**PD** May 2000. **TI** Waiting Times for Hospital Admissions: The Impact of GP Fundholding. **AU** Propper, Carol; Croxson, Bronwyn; Shearer, Arran. **AA** Propper: University of Bristol, CASE, and Centre for Economic Policy Research. Croxson: University of Bristol. Shearer: NBER. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/20; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). **PG** 32. **PR** no charge. **JE** I110, J450. **KW** Physicians and Financial Incentives. Waiting Times. Hospital Care.

**AB** Waiting times for hospital care are a significant issue in the UK National Health Service. The reforms of the health service in 1990 gave a subset of family doctors (GP fundholders) both the ability to choose the hospital where their patients were treated and the means to pay for some services. One of the key factors influencing family doctors' choice of hospital was patient waiting time. However, without cash inducements, hospitals would get no direct reward from giving shorter waiting times to a subset of patients. Using a unique data set, this paper investigates whether GP fundholders were able to secure shorter waiting times for their patients, whether they were able to do so in cases where they had no financial rewards to offer hospitals, and whether the impact of fundholding spilled over into shorter waiting times for all patients.

**PD** December 2000. **TI** Does Competition Between Hospitals Improve the Quality of Care? Hospital Death Rates and the NHS Internal Market. **AU** Propper, Carol; Burgess, Simon; Green, Katherine. **AA** Propper and Burgess: University of Bristol, Centre for Economic Policy Research, and CMPO. Green: CMPO. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/27; CMPO, Department of

Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). **PG** 40. **PR** no charge. **JE** H43, I12, L80. **KW** Competition. Health Care. Quality of Care. Mortality.

**AB** Payer-driven competition has been widely advocated as a means of increasing efficiency in health care markets. The 1990s reforms to the UK health service followed this path. This paper examines whether competition has led to better outcomes for patients, as measured by death rates after treatment following heart attacks. Using newly available data on hospital death rates, the relationship between competition and quality of care appears to be negative. Greater competition is associated with higher death rates, controlling for patient severity and other observed characteristics of the hospital. However, there is evidence of some non-linearity: monopolies with low activity rates have poorer outcomes than would be expected given their degree of competition. These results suggest delaying publication of quality information at hospital level until 9 years after the introduction of the internal market might have reduced quality.

**PD** May 2001. **TI** Expenditure on Health Care in the UK: A Review of the Issues. **AA** University of Bristol, LSE, and Centre for Economic Policy Research. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/30; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). **PG** 35. **PR** no charge. **JE** H40, I10. **KW** Public Health Spending. Health Care Distribution. Performance Standards.

**AB** This review examines the performance of the UK health care system. After presenting data on the level and distribution of resources, three topics are examined. The first is the lessons from international comparisons of evidence on expenditure, equity and health care outcomes. The second is the lessons from the recent internal market reforms. The third is the lessons from an analysis of the role for private finance in UK health care. The review concludes that economists and policy makers need to focus more attention on the relationship between health care inputs -- expenditure -- and health outcomes, and within this on the incentives facing suppliers and demanders of health care.

**TI** The Intricacies of the Relationship Between Pay and Performance for Teachers: Do Teachers Respond to Performance Related Pay Schemes? **AU** Burgess, Simon; Croxson, Bronwyn; Gregg, Paul; Propper, Carol.

**TI** Do Doctors Respond to Financial Incentives? UK Family Doctors and the GP Fundholder Scheme. **AU** Croxson, Bronwyn; Propper, Carol; Perkins, Andy.

**PD** December 1998. **TI** Private Demand and Public Provision: The Case of Private Health Care in the UK. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 98/004; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). **PG** 23. **PR** no charge. **JE** H42, I11. **KW** Private Healthcare Services. Healthcare.

**AB** UK residents are entitled to free health care provided by the state, but despite this entitlement, demand for private

alternatives has been growing. This paper examines the determinants of private demand and finds that income, attitudes to the role of the state in health care provision and past purchase, controlling for unobserved individual effects, all determine demand. But available measures of public health care quality appear to have little impact, perhaps because they convey little relevant information.

**PD** January 1999. **TI** Does the UK Have a Private Welfare Class? **AU** Propper, Carol; Burchardt, Tania. **AA** Propper: University of Bristol. Burchardt: London School of Economics. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/006; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmppo/publications.htm](http://www.bris.ac.uk/cmppo/publications.htm). **PG** 29. **PR** no charge. **JE** H42, I11. **KW** Welfare Services, Private.

**AB** The use of private welfare services in the UK has risen. But relatively little is known about the patterns of use of private welfare services. This paper investigates whether there is a private welfare class, and how attitudes to state welfare spending are linked to use of private services. It finds that there is considerable use of the private sector, but the size of the group consistently using a range of private welfare services is small. Changes in attitudes to public financing of welfare spending do not appear to be directly linked to use of private services.

**PD** April 1999. **TI** A Larger Role for the Private Sector in Health Care?: A Review of the Arguments. **AU** Propper, Carol; Green, Katherine. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/009; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmppo/publications.htm](http://www.bris.ac.uk/cmppo/publications.htm). **PG** 33. **PR** no charge. **JE** H42, I11. **KW** Private Health Care Finance.

**AB** The public sector is the dominant financier of health care in most OECD countries. But, in the last two decades the extent of private finance has increased in most of these countries, and private finance now accounts for around a quarter of all health care finance. On the delivery side, the dominance of the public sector is much less strong and mixed public and private provision is common. Many recent reforms in health care have sought to increase the role for the private sector in health care provision. Against this backdrop, this paper examines the case for, and the empirical evidence to support, an increase in the role for the private sector in finance and delivery.

**TI** The Organization of Government Bureaucracies: The Choice Between Competition and Single Agency. **AU** Halonen, Maija; Propper, Carol.

**TI** The Class of '81: The Effects of Early-Career Unemployment on Subsequent Unemployment Experiences. **AU** Burgess, Simon; Propper, Carol; Rees, Hedley; Shearer, Arran.

**PD** November 1999. **TI** The Demand for Private Medical Insurance in the UK: A Cohort Analysis. **AU** Propper, Carol; Rees, Hedley; Green, Katherine. **AA** Propper: University of Bristol, CASE, and Centre for Economic Policy Research, Rees and Green: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation

(CMPO) Working Paper: 99/013; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmppo/publications.htm](http://www.bris.ac.uk/cmppo/publications.htm). **PG** 29. **PR** no charge. **JE** I11. **KW** Health Insurance, Demand. Pseudo-Cohort.

**AB** This paper examines the determinants of the demand for private health insurance in the UK from 1978 to 1996. The focus is the impact of public and private sector quality on demand. Use of a pseudo-cohort panel allows examination of generational change and the investigation of dynamics. The results indicate that there has been generational change. Further, changes in the contractual status of senior doctors employed in the public sector has had impact on demand for the private alternative. Once these factors are taken into account, there is limited evidence of habit in purchase.

### Puga, Diego

**PD** February 2000. **TI** Nursery Cities: Urban Diversity, Process Innovation, and the Life-Cycle of Products. **AU** Puga, Diego; Duranton, Gilles. **AA** Puga: University of Toronto, CEP, CEPR, and Norges Handelshoyskole. Duranton: London School of Economics and CEPR. **SR** CEPR Discussion Paper: 2376; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 48. **PR** 5 pounds, \$8 or 8 euros. **JE** D83, O31, R30. **KW** Cities. Diversity. Specialization. Innovation. Learning. Life-Cycle.

**AB** Why are some cities specialized and others diversified? What are the advantages and disadvantages of urban specialization and diversity? To what extent does the structure of cities, and the activities of firms and people in them, change over time? How does the sectoral composition of cities influence their evolution? To answer these and related questions, we first distil some key stylized facts from the empirical literature on cities and the composition of their activities. We then turn to a review of different theories looking at such issues and study the extent to which these theories contribute to the understanding of the empirical regularities.

### Quesada Arana, Antonio

**PD** November 1997. **TI** Manipulability, Unanimity, Anonymity and Assessment Aggregation. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 405/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 19. **PR** no charge. **JE** D71, D72, D79, H40. **KW** Assessment Aggregation. Manipulability. Anonymity. Unanimity. Dictatorial Aggregation.

**AB** An assessment aggregation rule is a mechanism which collapses several individual assessments ("quantitative opinions") into a unique ("collective") assessment. Individual  $i$  can manipulate assessment aggregation if the change in the aggregated assessment due to a change in  $i$ 's assessment from  $x$  to  $y$  depends solely on  $x$  and  $y$ . Some assumptions on the functional form capturing this dependence are put forward and their effects on aggregation investigated under unanimity and anonymity conditions. Three results are sought after: (1) the aggregation rule does not exist; (2) it is the arithmetical mean; (3) it is dictatorial.

**Rabanal, Pau**

**TI** Inflation Targeting in the Context of IMF-Supported Adjustment Programs. **AU** Blejer, Mario I.; Leone, Alfredo M.; Rabanal, Pau; Schwartz, Gerd.

**Raith, Michael**

**PD** May 2000. **TI** Liquidity Constraints, Production Costs and Output Decisions. **AU** Raith, Michael; Povel, Paul E. M. **AA** Raith: University of Chicago and Centre for Economic Policy Research. Povel: University of Minnesota. **SR** CEPR Discussion Paper: 2458; 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, \$8 or 8 euros. **JE** G32, G33, L13. **KW** Liquidity Constraints. Debt Contracts. Product Market Competition.

**AB** This paper analyzes the interaction of financing and output market decisions in an oligopolistic setting. It integrates two ideas that have been analyzed separately in previous work: some authors argue that due to risk-shifting, debt (leverage) makes a firm "aggressive" in its output market; others argue a firm with debts tends to be 'soft', in order to avoid bankruptcy. This model allows for both effects. Given the key role that debt plays in this analysis, debt is derived as an optimal contract. An indebted firm produces less than an unleveraged firm. The extent to which a firm is financially constrained is measured by its net worth, which determines by how much the firm will reduce its output. That output is a nonmonotonic function of net worth: while a moderately constrained firm reduces its output if its constraints become tighter, a more strongly constrained firm increases output. These results hold for a monopoly, but are more pronounced in a duopoly.

**Rajan, Raghuram G.**

**TI** Liquidity Risk, Liquidity Creation and Financial Fragility: A Theory of Banking. **AU** Diamond, Douglas W.; Rajan, Raghuram G.

**TI** A Theory of Bank Capital. **AU** Diamond, Douglas W.; Rajan, Raghuram G.

**Ramos Parreno, Jose Maria**

**PD** December 1997. **TI** Labour Adjustment Costs in a "Right to Manage" Model. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/LAE Working Paper: 406/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 23. **PR** no charge. **JE** J23, J31, J32, J51, J63. **KW** Wage Bargaining. Trade Unions. Turnover Costs. Wages. Employment.

**AB** In this paper we study a "right to manage" model of dynamic wage bargaining between a union and a firm which takes into account the costs of adjusting employment. Its main aim is to study how equilibrium levels of employment and wages react to changes in firing and hiring costs. The main result says that turnover costs decrease the variability of the optimal employment plan. During booms (slumps) the optimal amount of labor is lower (higher) than it would be in the absence of turnover costs. The effect on wages depends on the specification of the production function.

**Ramstetter, Eric D.**

**TI** Outward FDI and Parent Exports and Employment: Japan, the United States, and Sweden. **AU** Lipsey, Robert E.; Ramstetter, Eric D.; Blomstrom, Magnus.

**Raphael, Steven**

**PD** August 2000. **TI** Can Boosting Minority Car-Ownership Rates Narrow Inter-Racial Employment Gaps? **AU** Raphael, Steven; Stoll, Michael. **AA** Raphael: UC Berkeley. Stoll: UCLA. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 27; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: violet.berkeley.edu/~ir/cle/index.html. **PG** 33. **PR** no charge. **JE** J15, J71. **KW** Spatial Mismatch. Employment. Minority Car Ownership.

**AB** In this paper, we assess whether boosting minority car-ownership rates would narrow inter-racial employment rate differentials. We pursue two empirical strategies. First, we explore whether the effect of auto ownership on the probability of being employed is greater for more segregated groups of workers. Exploiting the fact that African-Americans are considerably more segregated from whites than are Latinos, we estimate car-employment effects for blacks, Latinos, and whites and test whether these effects are largest for more segregated groups. Second, we use data at the level of the metropolitan area to test whether the car-employment effect for blacks relative to that for whites increases with the degree of black relative isolation from employment opportunities. We find the strongest car effects for blacks, followed by Latinos, and then whites. Moreover, this ordering is statistically significant. Our empirical estimates indicate that raising minority car-ownership rates to the white car ownership rate would eliminate 45 percent of the black-white employment rate differential and 17 percent of the comparable Latino-white differential.

**Rappaport, Jordon**

**TI** Why Do the Poor Live in Cities? **AU** Glaeser, Edward L.; Rappaport, Jordon; Kahn, Matthew E.

**Ratto, Marisa**

**PD** June 2001. **TI** Team-Based Incentives in the NHS: An Economic Analysis. **AU** Ratto, Marisa; Burgess, Simon; Croxson, Bronwyn; Jewitt, Ian; Propper, Carol. **AA** Ratto and Croxson: University of Bristol. Burgess and Propper: University of Bristol; CASE, LSE, and Centre for Economic Policy Research. Jewitt: Nuffield College, University of Oxford, and Centre for Economic Policy Research. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/37; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: www/bris.ac.uk/cmpo/publications.htm. **PG** 44. **PR** no charge. **JE** D23, J41. **KW** Team Production. National Health Services. Financial Incentives.

**AB** The National Health Services (NHS) Plan welcomes the use of team rewards but does not specify how team-based incentives are to be implemented or make clear what types of teams such incentives are to be given to. This paper looks for insights from economic theory on how to define teams and optimal incentive schemes within them. It gives a brief

description of the incentive mechanisms suggested in the NHS Plan and discusses the implications of the economic theory of team- incentives to the NHS. One implication is that the optimal compensation scheme depends on the type of team. Hence, the definition of teams in the NHS should precede the identification of the system of team rewards. Therefore, the types of teams which might be suitable for team rewards are examined. Issues in the use of financial incentives for such teams are then considered.

### Ravallion, Martin

**TI** Is Literacy Shared Within Households? Theory And Evidence From Bangladesh. **AU** Basu, Kaushik; Narayan, Ambar; Ravallion, Martin.

### Ravikumar, B.

**TI** Costly Technology Adoption and Capital Accumulation. **AU** Khan, Aubhik; Ravikumar, B.

### Reboredo, Juan Carlos

**TI** On the Finite Sample Behaviour of the Durbin-Watson Test in the Presence of Nonsense Regressions. **AU** Marmol, Francesc; Reboredo, Juan Carlos.

**TI** Detecting Unbalanced Regressions Using the Durbin-Watson Test. **AU** Marmol, Francesc; Reboredo, Juan Carlos.

**PD** June 1997. **TI** Managerial Reputation and Bad Acquisitions A Note. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 381/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 10. **PR** no charge. **JE** D83, G34, L21. **KW** Managerial Reputation. Acquisitions. Solvency. Learning. Corporate Finance.

**AB** Managerial reputation could induce managers to make mixed blessing acquisitions for shareholders. From a managerial ability learning model, we show that managers' acquisitions may reduce the firm's solvency unless the acquisition return first-degree stochastically dominates the alternative action return.

**PD** July 1997. **TI** A Markov Model for Risk Evaluation in Banking. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 383/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 41. **PR** no charge. **JE** C23, C51, C53, D81, G21. **KW** Banks. Risk. Markov Decision Process. Transition Probability. Banking.

**AB** This paper presents a useful theoretical and empirical model for a probabilistic evaluation of the bank risk states. Bank riskiness is related to a stochastic recursive profit function from which different risk positions arise. Provided that the bank's decision-making objective is to maximize a function of a discounted stream of profits by making portfolio decisions, the transition probabilities among the different considered risk states are determined by those decisions and draw the probabilistic evolution over time of the different banks' risk states. In such a way, the bank's activity is characterized as a Markov decision process whose transition matrix completely defines an empirically estimable Markov Chain of first order with a quadratic conditional variance. The empirical

implementation of such a model is undertaken for the Spanish commercial banking industry.

**PD** July 1997. **TI** Efficiency, Solvency, and Size of Banking Firms. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 384/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 36. **PR** no charge. **JE** C51, G21. **KW** Efficiency. Solvency. Size. Banking.

**AB** Are the most efficient risk-return banks more solvent than the inefficient banks? From a theoretical point of view, the answer is straightforward for non-financial firms, but it is not clear for banking firms. Likewise, if there is not a clear relationship between efficiency and solvency on the theoretical grounds, what is then the role of size in the efficiency-solvency puzzle? This paper develops an empirical analysis both to test if the most efficient banks are also the most solvent, and to test the effects that size has on the solvency and efficiency of banks. The empirical results indicate that the efficient banks are also more solvent than the inefficient banks. Size is important in order to explain the risk and return produced by the efficient banks, but it is only important in order to explain the risk that banks take when they are inefficient.

### Redding, Stephen

**TI** Mapping the Two Faces of R&D: Productivity Growth in a Panel of OECD Industries. **AU** Van Reenen, John; Redding, Stephen; Griffith, Rachel.

### Rees, Daniel I.

**TI** Economic Conditions, Deterrence and Juvenile Crime: Evidence from Micro Data. **AU** Mocan, H. Naci; Rees, Daniel I.

### Rees, Hedley

**TI** The Class of '81: The Effects of Early-Career Unemployment on Subsequent Unemployment Experiences. **AU** Burgess, Simon; Propper, Carol; Rees, Hedley; Shearer, Arran.

**TI** The Demand for Private Medical Insurance in the UK: A Cohort Analysis. **AU** Propper, Carol; Rees, Hedley; Green, Katherine.

### Regibeau, Pierre

**TI** A Multi-Task Principal-Agent Approach to Organizational Form. **AU** Rockett, Katharine; Besanko, David; Regibeau, Pierre.

### Reinikka, Ritva

**TI** A Quest for Revenue and Tax Incidence in Uganda. **AU** Chen, Duanjie; Matovu, John M.; Reinikka, Ritva.

### Renault, Micheline

**TI** Checking Accounts and Bank Monitoring. **AU** Mester, Loretta J.; Nakamura, Leonard I.; Renault, Micheline.

### Reviglio, Franco

**PD** January 2001. **TI** Budgetary Transparency for Public Expenditure Control. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/08;

International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** E61, E62, H53, H61. **KW** Public Expenditure. Political Systems. Reforms. Taxation. Unemployment. GSP Implementation. Budgetary Gimmicks. Budgetary Transparency. Italy.

**AB** This paper explains why EMU countries seem unable or unwilling to undertake structural reforms of public expenditure. One of the reasons is political. What public expenditure reforms might be pursued without changing the political system? Without political reforms, technical improvements made to increase budget transparency, such as strengthening budget procedures, integrating accrual into cash accounting, and removing accounting gimmicks, could indirectly affect reforms of public expenditure. Removing gimmicks and helping prevent the emergence of new creative accounting techniques may be a partial substitute for political reforms. Implementation of the Growth and Stability Pact should be dynamically consistent with budgetary transparency. Although other EMU countries resorted as well to budgetary gimmicks to bypass difficult fiscal constraints, the Italian case is used as a reference to clarify these issues. Transparency may help discourage the use of gimmicks.

#### **Ricci, Luca**

**TI** PPP and the Balassa Samuelson Effect: The Role of the Distribution Sector. **AU** MacDonald, Ronald; Ricci, Luca.

#### **Richards, Anthony J.**

**TI** Rating Agency Actions and the Pricing of Debt and Equity of European Banks: What can we Infer About Private Sector Monitoring of Bank Soundness? **AU** Gropp, Reint; Richards, Anthony J.

#### **Ridder, G.**

**TI** Fast Track or Failure: A Study of the Completion Rates of Graduate Students in Economics. **AU** van Ours, Jan C.; Ridder, G.

#### **Robinson, James A.**

**TI** The Colonial Origins of Comparative Development: An Empirical Investigation. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

**TI** An African Success Story: Botswana. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

**TI** Reversal of Fortune: Geography and Institutions in the Making of the Modern World Income Distribution. **AU** Acemoglu, Daron; Johnson, Simon; Robinson, James A.

#### **Rocher, Francesc**

**PD** September 1997. **TI** A Note on Agent Based Imperfect Competition. **AU** Rocher, Francesc; Vila, Xavier. **AA** Rocher: Universitat de Girona. Vila: Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 398/97; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 16. **PR** no charge. **JE** C63, C72, D43, D82, L13. **KW** Strategic Behavior. Computational Techniques. Evolutionary Game Theory. Imperfect Competition. Oligopoly.

**AB** The model we discuss in this note is a re-examination of the classical Bertrand model of imperfect competition. The

main difference is that consumers are allowed to have some strategic behavior when deciding from which one of the two sellers to buy. We will approach the resolution of the situation sketched above using two related but different tools. The two of them consider a probabilistic learning (or evolutionary) mechanism, and in the two of them consumers' behavior can affect the competition between the sellers. The results obtained show that developing some sort of loyalty is a good strategy for the buyers as it works in their best interest. The only exception to this is when the prices that the sellers can set come from a wide range.

#### **Rockett, Katharine**

**PD** May 2000. **TI** A Multi-Task Principal-Agent Approach to Organizational Form. **AU** Rockett, Katharine; Besanko, David; Regibeau, Pierre. **AA** Rockett and Regibeau: University of Essex. Besanko: Northwestern University. **SR** CEPR Discussion Paper: 2443; 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, \$8 or 8 euros. **JE** D20, L10, L20, M20. **KW** Organizational Form. Functional Organization. Product Organization. Principal-Agent Models.

**AB** This paper studies the choice of organizational forms in a multi-task principal-agent model. A functional organization in which the firm is organized into functional departments such as marketing and R&D is compared to a product-based organization in which the firm is organized into product lines. Managers' compensation can be based on noisy measures of product-line profits. Measures of a functional area's contribution to total profits are not available, however. This effect favors the product organization. However, if there are significant asymmetries between functional area contributions to organizational success and cross-product externalities within functions, organizing along functional lines may dominate the product organization. The effects of diseconomies of span of control and cross-functional complementarities are also considered. Diseconomies of span of control sometimes favors the product organization and sometimes favor the functional organization. Cross-functional complementarities tend to make the product organization relatively more profitable.

#### **Rodriguez Mendizabal, Hugo**

**TI** The Daily Market for Funds in Europe: Has Something Changed with the EMU? **AU** Perez-Quiros, Gabriel; Rodriguez Mendizabal, Hugo.

#### **Rodriguez-Palenzuela, Diego**

**PD** February 2001. **TI** Sources of Economic Renewal: From the Traditional Firm to the Knowledge Firm. **AA** European Central Bank. **SR** European Central Bank Working Paper: 43; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 31. **PR** no charge. **JE** C70, D23, D82, L11, O31. **KW** Stock Options. Confidentiality. Trade Secret Laws. R&D.

**AB** This paper builds on the imperfection of intellectual property rights as the central motivation for the organization of firms. There are several characteristics specific to a theory of the firm grounded on the absence of intellectual property rights. First, monetary incentive schemes arise naturally as an element of the organization and strategy of the firm, since profits are

verifiable. Second, firm's boundaries and the degree of centralization respond to the same economic principle. Last, the sunk cost of physical assets plays a role in "anchoring" non-patentable knowledge inside the firm, improving the appropriability of intellectual capital. Moreover, the model implies that "small" changes in primitives (particularly small reductions in entry costs) may have drastic implications in organizations, inducing firms to shift from a strategy of building up physical capital, which improves appropriability, to a strategy of reliance on employee "empowerment" (under which employees combine equity holding with being fully informed). The former strategy is characterized instead by flat wages and by employees' restricted access to the intellectual capital of the firm. The model may shed light in the theoretical explanation of observed industrial restructuring.

**TI** Assessment Criteria for Output Gap Estimates. **AU** Camba-Mendez, Gonzalo; Rodriguez-Palenzuela, Diego.

**TI** Model-Based Indicators of Labor Market Rigidity. **AU** Fabiani, Silvia; Rodriguez-Palenzuela, Diego.

### Rodrik, Dani

**PD** February 2000. **TI** Institutions For High-Quality Growth: What They Are and How to Acquire Them. **AA** Harvard University. **SR** CEPR Discussion Paper: 2370; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 56. **PR** 5 pounds, \$8 or 8 euros. **JE** O10, P11, P16. **KW** Institutions. Economic Growth.

**AB** This paper opens with a discussion of the types of institutions that allow markets to perform adequately. While we can identify in broad terms what these are, there is no unique mapping between markets and the non-market institutions that underpin them. The paper emphasizes the importance of "local knowledge," and argues that a strategy of institution building must not over-emphasize best-practice 'blueprints' at the expense of experimentation. Participatory political systems are the most effective ones for processing and aggregating local knowledge. Democracy is a meta-institution for building good institutions. A range of evidence indicates that participatory democracies enable higher-quality growth.

### Roemer, John E.

**PD** August 2001. **TI** Does Democracy Engender Equality? **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1281R; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 15. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D72, H23. **KW** Political economy. Dynamics, Education, Equality.

**AB** Many suppose that democracy is an ethos which includes, inter alia, a degree of economic equality among citizens. In contrast, we conceive of democracy as ruthless political competition between groups of citizens, organized into parties. We inquire whether such competition, which we assume to be concerned with distributive matters, will engender economic equality in the long run. A political equilibrium concept is proposed which determines two parties endogenously, and their proposed policies in political competition. One party wins the election (stochastically). This process determines a sequence of wage distributions across the

generations, and we ask: Under what conditions does the wage distribution tend to one of equality? We show that, under a technological assumption that appears to hold empirically, there is no assurance that wage equality is eventually achieved, but if certain 'social norms' hold, which restrict the space of acceptable political policies, then equality is eventually achieved. We suggest, moreover, that the social norms in question will tend to hold, the more technologically developed the democracy is.

### Rogoff, Kenneth

**TI** The Six Major Puzzles in International Macroeconomics: Is There a Common Cause? **AU** Obstfeld, Maurice; Rogoff, Kenneth.

### Ronde, Thomas J.

**TI** Regulation Access to International Large-Value Payment Systems. **AU** Holthausen, Cornelia; Ronde, Thomas J.

### Rose, Andrew K.

**PD** December 1999. **TI** One Money, One Market: Estimating the Effect of Common Currencies on Trade. **AA** University of California, Berkeley and NBER, CEPR. **SR** National Bureau of Economic Research Working Paper: 7432; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 26. **PR** \$5.00. **JE** F12, F33. **KW** Gravity Model. Currency Union. International Trade. Exchange Rate Volatility.

**AB** A gravity model is used to assess the separate effects of exchange rate volatility and currency union on international trade. The panel data set used includes bilateral observations for five years spanning 1970 through 1990 for 186 countries. In this data set, there are over one hundred pairings and three hundred observations, in which both countries use the same currency. I find a large positive effect of a currency union on international trade, and a small negative effect of exchange rate volatility, even after controlling for a host of features, including the endogenous nature of the exchange rate regime. These effects are statistically significant and imply that two countries that share the same currency trade three times as much as they would with different currencies. Currency unions like EMU may thus lead to a large increase in international trade, with all that entails.

### Rosen, Harvey S.

**TI** Horatio Alger Meets the Mobility Tables. **AU** Holtz-Eakin, Douglas; Rosen, Harvey S.; Weathers, Robert.

### Rostagno, Massimo

**TI** Electoral Systems and Public Spending. **AU** Milesi-Ferretti, Gian Maria; Perotti, Roberto; Rostagno, Massimo.

### Rotemberg, Julio J.

**PD** December 1999. **TI** A Heuristic Method for Extracting Smooth Trends from Economic Time Series. **AA** Harvard Business School and NBER. **SR** National Bureau of Economic Research Working Paper: 7439; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 39. **PR** \$5.00. **JE** C13, C22, E32. **KW** Trend Extraction. Time Series. Cyclical Component.

**AB** This paper proposes a method for separating economic

time series into a smooth component whose mean varies over time (the "trend") and a stationary component (the "cycle"). The aim is to make the trends as smooth as possible while also producing cycles with plausible properties. When the true trends consist of low order polynomials, the proposed method obtains trends that are of similar accuracy to fitted polynomial trends. Except in quite special cases, the MSE of the proposed trend is considerably smaller than that obtained by the HP filter. VARs that involve the cyclical variables constructed by this method yield accurate representations of the behavior of the underlying cycles of several variables. By contrast, VARs with the series in differences give poor descriptions of the effect of cyclical shocks. I apply the method to some well known aggregate time series. The results suggest that real wages in the U.S. are strongly correlated with military purchases and that the reduction in the growth of trend GDP in the U.S. started well before 1973.

### Rothstein, Jesse M.

**PD** March 2002. **TI** College Performance Predictions and the SAT. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 45; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. **Website:** violet.berkeley.edu/~ir/cle/index.html. **PG** 28. **PR** no charge. **JE** C24, C53, I20, J78. **KW** SAT Validity. College Admissions. Sample Selection. Omitted Variables.

**AB** Previous studies of the SAT's contribution to predictions of academic performance ignore many of the other variables available for prediction and are consistent only under unrealistic sample selection assumptions. I propose a new estimator of the SAT's contribution that is consistent under plausible assumptions and I include high school demographic variables as predictors. In University of California (UC) data, the SAT's contribution is about 75 percent lower than the usual estimates, a result equally attributable to the two innovations. One important implication is that the SAT functions as a proxy for omitted background characteristics in sparse prediction models, and that this serves to inflate the SAT's apparent contribution. An application evaluates the UC's new "Four Percent Plan," which enhances academic quality but about which the usual models are overly optimistic.

### Rousseau, Peter L.

**PD** November 1999. **TI** Emerging Financial Markets and Early U.S. Growth. **AU** Rousseau, Peter L.; Sylla, Richard. **AA** Rousseau: Vanderbilt University and NBER. Sylla: New York University and NBER. **SR** National Bureau of Economic Research Working Paper: 7448; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. **Website:** www.nber.org. **PG** 41. **PR** \$5.00. **JE** E44, G23, N11, N21. **KW** Financial Development. Economic Growth. USA.

**AB** Studies of early U.S. growth traditionally have emphasized real-sector explanations for an acceleration that by many accounts became detectable between 1815 and 1840. Interestingly, the establishment of the nation's basic financial structure predated by three decades the canals, railroads, and widespread use of water and steam-powered machinery that are thought to have triggered modernization. We argue that this innovative and expanding financial system, by providing debt and equity financing to businesses and governments as new

technologies emerged, was central to the nation's early growth and modernization. The analysis includes a set of multivariate time series models that relate measures of banking and equity market activity to measures of investment, imports and business incorporations from 1790 to 1850. The findings offer support for our hypothesis of "finance-led" growth in the U.S. case. By implication, the interest today in improving financial systems as a means of fostering sustainable growth is not misplaced.

### Rowe, Nicholas

**TI** Macroeconomic Stabilization: Fixed Exchange Rates vs Inflation Targeting vs Price Level Targeting. **AU** Dehejia, Vivek; Rowe, Nicholas.

### Roy, Suddhasatwa

**TI** Can Subsidies for MARs be Procompetitive? **AU** Krishna, Kala; Roy, Suddhasatwa; Thursby, Marie C.

### Rudebusch, Glenn D.

**PD** February 2000. **TI** Assessing Nominal Income Rules for Monetary Policy with Model and Data Uncertainty. **AA** Federal Reserve Bank of San Francisco. **SR** European Central Bank Working Paper: 14; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. **Website:** www.ecb.int/pub/. **PG** 43. **PR** no charge. **JE** E50. **KW** Real-Time Data. Optimal Policy.

**AB** Nominal income rules for monetary policy have long been debated, but two issues are of particular recent interest. First, there are questions about the performance of such rules over a range of plausible empirical models -- especially models with and without rational inflation expectations. Second, there are questions about the performance of these rules in real time using the type of data that is actually available contemporaneously to policymakers rather than final revised data. This paper determines optimal monetary policy rules in the presence of such model uncertainty and real-time data uncertainty and finds only a limited role for nominal output growth.

### Rust, John

**PD** March 2001. **TI** Middle Men versus Market Makers: A Theory of Competitive Exchange. **AU** Rust, John; Hall, George J. **AA** Yale University. **SR** Yale Cowles Foundation Discussion Paper: 1299; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. **Website:** cowles.econ.yale.edu/. **PG** 48. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** D42, D51, D52, D61, G21, L13. **KW** Middle Men. Intermediation. Market Makers. Search. Market Microstructure. Bid-Ask Spread. Walrasian Equilibrium.

**AB** We extend Spulber's (1996a) search model with buyers, sellers, and price setting dealers to include a fourth type of agent, market makers. The result is a model where market microstructure -- the division of trade between dealers and market makers -- is determined endogenously. Market maker entry segments the market; the highest valuation buyers and the lowest cost sellers trade with the market maker. Dealers act as a "competitive fringe" that undercut the bid/ask spread charged by the monopolist market maker. The entry of a monopolist market maker significantly reduces bid-ask spreads and the profits of dealers. Thus, entry by a market maker results in uniformly higher surpluses for buyers and sellers and higher

trading volumes. When there is free entry into market making and market makers' marginal costs of processing transactions tend to zero, bid-ask spreads converge to zero and a fully efficient Walrasian equilibrium outcome emerges.

### Rutherford, Thomas F.

**TI** Foreign Direct Investments in Services and the Domestic Market for Expertise. **AU** Markusen, James R.; Rutherford, Thomas F.; Tarr, David.

### Sab, Randa

**PD** March 2001. **TI** Human Capital Convergence: International Evidence. **AU** Sab, Randa; Smith, Stephen C. **AA** Sab: International Monetary Fund. Smith: George Washington University. **SR** International Monetary Fund Working Paper: WP/01/32; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 31. **PR** not available. **JE** I19, J24, O15, O41. **KW** Human Capital. Convergence. Education. Health. Growth.

**AB** In the growth literature, evidence on income convergence is mixed. In the development literature, health and education indicators are also often used. This study examines whether health and education levels are converging across countries and calculates their convergence speed, using data from 100 countries during 1970-96. A 3SLS procedure is used in a joint analysis of human capital convergence. The results confirm that investments in education and health are closely linked. We find unconditional convergence for life expectancy and infant survival, and enrollment rates, on average and by gender; and conditional convergence for all human capital indicators, including class size.

### Saez, Emmanuel

**PD** March 2000. **TI** Using Elasticities to Derive Optimal Income Tax Rates. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7628; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 30. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** H21, J31. **KW** Optimal Tax Rates. Elasticities. Income Distribution.

**AB** This paper derives optimal income tax formulas using compensated and uncompensated elasticities of earnings with respect to tax rates. A simple formula for the high income optimal tax rate is obtained as a function of these elasticities and the thickness of the top tail of the income distribution. In the general non-linear tax problem, this method using elasticities shows precisely how the different economic effects come into play and which are the key relevant parameters in the optimal income tax formulas of Mirrlees. The optimal non-linear tax rate formulas are expressed in terms of elasticities and the shape of the income distribution. These formulas are implemented numerically using empirical earnings distributions and a range of realistic elasticity parameters.

**PD** May 2000. **TI** Optimal Income Transfer Programs: Intensive Versus Extensive Labor Supply Responses. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7708; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 33. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** H21, H23, J21, J22. **KW** Work Intensity. Hours Worked. Optimal Taxation.

### Participation Rates.

**AB** This paper investigates the optimal income transfer problem at the low end of the income distribution. The government maximizes a social welfare function and faces the traditional equity-efficiency trade-off. The paper models labor supply behavioral responses along the intensive margin (hours or intensity of work on the job) and along the extensive margin (participation in the labor force). Optimal tax formulas are derived as a function of the behavioral elasticities, the shape of the income distribution and the redistribution tastes of the government. When behavioral responses are concentrated along the intensive margin, the optimal transfer program is a classical Negative Income Tax program with a substantial guaranteed income support that is taxed away at high rates. However, when behavioral responses are concentrated along the extensive margin, the optimal transfer program is an Earned Income Credit program with negative marginal tax rates at low income levels and a small guaranteed income. Numerical simulations calibrated with the actual empirical earnings distribution are presented for a range of behavioral elasticities and redistributive tastes of the government.

**TI** The Role of Information and Social Interactions in Retirement Plan Decisions: Evidence from a Randomized Experiment. **AU** Duflo, Esther; Saez, Emmanuel.

### Saiz, Albert

**TI** Consumer City. **AU** Glaeser, Edward L.; Kolko, Jed; Saiz, Albert.

### Sanchez Losada, Fernando

**PD** January 1998. **TI** On the Relationship Between Education and Growth. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 408/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 20. **PG** Not Given. **PR** no charge. **JE** H52, H55, I20, J24, O40. **KW** Human Capital. Growth. Education. Social Security.

**AB** We examine an economy where human capital is the cause of growth. Individuals are altruistic and give their offspring education and bequests. We study the incidence of three education systems on the human capital of the offspring. We show that the effects of an education subsidy on growth are different depending on the education system. We also examine the efficient subsidy if an externality exists. We show that an unfunded social security system may be good for growth.

**PD** January 1998. **TI** On Education, Debt and Growth. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma De Barcelona DEHA/IAE Working Paper: 409/98; Departament d'Economia i d'Historia Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 11. **PR** no charge. **JE** H52, H63, I20, J24, O40. **KW** Human Capital. Growth. Education. Debt.

**AB** We examine an economy where human capital is the cause of growth. Individuals are altruistic and give their offspring education and bequests. The human capital of an individual depends on the education he receives. We study three education systems, differentiated by the type of education and its effect on the human capital of the offspring. We show that debt may be good for growth. We also show that the effects



of debt depend on the education system and on the level of debt.

### Sapienza, Paola

**TI** The Role of Social Capital in Financial Development.  
**AU** Guiso, Luigi; Zingales, Luigi; Sapienza, Paola.

### Sargent, Thomas J.

**TI** Escaping Nash Inflation. **AU** Cho, In-Koo; Sargent, Thomas J.

### Savastano, Miguel A.

**TI** Monetary Policy Strategies for Latin America.  
**AU** Mishkin, Frederic S.; Savastano, Miguel A.

### Scacciavillani, Fabio

**TI** Can Short-Term Foreign Exchange Volatility be Predicted by the Global Hazard Index? **AU** Brousseau, Vincent; Scacciavillani, Fabio.

**TI** A Global Hazard Index for the World Foreign Exchange Markets. **AU** Brousseau, Vincent; Scacciavillani, Fabio.

### Scandizzo, Stefania

**PD** January 2001. **TI** Counterfeit Goods and Income Inequality. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/13; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 22. **PR** not available. **JE** D43, L15. **KW** Counterfeit Goods. Vertical Differentiation. Income Distribution. Inequality.

**AB** This paper examines the effect of counterfeit goods in a world where consumers are differentiated by level of income and innovation is quality enhancing. Counterfeit goods are defined as products with the same characteristics as "originals", but of lower quality. The effect of imitation on firms' profits and consumer welfare depends on the distribution of income within the country. In particular, the greater the level of income inequality the larger the increase in consumer welfare due to the imitation, and the smaller the effect on profits of the state-of-the-art firm.

### Schaling, Eric

**TI** The Term Structure of Interest Rates and Inflation Forecast Targeting. **AU** Eijffinger, Sylvester C. W.; Schaling, Eric; Verhagen, Willem.

### Schankerman, Mark

**TI** A Model of Market-Enhancing Infrastructure.  
**AU** Aghion, Philippe; Schankerman, Mark.

### Schellekens, Philip

**PD** July 2000. **TI** Caution and Conservatism in the Making of Monetary Policy. **AA** Massachusetts Institute of Technology. **SR** European Central Bank Working Paper: 25; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 28. **PR** no charge. **JE** E50. **KW** Monetary Policy. Credibility. Uncertainty. Conservatism.

**AB** Does society benefit from the delegation of monetary policy to cautious and conservative central bankers? This paper offers a critical view on the delegation literature and relaxes seemingly innocuous assumptions about uncertainty and

preferences. First, caution improves credibility but does not obviate the need for central-bank conservatism. Second, instead of previous models of delegation which have focused on suboptimal forms of conservatism, the paper derives optimal concepts of conservatism that mitigate, or eliminate, any residual problem of credibility. Third, the reasons that credible monetary policy may be conducive to stable inflation and output is rationalized.

### Schettkat, Ronald

**TI** Skill Compression, Wage Differentials and Employment: Germany vs. the US. **AU** Freeman, Richard B.; Schettkat, Ronald.

**TI** Low Wage Services: Interpreting the US -- German Difference. **AU** Freeman, Richard B.; Schettkat, Ronald.

### Schnatz, Bernd

**TI** Determinants of the Euro Real Effective Exchange Rate: A BEER/PEER Approach. **AU** Maeso-Fernandez, Francisco; Osbat, Chiara; Schnatz, Bernd.

### Schoeni, Robert F.

**PD** March 2000. **TI** What Has Welfare Reform Accomplished? Impacts on Welfare Participation, Employment, Income, Poverty, and Family Structure. **AU** Schoeni, Robert F.; Blank, Rebecca M. **AA** Schoeni: RAND. Blank: University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 7627; Working Papers, NBER, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 27. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside U.S.). **JE** I38, J11. **KW** Welfare Reforms. Welfare Participation. Labor Market Participation. Poverty. Family Formation.

**AB** This paper evaluates the effectiveness of recent welfare reforms, investigating the effects of both state-specific waivers in the early 1990s and the 1996 federal reform legislation. Unlike earlier work, we analyze a wide array of indicators, including welfare participation, labor market involvement, earnings, income and poverty, and family formation. While no single methodology is entirely satisfying, the results in this paper are convincing in part because they are consistent across alternative approaches. We find strong evidence that these policy changes reduced public assistance participation and increased family earnings. The result was a rise in total family income and a decline in poverty. The gains from the 1996 reforms were not as broadly distributed across the distribution of less-skilled women as were the effects of waivers. Waivers also increased labor market involvement among the less-skilled, but the 1996 reforms had little additional impact on work behavior after controlling for economic forces. These policies also appeared to have an impact on family structure.

### Schwartz, Anna J.

**TI** Measuring Real Economic Effects of Bailouts: Historical Perspectives on How Countries in Financial Distress Have Fared With and Without Bailouts. **AU** Bordo, Michael D.; Schwartz, Anna J.

### Schwartz, Gerd

**TI** Inflation Targeting in the Context of IMF-Supported Adjustment Programs. **AU** Blejer, Mario I.; Leone, Alfredo M.; Rabanal, Pau; Schwartz, Gerd.

**Seitz, Franz**

**TI** The Supply and Demand for Eurosystem Deposits the First 18 Months. **AU** Bindseil, Ulrich; Seitz, Franz.

**Senhadji, Abdelhak S.**

**TI** Inflation and Financial Depth. **AU** Khan, Mohsin S.; Senhadji, Abdelhak S.; Smith, Bruce D.

**Sestito, Paolo**

**TI** The Sources of Unemployment Fluctuations: An Empirical Application to the Italian Case. **AU** Fabiani, Silvia; Locarno, Alberto; Oneto, Giampaolo; Sestito, Paolo.

**Severinov, Sergei**

**TI** Bequests as Signals: An Explanation for the Equal Division Puzzle. **AU** Bernheim, B. Douglas; Severinov, Sergei.

**Shackelford, Douglas A.**

**TI** The Impact of State Taxes on Self-Insurance. **AU** Ke, Bin; Shackelford, Douglas A.; Petroni, Kathy.

**TI** Intertemporal Tax Discontinuities. **AU** Verrecchia, Robert E.; Shackelford, Douglas A.

**Shanken, Jay**

**TI** Estimation Risk, Market Efficiency, and the Predictability of Returns. **AU** Lewellen, Jonathan; Shanken, Jay.

**Shearer, Arran**

**TI** Waiting Times for Hospital Admissions: The Impact of GP Fundholding. **AU** Propper, Carol; Croxson, Bronwyn; Shearer, Arran.

**TI** The Class of '81: The Effects of Early-Career Unemployment on Subsequent Unemployment Experiences. **AU** Burgess, Simon; Propper, Carol; Rees, Hedley; Shearer, Arran.

**Sherman, Ann E.**

**PD** July 2000. **TI** Building the IPO Order Book: Underpricing and Participation Limits with Costly Information. **AU** Sherman, Ann E.; Titman, Sheridan. **AA** Sherman: University of Minnesota. Titman: University of Texas and National Bureau of Economic Research. **SR** National Bureau of Economic Research Working Paper: 7786; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 21. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G20. **KW** Stock Pricing. Information Costs.

**AB** This paper examines the book building mechanism for marketing initial public offerings. A model is presented in which the underwriter selects a group of investors along with a pricing and allocation mechanism in a way that maximizes the information generated during the process of going public at a minimum cost. Unlike previous models, the moral hazard problem that is faced by investors when evaluation is costly is taken into account. Results suggest that for firms with the most to gain from accurate pricing, the number of investors participating in the offering is larger, and underpricing will be greater. When the demand for accuracy is relatively low, the expected amount of underpricing exactly offsets the investors'

costs of acquiring information. However, when the demand for accuracy is high, the expected amount of underpricing can exceed the cost of information and investors can earn rents.

**Shin, Hyun Song**

**TI** Global Games: Theory and Applications. **AU** Morris, Stephen; Shin, Hyun Song.

**TI** The CNBC Effect: Welfare Effects of Public Information. **AU** Morris, Stephen; Shin, Hyun Song.

**Shleifer, Andrei**

**TI** Federalism with and without Political Centralization: China versus Russia. **AU** Blanchard, Olivier J.; Shleifer, Andrei.

**TI** Government Ownership of Banks. **AU** La Porta, Rafael; Shleifer, Andrei; Lopez-de-Silanes, Florencio.

**TI** Investor Protection: Origins, Consequences, Reform. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert.

**TI** Investor Protection: Origins, Consequences, Reform. **AU** La Porta, Rafael; Lopez-de-Silanes, Florencio; Shleifer, Andrei; Vishny, Robert.

**TI** Coase v. the Coasians. **AU** Johnson, Simon; Shleifer, Andrei.

**Shore-Sheppard, Lara D.**

**TI** The Measurement of Medicaid Coverage in the SIPP: Evidence from California, 1990-1996. **AU** Card, David; Hildreth, Andrew K. G.; Shore-Sheppard, Lara D.

**TI** Using Discontinuous Eligibility Rules to Identify the Effects of the Federal Medicaid Expansions. **AU** Card, David; Shore-Sheppard, Lara D.

**Shrivastava, Animesh**

**TI** The Role of Subordinated Debt in Market Discipline: The Case of Emerging Markets. **AU** Karacadag, Cem; Shrivastava, Animesh.

**Shubik, Martin**

**TI** Default and Punishment in General Equilibrium. **AU** Dubey, Pradeep; Geanakoplos, John; Shubik, Martin.

**Sicilia, Jorge**

**TI** The ECB Monetary Policy Strategy and the Money Market. **AU** Gaspar, Vitor; Perez-Quiros, Gabriel; Sicilia, Jorge.

**Sigman, Hilary**

**PD** May 2000. **TI** The Pace of Progress at Superfund Sites: Policy Goals and Interest Group Influence. **AA** Rutgers University and NBER. **SR** National Bureau of Economic Research Working Paper: 7704; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** K32, Q24. **KW** Clean Up Sites. Bureaucratic Priorities. Superfund. Interest Groups.

**AB** Bureaucracies may set priorities for their workload according to social goals of the desires of concentrated private

interests. This paper explores bureaucratic priorities empirically by studying Superfund, the federal program for cleaning up contaminated sites. It examines the amount of time that sites on Superfund's National Priorities List require to complete three states from listing to cleanup, using an econometric method for multiple sequential durations. The empirical results provide little evidence that the EPA prioritizes sites according to their harms. By contrast, concentrated private interests, such as liable parties and local communities, play an important role in the EPA's priorities. Delays caused by liable parties may reduce net benefits of cleanup by 8 percent. This result suggests a benefit from funding provision of environmental quality and other public goods through diffuse sources, such as broad-based taxes, to avoid the detrimental effects of such concentrated interests.

### Sill, Keith

TI Regional Income Fluctuations: Common Trends and Common Cycles. AU Carlino, Gerald A.; Sill, Keith.

TI Sectoral Shocks and Metropolitan Employment Growth. AU Carlino, Gerald A.; DeFina, Robert H.; Sill, Keith.

TI A Quantitative Analysis of Oil-Price Shocks, Systematic Monetary Policy, and Economic Downturns. AU Leduc, Sylvain; Sill, Keith.

### Simon, John A.

TI The Long and Large Decline in U.S. Output Volatility. AU Blanchard, Olivier J.; Simon, John A.

### Simone, Alejandro

PD March 2001. TI In Search of Coincident and Leading Indicators of Economic Activity in Argentina. AA University of California, Los Angeles. SR International Monetary Fund Working Paper: WP/01/30; International Monetary Fund, 700 19th Street, Washington, DC 20431. PG 55. PR not available. JE C53, E23, E27. KW Argentina. Leading Indicators.

AB Time series on economic activity in developing countries, in particular real GDP, are reported with important lags. Therefore, it is useful to construct indicators that coincide or lead the actual direction and level of economic activity. A general methodology to construct these indicators is proposed and adapted for Argentina. Three coincident indicators could be constructed, but no reliable leading indicator could be found. From an econometric standpoint, the coincident indicators produce satisfactory point estimates of real GDP. The series that enter the indicator are broadly consistent with what many economists believe is the main source of real GDP fluctuations in Argentina: shocks to the capital account of the balance of payments. This enhances the confidence in the econometric results.

### Siotis, Georges

PD May 2000. TI An Empirical Evaluation of the Determinants of Research Joint Venture Formation. AU Siotis, Georges; Hernan, Roberto; Marin Uribe, Pedro L. AA Universidad Carlos III de Madrid. SR CEPR Discussion Paper: 2442; 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, \$8 or 8 euros. JE C25, L13, O31. KW Research Joint Ventures. Spillovers. Research and

Development.

AB This paper empirically analyzes the determinants of firm participation in Research Joint Ventures (RJVs). A review of the theoretical literature highlights the difficulty of identifying a set of testable hypotheses. Using a large database of European RJVs, two participation equations are estimated at the firm level using the logit procedure. Sectoral R&D intensity is found to positively influence the probability of forming an RJV. The presence of technological spillovers has a positive effect on RJV formation, but this is restricted to R&D intensive industries. A minimum level of industry concentration is needed for RJVs to be formed. Last, firm size and past experience with research cooperation increases the likelihood of RJV formation.

### Siu, Henry

TI Growth and Business Cycles. AU Jones, Larry; Manuelli, Rody; Siu, Henry.

### Skudelny, Frauke

TI Exchange Rate Volatility and Euro Area Imports. AU Anderton, Robert; Skudelny, Frauke.

### Skuladottir, Marta

TI Three Symptoms and a Cure: A Contribution to the Economics of the Dutch Disease. AU Zoega, Gylfi; Herbertsson, Tryggvi Thor; Skuladottir, Marta.

### Sleuwaegen, Leo

TI The Choice and Timing of Foreign Market Entry under Uncertainty. AU Pennings, Enrico; Sleuwaegen, Leo.

### Smets, Frank

PD July 2000. TI What Horizon for Price Stability. AA European Central Bank. SR European Central Bank Working Paper: 24; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 40. PR no charge. JE E40, E50. KW Monetary Policy. Strategy. Policy Rules. Euro Area.

AB This paper analyzes in a unified framework the twin issues of the appropriate horizon for achieving price stability in the face of unexpected disturbances and the choice of a price level versus an inflation objective. Using a small estimated forward-looking model of the euro area economy, the three main findings are: 1) The policy horizon becomes shorter the greater the weight on price stability in society's objective function, the higher the degree of "forward-lookingness" in the economy and the greater the slope of the Phillips curve; 2) The optimal policy horizon for a price level objective is generally greater than that for an inflation objective; 3) Even if society cares about inflation stabilization (rather than the stabilisation of the price level), it often pays to give the central bank a price level objective (rather than an inflation objective), provided the horizon is optimally chosen to be somewhat longer and there is a small weight on interest rate stabilisation in the loss function. This result depends, however, on the structure of the economy.

TI Are the Effects of Monetary Policy in the Euro Area Greater in Recessions Than in Booms? AU Peersman, Gert; Smets, Frank.

TI Uncertain Potential Output: Implications for Monetary Policy. AU Ehrmann, Michael; Smets, Frank.

**TI** Investment and Monetary Policy in the Euro Area. **AU** Mojon, Benoit; Smets, Frank; Vermeulen, Philip.

**TI** The Monetary Transmission Mechanism in the Euro Area: More Evidence from VAR Analysis. **AU** Peersman, Gert; Smets, Frank.

#### **Smith, Bruce D.**

**TI** Inflation and Financial Depth. **AU** Khan, Mohsin S.; Senhadji, Abdelhak S.; Smith, Bruce D.

#### **Smith, Stephen C.**

**TI** Human Capital Convergence: International Evidence. **AU** Sab, Randa; Smith, Stephen C.

#### **Snell, Andy**

**PD** December 1998. **TI** Institutional Investors' Trading Profits in Auction and Dealer Markets. **AU** Snell, Andy; Tonks, Ian. **AA** Snell: University of Edinburgh. Tonks: University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 98/005; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmpo/publications.htm](http://www/bris.ac.uk/cmpo/publications.htm). **PG** 24. **PR** no charge. **JE** G15, G19. **KW** Market Microstructure. Auction Market. Dealer Markets. **AB** This paper compares the trading costs for institutional investors who are subject to liquidity shocks, of trading in auction and dealer markets. The batch auction restricts the institutions' ability to exploit informational advantages because of competition between institutions when they simultaneously submit their orders. This competition lowers aggregate trading costs. In the dealership market, competition between traders is absent but trades occur in sequence so that private information is revealed by observing the flow of successive orders. This information revelation reduces trading costs in aggregate. The relative effects are analyzed on profits of competition in one system and information revelation in the other and the circumstances are identified under which dealership markets have lower trading costs than auction markets and vice versa.

#### **Snyder, Christopher M.**

**TI** Countervailing Power in Wholesale Pharmaceuticals. **AU** Ellison, Sara Fisher; Snyder, Christopher M.

#### **Soderstrom, Ulf**

**PD** February 2000. **TI** Monetary Policy with Uncertain Parameters. **AA** Sveriges Riksbank, Stockholm. **SR** European Central Bank Working Paper: 13; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 26. **PR** no charge. **JE** E43, E52. **KW** Optimal Monetary Policy. Parameter Uncertainty. Brainard Conservatism. Interest Rate Smoothing.

**AB** In a simple dynamic macroeconomic model, it is shown that uncertainty about structural parameters does not necessarily lead to more cautious monetary policy, refining the accepted wisdom concerning the effects of parameter uncertainty on optimal policy. In particular, when there is uncertainty about the persistence of inflation, it may be optimal for the central bank to respond more aggressively to shocks than under certainty equivalence, since the central bank this way reduces uncertainty about the future development of

inflation. Uncertainty about other parameters, in contrast, acts to dampen the policy response.

#### **Somers, Julie A.**

**TI** Schooling, Inequality, and the Impact of Government. **AU** Hanushek, Eric A.; Somers, Julie A.

#### **Sotomayor, Marilda**

**TI** A Simple Selling and Buying Procedure. **AU** Perez-Castrillo, David; Sotomayor, Marilda.

#### **Sousa, Joao**

**TI** Modeling the Demand for Loans to the Private Sector in the Euro Area. **AU** Calzo, Alessandro; Gartner, Christine; Sousa, Joao.

#### **Spector, David**

**PD** May 2001. **TI** Horizontal Mergers, Entry, and Efficiency Defences. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/18; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 18. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** D43, K21, L13, L41. **KW** Horizontal Mergers. Competition Policy. Oligopoly Theory.

**AB** This paper addresses the effect of horizontal merges on prices. It is shown that if firms compete in quantities and marginal costs are non-decreasing, any profitable merger failing to generate technological synergies must harm consumers through higher prices, irrespective of entry conditions in the industry. However this result does not hold if products are differentiated and firms compete in prices. The implications for merger policy are discussed.

#### **Spilimbergo, Antonio**

**TI** Crises and Liquidity: Evidence and Interpretation. **AU** Detragiache, Enrica; Spilimbergo, Antonio.

**TI** Physical Capital Adjustment within Spain: Long-Run and Short-Run Analysis. **AU** Mauro, Paolo; Spilimbergo, Antonio.

#### **Srinivasan, Sylaja**

**TI** Indian Manufacturing Industry: Elephant or Tiger? New Evidence on the Asian Miracle. **AU** Hulten, Charles R.; Srinivasan, Sylaja.

#### **Stambaugh, Robert F.**

**TI** The Equity Premium and Structural Breaks. **AU** Pastor, Lubos; Stambaugh, Robert F.

**TI** Evaluating and Investing in Equity Mutual Funds. **AU** Pastor, Lubos; Stambaugh, Robert F.

#### **Stark, Tom**

**TI** A Real-Time Data Set for Macroeconomists: Does Data Vintage Matter for Forecasting? **AU** Croushore, Dean; Stark, Tom.

**PD** July 2001. **TI** Forecasting with a Real-Time Data Set for Macroeconomists. **AU** Stark, Tom; Croushore, Dean. **AA** Federal Reserve Bank of Philadelphia. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 01/10;

Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). PG 26. PR no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. JE C53, C82. KW Real Time Data. Forecasting. Data Vintage.

**AB** This paper discusses how forecasts are affected by the use of real-time data rather than latest-available data. In the literature on developing forecasting models, new models are put together based on the results they yield using the data set available to the model's developer. But those are not the data that were available to a forecaster in real time. We find that the use of real-time data matters for choosing lag length in a univariate context. Preliminary evidence suggests that the span -- or number -- of forecast observations used to evaluate models may also be critical: we find that standard measures of forecast accuracy can be vintage-sensitive when constructed on the short spans (five years of quarterly data) of data sometimes used by researchers for forecast evaluation. Measures of forecast error, such as root-mean-squared error and mean absolute error, can be deceptively lower when using latest-available data rather than real-time data. Thus, for purposes such as modeling expectations or evaluating forecast errors of survey data, the use of latest-available data is questionable; comparisons between the forecasts generated from new models and benchmark forecasts, generated in real time, should be based on real-time data.

### Steen, Frode

**TI** Vertical Industry Linkages: Sources of Productivity Gains and Cumulative Causation. **AU** Midelfart Knarvik, Karen-Helene; Steen, Frode.

### Stein, Jeremy C.

**PD** May 2000. **TI** Information Production and Capital Allocation: Decentralized vs. Hierarchical Firms. **AA** Harvard Business School, MIT, and NBER. **SR** National Bureau of Economic Research Working Paper: 7705; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138-5398. Website: [www.nber.org](http://www.nber.org). **PG** 40. **PR** \$10.00 per copy (plus \$10.00 per order for shipping outside the U.S.). **JE** G21, G31, L22. **KW** Organizational Forms. Soft Information. Hard Information.

**AB** This paper assesses different organizational forms in terms of their ability to generate information about investment projects and allocate capital to these projects efficiently. A decentralized approach -- with small, single-manager firms -- is most likely to be attractive when information about individual projects is "soft" and cannot be credibly transmitted. Moreover, holding fixed firm size, soft information also favors flatter organizations with few layers of management. In contrast, large hierarchical firms with multiple layers of management are at a comparative advantage when information can be costlessly "hardened" and passed along within the hierarchy. As a concrete application of the theory, the paper discusses the consequences of consolidation in the banking industry. It has been documented that when large banks acquire small banks, there is a pronounced decline in lending to small businesses. To the extent that small-business lending relies heavily on soft information, this is exactly what the theory would lead one to expect.

### Stern, Scott

**PD** October 1999. **TI** Do Scientists Pay to Be Scientists? **AA** MIT and NBER. **SR** National Bureau of Economic Research Working Paper: 7410; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 31. **PR** \$5.00. **JE** J32, J44, L76, O31, O32. **KW** Science Wages. Research Organizations. Wage-Science Curve.

**AB** This paper evaluates the relationship between wages and the scientific orientation of R&D organizations. Adoption of a Science-oriented research approach (i.e., Science) is driven by two distinct forces: a "taste" for Science on the part of researchers (a Preference effect) and R&D productivity gains arising from earlier access to discoveries (a Productivity effect). The equilibrium relationship between wages and Science reflects the relative salience of these effects: the Preference effect contributes to a negative compensating differential while the Productivity effect raises the possibility of rent-sharing between firms and researchers. This paper exploits a novel field-based empirical approach. Specifically, prior to accepting a specific job offer, many scientists receive multiple job offers, making it possible to calculate the wage-Science curve for individual scientists, controlling for ability level. The results suggest a strong negative relationship between wages and Science. For example, firms who allow their employees to publish extract, on average, a 25% wage discount. The results are robust to restricting the sample to non-academic job offers, but the findings depend critically on the inclusion of the researcher fixed effects. The paper's conclusion, then, is that, conditional on scientific ability, scientists do indeed pay to be scientists.

### Stoll, Michael

**TI** Can Boosting Minority Car-Ownership Rates Narrow Inter-Racial Employment Gaps? **AU** Raphael, Steven; Stoll, Michael.

### Stracca, Livio

**PD** March 2001. **TI** The Functional Form of the Demand for Euro Area M1. **AA** European Central Bank. **SR** European Central Bank Working Paper: 51; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 40. **PR** no charge. **JE** E41, E52. **KW** M1. Money Demand. Interest Rate Elasticity. Cointegration. Kalman Filter.

**AB** A remarkable development seen in recent years is the pronounced decline in euro area M1 velocity vis-a-vis a moderate decline in short-term interest rates, which represent the most natural opportunity cost for M1. This paper endeavours to estimate a demand function for euro area M1, in particular by investigating its functional form. While the double log function is found to be very close to the true "deep" functional form of M1 demand in the euro area for most of the sample period, consistent with the findings of Chadha, Haldane and Janssen (1998) for the United Kingdom and of Lucas (2000) for the United States, there is also evidence of an increased interest rate elasticity in M1 demand in the most recent years, presumably owing to the transition to the new policy environment prevailing from the start of Stage Three of EMU and the associated decline in nominal short-term interest rates.

**PD** October 2001. **TI** Does Liquidity Matter? Properties of the Synthetic Divisia Monetary Aggregate in the Euro Area.

**AA** European Central Bank. **SR** European Central Bank Working Paper: 79; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 27. **PR** no charge. **JE** E41, E52. **KW** EMU. Divisia Monetary Aggregates. Money Demand. Liquidity.

**AB** This paper sets out to build a synthetic quarterly Divisia monetary aggregate for the euro area using area wide data over the sample period from 1980 to 2000. Then, the analysis proceeds in two separate steps. First, the demand for this Divisia monetary aggregate is evaluated using econometric techniques. By means of a cointegrated VECM model, a theoretically plausible and stable demand function may be estimated. Second, the information content of the Divisia monetary aggregate as regards future output and inflation in the euro area is analyzed. The outcome of this analysis suggests that the Divisia monetary aggregate has some information content from a forward-looking perspective, of comparable quality as simple sum M1 and M3. More in general, the paper lends further support to the view that money and "liquidity" should be assigned an important role in shaping monetary policy in the euro area.

#### **Straetmans, Stefan**

**TI** Asset Market Linkages in Crisis Periods. **AU** Hartmann, Philipp; Straetmans, Stefan; de Vries, Casper G.

#### **Subrahmanyam, Avanidhar**

**TI** Covariance Risk, Mispricing, and the Cross Section of Security Returns. **AU** Daniel, Kent D.; Subrahmanyam, Avanidhar; Hirshleifer, David.

#### **Subramanian, Arvind**

**PD** March 2001. **TI** Africa's Trade Revisited. **AU** Subramanian, Arvind; Tamirisa, Natalia. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/33; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 30. **PR** not available. **JE** C13, F12, O41. **KW** Africa. Trade. Globalization. Gravity Model. Regional Integration.

**AB** The popular impression that Africa has not integrated into world trade, as suggested by the evolution in simple indicators, has been called into question recently by more formal analysis. This paper refines and generalizes this analysis, but lends support to the popular view of disintegration. Africa, especially Francophone Africa, is currently under-exploiting its trading opportunities and has witnessed disintegration over time, a trend that is most pronounced in its trade with the technologically advanced countries.

#### **Sun, Ning**

**PD** May 2001. **TI** Perfectly Fair Allocations with Indivisibilities. **AU** Sun, Ning; Yang, Zaifu. **AA** Sun: Akita Perfectural University. Yang: Yokohama National University. **SR** Yale Cowles Foundation Discussion Paper: 1318; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 17. **PR** no charge up to 3 papers: \$3.00 each in U.S.; \$4.00 each International. **JE** D31, D61, D63, D74. **KW** Perfectly Fair Allocation.

Indivisibility. Optimality Preserved Matrix.

**AB** One set of  $n$  objects of type I, another set of  $n$  objects of type II, and an amount  $M$  of money is to be completely allocated among  $n$  agents in such a way that each agent gets one object of each type with some amount of money. We propose a new solution concept to this problem called a perfectly fair allocation. It is a refinement of the concept of fair allocation. An appealing and interesting property of this concept is that every perfectly fair allocation is Pareto optimal. It is also shown that a perfectly fair allocation is envy free and gives each agent what he likes best, and that a fair allocation need not be perfectly fair. Furthermore, we give a necessary and sufficient condition for the existence of a perfectly fair allocation. Precisely, we show that there exists a perfectly fair allocation if and only if the valuation matrix is an optimality preserved matrix. Optimality preserved matrices are a class of new and interesting matrices. An extension of the model is also discussed.

#### **Svensson, Lars E. O.**

**PD** February 2000. **TI** Indicator Variables for Optimal Policy. **AU** Svensson, Lars E. O.; Woodford, Michael. **AA** Svensson: Stockholm University, Princeton University, CEPR and National Bureau of Economic Research. Woodford: Princeton University and National Bureau of Economic Research. **SR** European Central Bank Working Paper: 12; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 46. **PR** no charge. **JE** E37, E47, E52, E58. **KW** Kalman Filter. Monetary Policy. Discretion. Commitment.

**AB** The optimal weights on indicators in models with partial information about the state of the economy and forward-looking variables are derived and interpreted, both for equilibria under discretion and under commitment. An example of optimal monetary policy with a partially observable potential output and a forward-looking indicator is examined. The optimal response to the optimal estimate of potential output displays certainty-equivalence, whereas the optimal response to the imperfect observation of output depends on the noise in this observation.

**PD** February 2000. **TI** The First Year of the Eurosystem: Inflation Targeting or Not? **AA** Princeton University, CEPR, and NBER. **SR** CEPR Discussion Paper: 2380; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). **PG** 16. **PR** 5 pounds, \$8 or 8 euros. **JE** E42, E52, E58. **KW** Monetary Targeting. ECB. Transparency.

**AB** This paper is a brief evaluation of the Eurosystem's monetary-policy regime after its first year, in particular of the extent to which it is similar to inflation targeting as practiced by an increasing number of central banks. I examine the Eurosystem's goals, framework for monetary-policy decisions and communication with outsiders. Criteria for evaluation are whether the goals are unambiguous and appropriate; whether the decision framework is efficient in collecting and processing information and reaching decisions that are appropriate relative to the goals; and whether the communication is effective in motivating decisions, simplifying external evaluation and thereby improving transparency and accountability. I also consider whether the actual instrument setting has been appropriate, given the information available at the times of

decision.

### Sylla, Richard

**TI** Emerging Financial Markets and Early U.S. Growth. **AU** Rousseau, Peter L.; Sylla, Richard.

### Szekely, Istvan P.

**TI** The Role of Medium-Term Fiscal Frameworks for Transition Countries: The Case of Bulgaria. **AU** Horvath, Balazs; Szekely, Istvan P.

### Takalo, Tuomas

**TI** Capital Market Development, Corporate Governance and the Credibility of Exchange Rate Pegs. **AU** Castren, Olli; Takalo, Tuomas.

### Tamirisa, Natalia

**TI** Africa's Trade Revisited. **AU** Subramanian, Arvind; Tamirisa, Natalia.

### Tarr, David

**TI** Foreign Direct Investments in Services and the Domestic Market for Expertise. **AU** Markusen, James R.; Rutherford, Thomas F.; Tarr, David.

### Tauras, John A.

**PD** November 1999. **TI** The Transition to Smoking Cessation: Evidence from Multiple Failure Duration Analysis. **AA** University of Michigan and NBER. **SR** National Bureau of Economic Research Working Paper: 7412; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 20. **PR** \$5.00. **JE** 112, 118. **KW** Smoking Cessation. Youth Smoking Behavior. Smoking Probability.

**AB** While much is known about the impacts of prices and tobacco control policies have on smoking participation and frequency of cigarette use, little is known about their impacts on smoking cessation. This paper addresses the dynamics of smoking cessation using longitudinal data on young adults from the Monitoring the Future Surveys. Site-specific prices and several measures of clean indoor air restrictions are added to the survey data. Both parametric and semi-parametric duration models are used to model multiple cessation attempts of young adults. The estimates indicate that increases in the price of cigarettes increase the probability of initial smoking cessation as well as subsequent cessation for those individuals who are unable to remain smoke-free after at least one prior cessation attempt. The average price elasticity of cessation is 0.343. In addition, stronger restrictions on smoking in private worksites and public places other than restaurants increase the probability of young adult smoking cessation.

### Taylor, Mark P.

**TI** Why is it so Difficult to Beat the Random Walk Forecast of Exchange Rates? **AU** Kilian, Lutz; Taylor, Mark P.

### Temin, Peter

**PD** December 2001. **TI** The Labor Supply of the Early Roman Empire. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/45; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge,

MA 02142. **PG** 32. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** J21, J31, N33, N35. **KW** Roman Empire. Labor Market. Slavery.

**AB** I argue that it makes sense to speak of a functioning labor market in the early Roman Empire where the supply and demand for labor were equilibrated by wages and other payments to workers, albeit in a rough way. The economy of the early Roman Empire therefore had a market in this critical factor of production that resembles the labor market in more recent market economies. Slaves were included in the general labor market because Roman slavery was very different from modern slavery in the Americas. In the early Roman Empire, frequent manumission provided incentives for slaves to cooperate with their owners and act like free laborers.

### Tennyson, Sharon

**TI** Insurance Fraud and Optimal Claims Settlement Strategies: An Empirical Investigation of Liability Insurance Settlements. **AU** Crocker, Keith J.; Tennyson, Sharon.

### Thomas, Alison

**PD** August 2000. **TI** Equity Performance of Segregated Pension Funds in the UK. **AU** Thomas, Alison; Tonks, Ian. **AA** University of Bristol and CMPO. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 00/26; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www.bris.ac.uk/cmppo/publications.htm](http://www.bris.ac.uk/cmppo/publications.htm). **PG** 26. **PR** no charge. **JE** G23, N20. **KW** Performance Measurement. Pension Funds.

**AB** This paper investigates the performance of the UK equity portfolios of 2,175 segregated UK pension funds over the period 1983-97. There is similar pattern in the returns on most of the pension funds and the FT- All Share index, leading to the conclusion that most funds in the sample are "closet-trackers". Over the whole period and across all funds average outperformance was insignificantly different from zero. The sensitivity of the fund returns to the addition of a size premium was investigated. During three sub-periods there was significant average underperformance during the strong bull market of the mid- eighties, but significant outperformance since 1987. In 1987-92 the average outperformance across pension funds was 0.5 percent per year. Decomposing this abnormal performance, it was found that most of it could be explained by the ability of both large and small funds to time the size premium. On the whole, there were negative returns to both selectivity and to market timing. There was little evidence of any differences in the performance between mature and immature funds.

### Thomas, Julia K.

**TI** Nonconvex Factor Adjustments in Equilibrium Business Cycle Models: Do Nonlinearities Matter? **AU** Khan, Aubhik; Thomas, Julia K.

### Thursby, Marie C.

**TI** Can Subsidies for MARs be Procompetitive? **AU** Krishna, Kala; Roy, Suddhasatwa; Thursby, Marie C.

### Timmermann, Allan

**TI** Business Cycle Asymmetries in Stock Returns: Evidence from Higher Order Moments and Conditional Densities. **AU** Perez-Quiros, Gabriel; Timmermann, Allan.

**Tirole, Jean**

**TI** LAPM: A Liquidity-Based Asset Pricing Model. **AU** Holmstrom, Bengt; Tirole, Jean.

**TI** The Economics of Career Concerns, Part 1: Comparing Information Structures. **AU** Dewatripont, Mathias; Jewitt, Ian; Tirole, Jean.

**TI** The Economics of Career Concerns, Part 2: Application to Missions and Accountability of Government Agencies. **AU** Dewatripont, Mathias; Jewitt, Ian; Tirole, Jean.

**Titman, Sheridan**

**TI** Building the IPO Order Book: Underpricing and Participation Limits with Costly Information. **AU** Sherman, Ann E.; Titman, Sheridan.

**Tobin, James**

**PD** March 2001. **TI** Fiscal Policy: Its Macroeconomics in Perspective. **AA** Yale Political Magazine. **SR** Yale Cowles Foundation Discussion Paper: 1301; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). **PG** 10. **PR** no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. **JE** H24, H25, H62. **KW** Fiscal Policy. Tax Cuts.

**AB** President George W. Bush is preparing a drastic permanent reduction in federal income and estate taxes. He cites as precedents tax cuts by Kennedy-Johnson 1962-64 and Reagan 1981. In those cases, however, the economy was operating well below full employment and needed a "demand-side" stimulus (even though Reagan advertised his tax reduction as "supply-side"). In 2001, however, the economy is very close to full employment, and if it needs a stimulus at all, it is a quick modest temporary one instead of the large permanent one proposed. And why can't monetary policy do the job of stabilization, as it did successfully in the 1990s? A policy mix that assigns short run demand stabilization to the central bank is for several reasons preferable to a tight-money-easy-fiscal mix. In the case of Reagan and Bush the younger, federal tax cuts are advocated on philosophical and ideological grounds, diminution of the size and scope of government. But formulation of the issue as government versus people is a misunderstanding of democracy and of the reciprocities between public and private sectors.

**Todd, Petra**

**TI** Racial Bias in Motor Vehicle Searches: Theory and Evidence. **AU** Knowles, John; Todd, Petra; Persico, Nicola.

**Tonks, Ian**

**TI** Equity Performance of Segregated Pension Funds in the UK. **AU** Thomas, Alison; Tonks, Ian.

**PD** August 2001. **TI** Fund Manager Performance of Segregated UK Pension Funds. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 01/033; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 16. **PR** no charge. **JE** G23. **KW** Pension Funds. Fund Management. Performance Measurement.

**AB** This paper examines the performance of fund managers

responsible for managing the investment decisions of UK pension funds. The paper examines both individual fund manager performance of pension funds under management, and also the persistence of this performance over time. Previous work on UK pension funds has found little evidence of fund manager persistence, but this might be due to survivorship bias disguising true persistence. Using a large sample of pension funds over the period 1983-97 evidence is found of positive and negative individual fund manager abnormal performance. Further strong evidence is found of persistence in abnormal returns over one year time horizons.

**TI** Institutional Investors' Trading Profits in Auction and Dealer Markets. **AU** Snell, Andy; Tonks, Ian.

**PD** November 1999. **TI** Pensions Policy in the UK. **AA** University of Bristol. **SR** University of Bristol, Leverhulme Centre for Market and Public Organisation (CMPO) Working Paper: 99/012; CMPO, Department of Economics, University of Bristol, Mary Paley Building, 12 Priory Road, Bristol, BS8 1TN, United Kingdom. Website: [www/bris.ac.uk/cmppo/publications.htm](http://www/bris.ac.uk/cmppo/publications.htm). **PG** 42. **PR** no charge. **JE** G23, H55. **KW** Pensions. Defined Benefit. Defined Contribution. Stakeholders.

**AB** This paper outlines the three tiers of pension provision in the UK and examines the shift in emphasis from public to private provision. Until the 1980s, the second and third tiers of pension support consisted of the state earnings related pension scheme (SERPS) and defined benefit occupation schemes. The introduction of personal pensions in the late 1980s eroded the importance of SERPS and illustrated that funded private sector schemes are viable as pension providers. The paper also analyzes the impact of the proposals for stakeholder pensions. It argues that stakeholder pensions look like a superior alternative to personal pensions and are likely to drive the more complex and expensive personal pension out of the market. However, other savings products such as ISAs also appear attractive tax-efficient savings vehicles, without the restriction that the accumulated savings must be taken as a pension. Individuals on low incomes may be advised to take out ISAs in preference to stakeholder pensions.

**Topi, Jukka**

**PD** December 2001. **TI** Transmission of Monetary Policy Shocks in Finland: Evidence from Bank Level Data on Loans. **AU** Topi, Jukka; Vilmunen, Jouko. **AA** Bank of Finland. **SR** European Central Bank Working Paper: 100; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 35. **PR** no charge. **JE** E51, E52, G21. **KW** Monetary Policy. Money View. Credit View. Banking Crisis. GMM.

**AB** We use a panel of quarterly time series observations spanning the period from 1995 to 2000 on Finnish banks to estimate reduced form equations for the growth rate of bank loans. By allowing for individual bank specific effects in the models that we estimate we specifically seek evidence of a bank-lending channel for the transmission of monetary policy shocks in Finland during the latter half of the 1990s. On the basis of our estimation results, we conclude that there is at most weak evidence in favour of the bank-lending channel for monetary policy shocks. Since our data overlaps with the post crisis recovery of the Finnish banking sector with specific government support measures still active during the good part of the sample period, we try to capture the effects of these



measures through incorporating a policy dummy variable in our empirical model. This policy dummy enters the estimated equations highly significantly, suggesting that the measures themselves may have contributed to the growth rate of bank loans during the sample period.

### Trajtenberg, Manuel

**TI** The Meaning of Patent Citations: Report on the NBER/Case-Western Reserve Survey of Patentees. **AU** Jaffe, Adam B.; Trajtenberg, Manuel; Fogarty, Michael S.

### Trecroci, Carmine

**PD** October 2000. **TI** The Information Content of M3 for Future Inflation. **AU** Trecroci, Carmine; Vega, Juan-Luis. **AA** European Central Bank. **SR** European Central Bank Working Paper: 33; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 33. **PR** no charge. **JE** C32, C50, E30, E40. **KW** Euro Area. Inflation. Monetary Aggregates. M3. P-Star.

**AB** The information content of broad money M3 for future GDP inflation in the euro area is investigated from a number of perspectives. Firstly, tests that money does not Granger-cause prices are conducted within a cointegrated VAR system comprising real M3 holdings, real GDP, inflation and short- and long-term interest rates. Secondly, this empirical framework is extended to investigate the claim that -- in the context of an extended P-star model -- the real money gap has substantial predictive power for future inflation. And thirdly, the P-star type of model developed is compared with an existing rival model of inflation in the euro area where no explicit role is given to monetary developments. Empirical results confirm that a significant positive association exists between the real money gap and future inflation up to five to six quarters ahead, reaching a maximum at the three-to-four quarter horizon. It is also shown that, although the extended P-star model outperforms the competing model in terms of out-of-sample forecast accuracy (as measured by the root mean square forecast errors) at horizons above two quarters, the hypothesis that no useful information is contained in rival evidence can be rejected at standard confidence levels.

### Treichel, Volker

**PD** April 2001. **TI** Financial Sustainability and Reform Options for the Albanian Pension Fund. **AA** International Monetary Fund. **SR** International Monetary Fund Working Paper: WP/01/47; International Monetary Fund, 700 19th Street, Washington, DC 20431. **PG** 27. **PR** not available. **JE** E62, G23, H26. **KW** Pension Funds. Parametric Reforms. Multi-Pillar Reforms. Transition Economies.

**AB** This paper studies the financial sustainability of the Albanian pension fund and assesses possible options for its reform. The paper concludes that the pension fund is not sustainable in its current form and proposes for the urban scheme a combination of parametric changes to the existing pay-as-you-go system that would be conducive to broadening the contribution base and strengthening the financial performance of the pension fund. In addition, it proposes the establishment of a voluntary funded pillar in the urban scheme. For the rural scheme, the paper concludes that it should either be merged with the scheme for the urban self-employed or be replaced by a mandatory and funded second pillar. The paper also proposes administrative reforms to strengthen revenue

collections.

### Tribo, Josep

**PD** July 1997. **TI** Long-Term and Short-Term Labor Contracts versus Long-Term and Short-Term Financial Contracts. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 386/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 33. **PR** no charge. **JE** D21, D23, G20, J41, L14. **KW** Financial Contracts. Labor Contracts. Banks. Markets.

**AB** This paper has three objectives. The first objective is the analysis of the interaction between the basic internal contracts that shape the firm (labor and financial contracts). In particular we show how their temporal dimensions are related. The linkage between firm's internal contracts and the project choice (short-term or long-term) is the second objective of our study. Finally, we check how sensitive is the type of financial intermediary (banks or markets) to the relations previously studied. These results allow us to rationalize several facts that characterize the US-UK financial system and the German-Japanese one. Finally, as a direct implication of our theoretical model, some empirical tests are proposed which are particularly relevant to describe some features of the current Spanish economy.

**TI** A Main Bank Approach to Optimal Financial Contracting. **AU** Garcia-Cestona, Miguel A.; Tribo, Josep.

**PD** July 1997. **TI** Market Structure, Financial Structure and Inventories. **AA** Universitat Autònoma de Barcelona. **SR** Universitat Autònoma de Barcelona DEHA/IAE Working Paper: 388/97; Departament d'Economia i d'Història Econòmica, Facultat de Ciències Econòmiques, Campus Universitat Autònoma de Barcelona, 08193 Bellaterra, Barcelona, Spain. **PG** 34. **PR** no charge. **JE** D20, D40, G32, L11, L23. **KW** Inventories. Financial Structure. Business Cycles. Corporate Finance. Market Structure.

**AB** We have two main objectives in this work. The first objective is to link product market structure with the inventory policy followed by firms. The second objective is to study the effect of different financial contracts on firm's policy, in particular on its inventory policy. This will permit the definition for a given economic environment (expansions or recessions) and for a given market structure, of the best financial instruments to diminish the variability of stocks. We show that in periods of recessions to extend credit's length is optimal, in order to reduce firm's liquidity needs. On the other hand, in periods of expansions, to diminish the length of the financial contracts is an efficient strategy to avoid a steep investment in stocks. In the article a mechanism based on interest rate-variable credit to reduce inventory fluctuations is described. This measure could be of interest for a Central Bank trying to smooth the economic fluctuations alongside the economic cycle.

### Tristani, Oreste

**TI** What Does the Single Monetary Policy Do? A SVAR Benchmark for the European Central Bank. **AU** Monticelli, Carlo; Tristani, Oreste.

**Tsomocos, D. P.**

TI International Finance in General Equilibrium.  
 AU Geanakoplos, John; Tsomocos, D. P.

**Turner, Sarah E.**

TI Going to War and Going to College: Did World War II and the G.I. Bill Increase Educational Attainment for Returning Veterans? AU Bound, John; Turner, Sarah E.

**Turrini, Alessandro**

TI Skills, Labor Costs and Vertically Differentiated Industries: A General Equilibrium Analysis. AU Lutz, Stefan; Turrini, Alessandro.

**Ubide, Angel**

TI Euro-Area Banking at the Crossroads. AU Belaisch, Agnes; Kodres, Laura; Levy, Joaquim; Ubide, Angel.

**Umantsev, Len**

TI Conditional Value-at-Risk: Aspects of Modeling and Estimation. AU Chernozhukov, Victor; Umantsev, Len.

**Usategui, Jose M., III.**

TI Iceberg Transport Costs I. Monopoly. AU Martinez-Giralt, Xavier; Usategui, Jose M., III..

**Vagstad, Steinar**

TI Mommy Tracks and Public Policy: On Self-Fulfilling Prophecies and Gender Gaps in Promotion. AU Lommerud, Kjell Erik; Vagstad, Steinar.

**Valdes, Rodrigo O.**

TI What Drives Contagion: Trade, Neighborhood, or Financial Links? AU Hernandez, Leonardo F.; Valdes, Rodrigo O.

**Valimaki, Juuso**

TI Entry and Vertical Differentiation. AU Bergemann, Dirk; Valimaki, Juuso.

**Valla, Natacha**

TI Learning, Uncertainty and Central Bank Activism in an Economy With Strategic Interactions. AU Ellison, Martin; Valla, Natacha.

**Valletta, Robert G.**

TI Union Effects on Health Insurance Provision and Coverage in the United States. AU Buchmuller, Thomas C.; DiNardo, John; Valletta, Robert G.

**van Bergeijk, Peter**

TI Is the Yield Curve a Useful Information Variable for the Eurosystem? AU Berk, Jan Marc; van Bergeijk, Peter.

**van den Berg, Gerard J.**

PD May 2000. TI Punitive Sanctions and the Transition Rate from Welfare to Work. AU van den Berg, Gerard J.; van Ours, Jan C.; Van Der Klaauw, Bas. AA van den Berg: Free University of Amsterdam. van Ours: Tilburg University, CentER, Institute for Labor Studies (OSA), IZA, and Centre for Economic Policy Research. Van Der Klaauw: Free University

Amsterdam, and Tinbergen Institute. SR CEPR Discussion Paper: 2447; 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, \$8 or 8 euros. JE C41, J64, J68. KW Unemployment Duration. Punishment. Search Effort. Welfare Agency.

AB In The Netherlands, the average exit rate out of welfare is dramatically low. Most welfare recipients have to comply with guidelines on job search effort that are imposed by the welfare agency. If they do not, then a sanction in the form of a temporary benefit reduction can be imposed. This paper investigates the effect of such sanctions on the transition from welfare to work using a unique set of rich administrative data on welfare recipients in The Netherlands. The imposition of sanctions substantially increases the individual transition rate from welfare to work. The other determinants of the transition from welfare to work is also described.

**Van Den Dool, Gerrit**

TI Cyclically Adjusted Budget Balances: An Alternative Approach. AU Bouthevillain, Carine; Cour-Thimann, Philippine; Van Den Dool, Gerrit; Hernandez de Cos, Pablo; Langenus, Geert; Mohr, Matthias; Momigliano, Sandro; Tujula, Mika.

TI Cyclically Adjusted Budget Balances: An Alternative Approach. AU Bouthevillain, Carine; Cour-Thimann, Philippine; Van Den Dool, Gerrit; Hernandez de Cos, Pablo; Langenus, Geert; Mohr, Matthias; Momigliano, Sandro; Tujula, Mika.

**Van Der Klaauw, Bas**

TI Labor Supply and Matching Rates for Welfare Recipients: An Analysis Using Neighborhood Characteristics. AU van Ours, Jan C.; Van Der Klaauw, Bas.

TI Punitive Sanctions and the Transition Rate from Welfare to Work. AU van den Berg, Gerard J.; van Ours, Jan C.; Van Der Klaauw, Bas.

**Van Els, Peter**

PD December 2001. TI Monetary Policy Transmission in the Euro Area: What do Aggregate and National Structural Models Tell Us? AU Van Els, Peter; Locarno, Alberto; Morgan, Julian; Villetelle, Jean-Pierre. AA Van Els: De Nederlandsche Bank, Amsterdam. Locarno: Banca d'Italia, Rome. Morgan: European Central Bank. Villetelle: Banque de France. SR European Central Bank Working Paper: 94; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. PG 53. PR no charge. JE C52, E17, E52. KW Monetary Policy. Monetary Transmission Mechanism. Macroeconomic Models.

AB This paper analyses the monetary transmission mechanism in the euro area through the use of large scale macroeconomic models at the disposal of the European Central Bank and the National Central Banks of the Eurosystem. The results reported are based on a carefully designed common simulation experiment involving a 100 basis point rise in the policy interest rate for two years accompanied by common assumptions regarding the path of long-term interest rates and the exchange rate. Aggregating the country level results, the fall in output is found to reach a maximum of 0.4 percent after

2 years. The maximum aggregate fall in prices is also 0.4 percent, but it occurs 2 years later. The dominant channel of transmission in the first two years is the exchange rate channel, but in terms of the impact on output, the user cost of capital channel becomes dominant from the third year of the simulation onwards.

### van Ours, Jan C.

**PD** January 2000. **TI** Modeling Financial Incentives to Get Unemployed Back to Work. **AU** van Ours, Jan C.; Boone, Jan. **AA** van Ours: Tilburg University, Center for Labor Studies (OSA), IZA and CEPR. Boone: Tilburg University and CPB Netherlands Bureau for Economic Policy Analysis. **SR** CEPR Discussion Paper: 2361; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 60. **PR** 5 pounds, \$8 or 8 euros. **JE** H55, J65, J68. **KW** Unemployment Benefits. Financial Incentives. Sanctions.

**AB** We model how unemployment benefit sanctions -- benefit reductions that are imposed if unemployed do not comply with job search guidelines -- affect unemployment. In our analysis we find that not only micro- effects concerning the behavior of individual unemployed workers are relevant, but also macro-spillover effects from the additional creation of vacancies, which originates from the increased effectiveness of labor supply. We advocate that for a given loss in welfare for the unemployed benefit sanctions are more effective in reducing unemployment than an across the board reduction in the replacement rate.

**PD** January 2000. **TI** Labor Supply and Matching Rates for Welfare Recipients: An Analysis Using Neighborhood Characteristics. **AU** van Ours, Jan C.; Van Der Klaauw, Bas. **AA** van Ours: Tilburg University, Institute for Labor Studies (OSA), IZA and CEPR. Van Der Klaauw: Free University, Amsterdam and Tinbergen Institute. **SR** CEPR Discussion Paper: 2362; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, \$8 or 8 euros. **JE** C41, J61, J64, R23. **KW** Welfare to Work. Unemployment Duration. Spillovers.

**AB** This paper investigates how in addition to personal characteristics the neighborhood affects the individual transition rate from welfare to work. We use a unique administrative database on welfare recipients in Rotterdam, the second largest city of The Netherlands. We find that the exit rate to work of young Dutch welfare recipients is influenced by the neighborhood unemployment rate. Other neighborhood characteristics such as the average housing price are not important. >From this we conclude that for young Dutch welfare recipients a high local unemployment rate has a negative spillover effect on the transition from welfare to work.

**PD** January 2000. **TI** Fast Track or Failure: A Study of the Completion Rates of Graduate Students in Economics. **AU** van Ours, Jan C.; Ridder, G. **AA** van Ours: Tilburg University, Institute for Labor Studies (OSA), IZA and CEPR. Ridder: Johns Hopkins University. **SR** CEPR Discussion Paper: 2363; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds, \$8 or 8 euros. **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. 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** Punitive Sanctions and the Transition Rate from Welfare to Work. **AU** van den Berg, Gerard J.; van Ours, Jan C.; Van Der Klaauw, Bas.

**PD** May 2000. **TI** The Impact of Active Labor Market Policies and Benefit Entitlement Rules on the Duration of Unemployment. **AU** van Ours, Jan C.; Zweimuller, Josef; Lalive, Rafael. **AA** van Ours: Tilburg University, Center, Institute for Labor Studies (OSA), IZA, and Centre for Economic Policy Research. Zweimuller and Lalive: University of Zurich. **SR** CEPR Discussion Paper: 2451; 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, \$8 or 8 euros. **JE** C14, C41, I38, J64. **KW** Active Labor Market Policy. Benefit Entitlement. Treatment Effect. Bivariate Duration Model.

**AB** The effect of active labor market programs on the duration of unemployment in a reward or punish system is evaluated in this paper. In Switzerland, unemployment benefits are conditional upon program attendance after 7 months of unemployment duration. The evaluation allows for selectivity affecting the inflow into programs. The results indicate that (i) After ALMP-participation the transition rate to jobs increases for Swiss women but not for Swiss men. However, the job hazard rate is strongly reduced during participation. Taken together, this leads to the conclusion that programs prolong unemployment duration for men, but tend to shorten duration for women. (ii) Once the unemployment spell approaches the expiration of unconditional benefit entitlement the job-hazard rate increases strongly, both for women and for men. (iii) Important selectivity effects are not found, either for males or females.

### Van Reenen, John

**PD** May 2000. **TI** Mapping the Two Faces of R&D: Productivity Growth in a Panel of OECD Industries. **AU** Van Reenen, John; Redding, Stephen; Griffith, Rachel. **AA** Van Reenen: University College, London, Institute for Fiscal Studies, and Centre for Economic Policy Research. Redding: London School of Economics, Institute for Fiscal Studies, and Centre for Economic Policy Research. Griffith: Institute for Fiscal Studies and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2457; 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, \$8 or 8 euros. **JE** O10, O30, O40. **KW** Research and Development. Human Capital. Total Factor Productivity. Convergence.

**AB** Many writers have claimed that research and development (R&D) has two "faces." In addition to the conventional role of stimulating innovation, R&D enhances technology transfer by improving the ability of firms to learn

about advances in the leading edge ("absorptive capacity"). This paper documents the convergence of TFP within a panel of industries across thirteen OECD countries since 1970. Furthermore, evidence is found that both R&D and human capital appear statistically and economically important in this catch up process as well as stimulating innovation directly. Trade, by contrast, plays a more modest role in productivity growth.

#### Vassalou, Maria

**PD** May 2000. **TI** Exchange Rate and Foreign Inflation Risk Premiums in Global Equity Returns. **AA** Columbia University and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2448; 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, \$8 or 8 euros. **JE** F30, F31, G12. **KW** Asset Pricing, International. Foreign Inflation Risk Premiums. Exchange Rate Risk Premiums.

**AB** In this paper, the pricing of exchange rate and foreign inflation risk in equities is tested. The 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. The 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.

#### Vega, Juan-Luis

**TI** The Information Content of M3 for Future Inflation. **AU** Trecroci, Carmine; Vega, Juan-Luis.

**PD** April 2001. **TI** An Evaluation of Some Measures of Core Inflation for the Euro Area. **AU** Vega, Juan-Luis; Wynne, Mark A. **AA** Vega: European Central Bank, Wynne: Federal Reserve Bank of Dallas. **SR** European Central Bank Working Paper: 53; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 42. **PR** no charge. **JE** C82, E31. **KW** Euro Area. HICP. Core Inflation.

**AB** We examine two measures of core inflation which have been proposed in recent years: the limited-influence estimators of core inflation pioneered by Bryan and Cecchetti (1994); and the Edgeworth or variance-weighted price index discussed by Diewert (1995). We compare these measures with traditional "Ex. Food & Energy"-type measures and evaluate them on the basis of two criteria: their ability to track movements in trend inflation; and their ability to predict future headline inflation. We do find evidence that traditional "Ex. Food & Energy"-type measure of core inflation may be dominated by alternative measures and conclude that trimmed-mean measures of core inflation may be a useful input to the monetary policy process. These conclusions, nonetheless, are necessarily tentative and subject to strong caveats due to the short span of data on which inference can be drawn.

**TI** The Demand for M3 in the Euro Area. **AU** Coenen, Gunter; Vega, Juan-Luis.

#### Ventura, Jaume

**TI** Product Prices and the OECD Cycle. **AU** Kraay, Aart; Ventura, Jaume.

**TI** Comparative Advantage and the Cross-Section of Business Cycles. **AU** Kraay, Aart; Ventura, Jaume.

#### Verdier, Thierry

**PD** May 2000. **TI** Racial Beliefs, Location and the Causes of Crime. **AU** Verdier, Thierry; Zenou, Yves. **AA** Verdier: DELTA-ENS, CERAS-ENPC, and Centre for Economic Policy Research. Zenou: University of Southampton and Centre for Economic Policy Research. **SR** CEPR Discussion Paper: 2455; 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, \$8 or 8 euros. **JE** J15, K42, R14. **KW** Prejudices. Urban Black Ghettos. Crime.

**AB** This paper shows that both location and stereotypical racial beliefs explain the high criminality rate among blacks in cities. In the model, blacks and whites are identical in all respects. However, if everybody (including blacks) believes that more blacks become criminals than whites, then more blacks (for rational reasons) become criminals than whites, earn lower wages and reside in ghettos located far away from legal activities. There is a vicious cycle which blacks cannot escape because both location and labor market outcomes reinforce each other to imply high crime rates among blacks living in cities. This is the discriminating equilibrium. If there are no such beliefs in the economy, then another equilibrium emerges in which blacks and whites experience the same labor market and crime outcomes and live together. This is the non-discriminating equilibrium. The key feature of this belief-based model is that multiple equilibria are sustainable only because of space. Since location is endogenous, workers who are believed to be criminals have less incentives to locate close to jobs. Since workers located further away from jobs have a lower net wage, their risk of capture is lower and hence the incidence of crime is greater.

#### Verge, Thibaud

**TI** Competition Policy and Agreements Between Firms. **AU** Berges-Sennou, Fabian; Loss, Frederic; Malavolti, Estelle; Verge, Thibaud.

#### Verhagen, Willem

**TI** The Term Structure of Interest Rates and Inflation Forecast Targeting. **AU** Eijffinger, Sylvester C. W.; Schaling, Eric; Verhagen, Willem.

#### Vermeulen, Philip

**PD** November 2000. **TI** Business Fixed Investment: Evidence of a Financial Accelerator in Europe. **AA** European Central Bank. **SR** European Central Bank Working Paper: 37; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 35. **PR** no charge. **JE** E22, E44. **KW** Financial Accelerator. Investment. Panel Data.

**AB** Financial accelerator theories imply that weak balance sheets can amplify adverse shocks on firm investment. This effect should be asymmetric, stronger in downturns than in upturns and stronger for small firms than for large firms. This

paper provides empirical evidence of the presence of a financial accelerator in the four largest euro area economies: Germany, France, Italy and Spain. Using annual firm balance sheet data over the period 1983-1997 it is shown that weak balance sheets are more important in explaining investment during downturns than during upturns. It is further shown that the effects of the accelerator are largest for small firms.

**TI** Investment and Monetary Policy in the Euro Area.  
**AU** Mojon, Benoit; Smets, Frank; Vermeulen, Philip.

### Verrecchia, Robert E.

**PD** December 1999. **TI** Intertemporal Tax Discontinuities. **AU** Verrecchia, Robert E.; Shackelford, Douglas A. **AA** Verrecchia: University of Pennsylvania. Shackelford: University of North Carolina. **SR** National Bureau of Economic Research Working Paper: 7451; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 29. **PR** \$5.00. **JE** G12, H24. **KW** Tax Discontinuities. Timing of Taxation.

**AB** This paper defines an intertemporal tax discontinuity (ITD) as a circumstance in which different tax rates are applied to gains and losses realized at one point in time versus some other point in time, and studies the effects of ITDs on market behaviors at the time of disclosures of firm performance. The results show that ITDs either depress or amplify trading volume at the time of disclosure, depending upon whether the disclosure is "good news" or "bad news," respectively, and lead to "overreactions" in price changes independent of the "news." We propose empirical tests of one intertemporal tax discontinuity, the spread between short-term capital gains tax rates and long-term capital gains tax rates. We predict that stock responses to disclosures, such as quarterly earning announcements, increase in the difference between short-term and long-term capital gains tax rates.

### Vesala, Jukka

**TI** Deposit Insurance and Moral Hazard: Does the Counterfactual Matter? **AU** Gropp, Reint; Vesala, Jukka.

### Viceira, Luis M.

**PD** October 1999. **TI** Optimal Portfolio Choice for Long-Horizon Investors with Nontradable Labor Income. **AA** Harvard University and NBER. **SR** National Bureau of Economic Research Working Paper: 7409; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: [www.nber.org](http://www.nber.org). **PG** 28. **PR** \$5.00. **JE** E21, G11. **KW** Portfolio Choice. Long Horizon Investors.

**AB** This paper analyzes optimal portfolio decisions of long-horizon investors with undiversifiable labor income risk and exogenous expected retirement and lifetime horizons. It shows that the fraction of savings optimally invested in stocks is unambiguously larger for employed investors than for retired investors when labor income risk is uncorrelated with stock return risk. This paper also examines the effect of increasing labor income risk on savings and portfolio choice and finds that, when labor income risk is independent of stock market risk, a mean-preserving increase in the variance of labor income growth increases the investor's willingness to save and reduce her willingness to hold the risky asset in her portfolio. A sensible calibration of the model shows that savings are relatively more responsive to changes in labor income risk than

portfolio demands. Positive correlation between labor income innovations and unexpected asset returns also reduces the investor's willingness to hold the risky asset, because of its poor properties as a hedge against unexpected declines in labor income. This paper also provides intuition on the peculiar form of optimal portfolio choice of very young investors predicted by the standard life-cycle model.

### Vidal, Jean-Pierre

**TI** Public Pensions and Growth. **AU** Lambrecht, Stephane; Michel, Philippe; Vidal, Jean-Pierre.

### Vila, Xavier

**TI** A Note on Agent Based Imperfect Competition.  
**AU** Rocher, Francesco; Vila, Xavier.

### Villetelle, Jean-Pierre

**TI** Monetary Policy Transmission in the Euro Area: What do Aggregate and National Structural Models Tell Us? **AU** Van Els, Peter; Locarno, Alberto; Morgan, Julian; Villetelle, Jean-Pierre.

### Vilmunen, Jouko

**TI** Transmission of Monetary Policy Shocks in Finland: Evidence from Bank Level Data on Loans. **AU** Topi, Jukka; Vilmunen, Jouko.

### Voith, Richard

**PD** September 2000. **TI** Capitalization of Federal Taxes, the Relative Price of Housing, and Urban Form: Density and Sorting Effects. **AU** Voith, Richard; Gyourko, Joseph. **AA** Voith: Federal Reserve Bank of Philadelphia. Gyourko: University of Pennsylvania. **SR** Federal Reserve Bank of Philadelphia Research Working Paper: 00/12; Working Papers, Department of Research, Federal Reserve Bank of Philadelphia, 10 Independence Mall, Philadelphia, PA 19106. Website: [www.phil.frb.org/econ/wps/index.html](http://www.phil.frb.org/econ/wps/index.html). **PG** 26. **PR** no charge except overseas airmail, \$3.00; checks/money orders in U.S. funds payable to Federal Reserve Bank of Philadelphia. **JE** R14, R21. **KW** Housing Demand. Taxation. Owner Occupied Housing.

**AB** We investigate the impact of the tax treatment of owner-occupied housing on urban form in an economy in which high and low income households choose among city and suburban communities. Because housing tax policies differentially affect the relative, after-tax price of housing for high and low income households, and because the extent of capitalization of housing tax policies can differ across city and suburban communities, our analysis finds that housing tax policies can affect not only the density of the metropolitan area, but also can influence where rich and poor households choose to live. We also show that the impacts of housing tax policies differ depending upon whether land use constraints such as suburban large lot zoning exist. Importantly, our analysis of community choice is not driven by different preferences for city of suburb that may be associated with the income elasticity of housing demand. Rather, it results from changes in relative after-tax housing prices faced by poor and rich households. Determining the empirical relevance of prices versus preferences in this matter should be an urgent task for future research.

**TI** Measuring American Rents: A Revisionist History.  
**AU** Crone, Theodore M.; Nakamura, Leonard I.; Voith,

Richard.

#### von Wachter, Till

**PD** March 2001. **TI** Employment and Productivity Growth in Service and Manufacturing Sectors in France, Germany and the US. **AA** University of California, Berkeley. **SR** European Central Bank Working Paper: 50; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 58. **PR** no charge. **JE** O30, O50. **KW** Service Sectors. Labor Productivity. Unemployment. Skill-Biased Technological Change.

**AB** The growth patterns of service sectors across France, Germany, and the US exhibit striking differences. This can explain most of the well-known differences in aggregate growth rates of labor productivity and employment across these countries. Having confirmed this observation by a shift-share analysis of key indicators of growth, such as employment, labor productivity and capital, the paper analyzes service sector growth in detail. It argues that a careful consideration of the forces of long-run growth may help to better explain differences in employment and productivity growth, in particular if combined with the standard approach, institutional peculiarities of labor markets. In this regard, it first presents new estimates of capital's contribution to labor productivity growth, which take into account skill-biased technological change. Second, it discusses evidence of catch-up growth in European service sectors relative to the US, and how this may affect employment growth in the presence of labor market rigidities.

**PD** March 2002. **TI** The End of Mandatory Retirement in the US: Effects on Retirement and Implicit Contracts. **AA** UC Berkeley. **SR** University of California, Berkeley, The Center for Labor Economics Working Paper: 49; The Center for Labor Economics, University of California, Department of Economics, 549 Evans Hall, #3880, Berkeley, CA 94720-3380. Website: [violet.berkeley.edu/~ir/cle/index.html](http://violet.berkeley.edu/~ir/cle/index.html). **PG** 35. **PR** no charge. **JE** J26, J41. **KW** Mandatory Retirement. Implicit Contracts.

**AB** This paper analyzes the economic effects of the end of mandatory retirement. It takes advantage of the unique variation in institutions affecting retirement behavior to study the change in labor force participation, job attachment and wages of older workers from the 1970s to the 1990s. To mimic the ideal experiment offered by the change in legislation, I impute coverage of mandatory retirement to data from the monthly Current Population Survey and compare labor force trends for workers with high- and low- probabilities of coverage before and after the change. The results indicate that workers covered by mandatory retirement had a very high incidence of retirement at age 65, which declined significantly following the elimination of mandatory retirement. Overall, the results suggest that the labor force of workers 65 and older rose by 10 percent to 20 percent with the end of mandatory retirement. Neither job tenure nor wage-profiles of older workers were affected by the change.

#### Wade, Paul

**TI** Rent Seeking and Endogenous Income Inequality. **AU** Dabla-Norris, Era; Wade, Paul.

#### Wadsworth, Jonathan

**TI** New Labour and the Labour Market. **AU** Dickens,

Richard; Gregg, Paul; Wadsworth, Jonathan.

#### Wallace, Neil

**TI** Optimal Monetary Impulse-Response Functions in a Matching Model. **AU** Katzman, Brett; Kennan, John; Wallace, Neil.

#### Wallis, Kenneth F.

**PD** November 2001. **TI** Chi-Squared Tests of Interval and Density Forecasts, and the Bank of England's Fan Charts. **AA** University of Warwick and Reserve Bank of Australia. **SR** European Central Bank Working Paper: 83; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). **PG** 20. **PR** no charge. **JE** C53, E37. **KW** Forecast Evaluation. Interval Forecasts. Density Forecasts. Likelihood Ratio Tests. Chi-Squared Tests. Exact Inference. Inflation Forecasts.

**AB** This paper reviews recently proposed likelihood ratio tests of goodness-of-fit and independence of interval forecasts. It recasts them in the framework of Pearson chi-squared statistics, and considers their extension to density forecasts and their exact small-sample distributions. The use of the familiar framework of contingency tables will increase the accessibility of these methods. The tests are applied to two series of density forecasts of inflation, namely the US Survey of Professional Forecasters and the Bank of England fan charts. This first evaluation of the fan chart forecasts finds that whereas the current-quarter forecasts are well-calibrated, this is less true of the one-year-ahead forecasts. The fan charts fan out too quickly, and the excessive concern with the upside risks was not justified over the period considered.

#### Wang, Jiang

**TI** Foundations of Technical Analysis: Computational Algorithms, Statistical Inference, and Empirical Implementation. **AU** Lo, Andrew W.; Mamaysky, Harry; Wang, Jiang.

**TI** Trading Volume: Definitions, Data Analysis, and Implications of Portfolio Theory. **AU** Lo, Andrew W.; Wang, Jiang.

#### Weathers, Robert

**TI** Horatio Alger Meets the Mobility Tables. **AU** Holtz-Eakin, Douglas; Rosen, Harvey S.; Weathers, Robert.

#### Weil, Philippe

**TI** Dynamic Efficiency, the Riskless Rate and Debt Ponzi Games Under Uncertainty. **AU** Blanchard, Olivier J.; Weil, Philippe.

#### Welch, Ivo

**TI** On the Evolution of Overconfidence and Entrepreneurs. **AU** Bernardo, Antonio E.; Welch, Ivo.

**TI** An Economic Approach to the Psychology of Change: Amnesia, Inertia, and Impulsiveness. **AU** Hirshleifer, David; Welch, Ivo.

#### West, Sarah E.

**TI** Tax and Subsidy Combinations for the Control of Car Pollution. **AU** Fullerton, Don; West, Sarah E.

**Whalley, John**

**TI** State-Owned Enterprises, Shirking and Trade Liberalization. **AU** Ghosh, Madanmohan; Whalley, John.

**White, Eugene N.**

**PD** December 1999. **TI** Making the French Pay: The Costs and Consequences of the Napoleonic Reparations. **AA** Rutgers University and NBER. **SR** National Bureau of Economic Research Working Paper: 7438; National Bureau of Economic Research, 1050 Massachusetts Avenue, Cambridge, MA 02138. Website: www.nber.org. **PG** 39. **PR** \$5.00. **JE** F34, F41, N13. **KW** Reparations. France.

**AB** Reparations as an instrument of international peace settlements were abandoned after the failure of Germany to pay its post World War I indemnity. However, reparations played a useful role in the construction of earlier peace treaties. This paper examines the payment of reparations by the French after the Napoleonic Wars. By most measures, these reparations were the largest ever fully paid; and they imposed a high cost on the economy in terms of lost output and consumption and diminished capital stock. The incentives to pay were appropriately set and payment permitted France to be accepted once again as an equal among the great powers.

**Wieland, Volker**

**TI** A Small Estimated Euro Area Model With Rational Expectations and Nominal Rigidities. **AU** Coenen, Gunter; Wieland, Volker.

**TI** The Performance of Forecast-Based Monetary Policy Rules Under Model Uncertainty. **AU** Levin, Andrew; Wieland, Volker; Williams, John C.

**TI** Data Uncertainty and the Role of Money as an Information Variable for Monetary Policy. **AU** Coenen, Gunter; Levin, Andrew; Wieland, Volker.

**TI** Inflation Zone Targeting. **AU** Orphanides, Athanasios; Wieland, Volker.

**Williams, John C.**

**TI** The Performance of Forecast-Based Monetary Policy Rules Under Model Uncertainty. **AU** Levin, Andrew; Wieland, Volker; Williams, John C.

**Williamson, Jeffrey G.**

**TI** The Heckscher-Ohlin Model Between 1400 and 2000: When It Explained Factor Price Convergence, When It Did Not, and Why. **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G.

**TI** When Did Globalization Begin? **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G.

**TI** The Heckscher-Ohlin Model Between 1400 and 2000: When it Explained Factor Price Convergence, When it Did Not, and Why. **AU** O'Rourke, Kevin H.; Williamson, Jeffrey G.

**Wilson, David**

**TI** Reexamining the Empirical Evidence for an Environmental Kuznets Curve. **AU** Harbaugh, William; Wilson, David; Levinson, Arik.

**Winkler, Bernhard**

**PD** August 2000. **TI** Which Kind of Transparency? On the Need for Clarity in Monetary Policy-Making.

**AA** European Central Bank. **SR** European Central Bank Working Paper: 26; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: www.ecb.int/pub/. **PG** 34. **PR** no charge. **JE** E42, E52, E58, F58. **KW** Transparency. Monetary Policy Strategy. Communication.

**AB** In most of the existing academic literature the notion of transparency in monetary policy is defined in terms too simple to be of practical relevance. This paper suggests a conceptual framework, which distinguishes different -- and potentially conflicting -- aspects of transparency. When there are frictions in communication or imperfections in the processing of information, greater "openness" (i.e. more information) need not always enhance the "clarity" of central bank communication. In this perspective transparency primarily hinges on a shared mode of interpretation ("common understanding") between the central bank and its audience.

**Winters, L. Alan**

**PD** February 2000. **TI** Trade, Trade Policy and Poverty: What are the Links? **AA** University of Sussex. **SR** CEPR Discussion Paper: 2382; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 68. **PR** 5 pounds, \$8 or 8 euros. **JE** F16, I32. **KW** Poverty. Trade Policy. Trade Liberalization. Developing Countries.

**AB** This paper traces the links from trade shocks to poverty in developing countries. It considers the determinants of household and individual welfare (including potential differences between household members) and then identifies six trade-to-poverty links: the extent to which prices change and the effect of changes on the poor; links via factor markets (especially employment and wages); changes in government revenue and expenditure; changes in risk and vulnerability; effects on economic growth; and adjustment strains. There are no general results, but among the most important issues to check in each case are: whether trade reform destroys markets or creates new ones, how it affects the ability to bear risk, how labor demand shocks divide between wage and employment effects, and the country's comparative advantage.

**Wolfram, Catherine D.**

**TI** Pharmaceutical Prices and Political Activity. **AU** Ellison, Sara Fisher; Wolfram, Catherine D.

**Wollmershaeuser, Timo**

**TI** Options for the Exchange Rate Policies of the EU Accession Countries (and Other Emerging Market Economies). **AU** Bofinger, Peter; Wollmershaeuser, Timo.

**Wolman, Alexander L.**

**TI** Optimal Monetary Policy. **AU** Khan, Aubhik; King, Robert G.; Wolman, Alexander L.

**Wooders, Myrna Holtz**

**TI** Three Theorems on Non-Emptiness of Approximate Cores Part 1. Game Theoretic Results. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz.

**TI** Three Theorems on Non-Emptiness of Approximate Cores Part 2. Economies with Clubs. **AU** Kovalenkov, Alexander; Wooders, Myrna Holtz.

**TI** Epsilon Cores of Games and Economies with Limited

Side Payments. AU Kovalenkov, Alexander; Wooders, Myrna Holtz.

TI An Explicit Bound on Epsilon for Non-Emptiness of the Epsilon-Core of an Arbitrary Game with Side Payments. AU Kovalenkov, Alexander; Wooders, Myrna Holtz.

TI An Explicit Bound on Epsilon for Non-Emptiness of the Epsilon-Core of an Arbitrary Game Without Side Payments. AU Kovalenkov, Alexander; Wooders, Myrna Holtz.

#### Woodford, Michael

TI Indicator Variables for Optimal Policy. AU Svensson, Lars E. O.; Woodford, Michael.

#### Wooton, Ian

TI Trade in International Transport Services: The Role of Competition. AU Francois, Joseph F.; Wooton, Ian.

#### Worms, Andreas

TI Interbank Lending and Monetary Policy Transmission: Evidence for Germany. AU Ehrmann, Michael; Worms, Andreas.

PD December 2001. TI The Reaction of Bank Lending to Monetary Policy Measures in Germany. AA Deutsche Bundesbank. SR European Central Bank Working Paper: 96; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 30. PR no charge. JE C23, E52, G21. KW Dynamic Panel Data. Monetary Policy Transmission. Financial Structure. Credit Channel. Dynamic Panel Data.

AB A crucial condition for the existence of a credit channel through bank loans is that monetary policy should be able to change bank loan supply. This paper contributes to the discussion on this issue by presenting empirical evidence from dynamic panel estimations based on a dataset that comprises individual balance sheet information on all German banks. It shows that the average bank more strongly reduces its lending in reaction to a restrictive monetary policy measure the lower its ratio of short-term interbank deposits to total assets. A dependence on its size can only be found if explicitly controlled for this dominating effect and/or if the very small banks are excluded. Overall, the evidence is compatible with the existence of a credit channel.

#### Wynne, Mark A.

TI An Evaluation of Some Measures of Core Inflation for the Euro Area. AU Vega, Juan-Luis; Wynne, Mark A.

PD May 1999. TI Core Inflation: A Review of Some Conceptual Issues. AA Federal Reserve Bank of Dallas. SR European Central Bank Working Paper: 05; European Central Bank, Eurotower, Kaiserstrasse 29, D-60311 Frankfurt am Main, Germany. Website: [www.ecb.int/pub/](http://www.ecb.int/pub/). PG 26. PR no charge. JE C80, E17, E31. KW Core Inflation. Monetary Policy. Inflation Measurement. SVAR. Edgeworth Index.

AB This paper reviews various approaches to the measurement of core inflation that have been proposed in recent years. The objective is to determine whether the ECB should pay special attention to one or other of these measures in assessing inflation developments in the euro area, putting particular emphasis on the conceptual and practical problems that arise in the measurement of core inflation, and proposing

some criteria that could be used by the ECB to choose a core inflation measure.

#### Yafeh, Yishay

PD January 2000. TI Conflict of Interest in Universal Banking: Bank Lending, Stock Underwriting, and Fund Management. AU Yafeh, Yishay; Yosha, Oved; Ber, Hedva. AA Yafeh: Hebrew University. Yosha: Tel Aviv University. Ber: Bank of Israel. SR CEPR Discussion Paper: 2359; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: [www.cepr.org](http://www.cepr.org). PG 40. PR 5 pounds, \$8 or 8 euros. JE G21, G23, G24, G28, G32, G35. KW Universal Banking. Conflict of Interest. Bank Underwriting. Fund Management. Initial Public Offerings.

AB Using a newly-constructed data set on Israeli Initial Public Offering (IPO) firms in the 1990s, we study costs and benefits of universal banking. We find that a firm whose equity was underwritten by a bank-affiliated underwriter, when the same bank was also a large creditor of the firm in the IPO year, exhibits significantly better than average post-issue accounting performance, but that its stock performance during the first year following the IPO is considerably lower than average. When an investment fund managed by the same bank is heavily involved in the IPO as buyer of the newly-issued equity, the stock performance during the first year following the IPO is even lower. This, together with negative first day returns, is indicative of IPO overpricing. We interpret these findings as evidence that universal banks use their superior information regarding client firms to float the stock of the cherries, not the lemons (as measured by post-issue accounting performance), but that bank managed funds pay too much for bank underwritten IPOs, at the expense of the investors in the funds. These results suggest that there is conflict of interest in the combination of bank lending, underwriting, and fund management.

#### Yang, Zaifu

TI Perfectly Fair Allocations with Indivisibilities. AU Sun, Ning; Yang, Zaifu.

PD June 2001. TI A Practical Competitive Market Model for Indivisible Commodities. AA Yokohama National University. SR Yale Cowles Foundation Discussion Paper: 1317; Yale University, Cowles Foundation Library, P.O. Box 208281, New Haven, CT 06520-8281. Website: [cowles.econ.yale.edu/](http://cowles.econ.yale.edu/). PG 9. PR no charge up to 3 papers; \$3.00 each in U.S.; \$4.00 each International. JE C62, C68, D41, D46, D51. KW Market Equilibrium. Indivisibility. Linear Program.

AB A general and practical competitive market model for trading indivisible goods is introduced. There are a group of buyers and a group of sellers, and several indivisible goods. Each buyer is initially endowed with a sufficient amount of money and each seller is endowed with several units of each indivisible good. Each buyer has reservation values over bundles of indivisible goods above which he will not buy and each seller has reservation values over bundles of his own indivisible goods below which he will not sell. Buyers and sellers' preferences depend on the bundle of indivisible goods and the quantity of money they consume. All preferences are assumed to be quasi-linear in money and money is treated as a perfectly divisible good. It is shown in an extremely simple manner that the market has a Walrasian equilibrium if and only



if an associated linear program problem has an optimal solution with its value equal to the potential market value. In addition, it is shown that the equilibrium prices of the goods and the profits of the agents are the optimal solutions of the linear program problem.

#### **Yildiz, Muhamet**

**TI** Evolution of Perceptions and Play. **AU** Acemoglu, Daron; Yildiz, Muhamet.

**PD** June 2001. **TI** Sequential Bargaining Without a Common Prior on the Recognition Process. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/43; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 36. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C73, C78, D84. **KW** Bargaining. Misperceptions. Optimism. Deadline Effect.

**AB** We analyze a sequential bargaining model, where players are allowed to hold different beliefs about which player will make an offer and when. Excessive optimism about making offers in the future can cause a delay in agreement. Despite this, the main result states that, if players will remain sufficiently optimistic for a sufficiently long future, then in equilibrium they will agree immediately.

**PD** October 2001. **TI** Bargaining Over Risky Assets. **AA** MIT. **SR** Massachusetts Institute of Technology, Department of Economics Working Paper: 01/42; Massachusetts Institute of Technology, Department of Economics, Room E52-251, 50 Memorial Drive, Cambridge, MA 02142. **PG** 22. **PR** \$7.00 U.S., Canada, Mexico; \$10.00 other international. **JE** C78, D89. **KW** Bargaining. Risk-Sharing. Delay.

**AB** We analyze the subgame-perfect equilibria of a game where two agents bargain in order to share the risk in their assets that will pay dividends once at some fixed date. The uncertainty about the size of the dividends is resolved gradually by the payment date and each agent has his own view about how the uncertainty will be resolved. As agents become less uncertain about the dividends, some contracts become unacceptable to some parties to such an extent that at the payment date no trade is possible. The set of contracts is assumed to be rich enough to generate all the Pareto-optimal allocations. We show that there exists a unique equilibrium allocation, and it is Pareto-optimal. Immediate agreement is always an equilibrium outcome; under certain conditions, we further show that in equilibrium there cannot be a delay. Finally, we characterize the conditions under which every Pareto-optimal and individually rational allocation is obtainable via some bargaining procedure as the unique equilibrium outcome.

#### **Yosha, Oved**

**TI** Conflict of Interest in Universal Banking: Bank Lending, Stock Underwriting, and Fund Management. **AU** Yafeh, Yishay; Yosha, Oved; Ber, Hedva.

#### **Young, Leslie**

**TI** Trade Implies Law: The Power of the Weak. **AU** Anderson, James E.; Young, Leslie.

#### **Zalewska, Anna**

**TI** Circularity and the Undervaluation of Privatised Companies. **AU** Grout, Paul A.; Zalewska, Anna.

#### **Zanforlin, Luisa**

**TI** Are African Current Account Deficits Different? Stylized Facts, Transitory Shocks, and Decomposition Analysis. **AU** Calderon, Cesar; Chong, Alberto; Zanforlin, Luisa.

#### **Zarazaga, Carlos E. J. M.**

**TI** Banking and Finance in Argentina in the Period 1900-35. **AU** Nakamura, Leonard I.; Zarazaga, Carlos E. J. M.

#### **Zenou, Yves**

**TI** Racial Beliefs, Location and the Causes of Crime. **AU** Verdier, Thierry; Zenou, Yves.

#### **Zettelmeyer, Florian**

**TI** The Strategic Positioning of Store Brands in Retailer -- Manufacturer Bargaining. **AU** Morton, Fiona Scott; Zettelmeyer, Florian.

#### **Zettelmeyer, Jeromin**

**TI** Monetary Independence in Emerging Markets: Does the Exchange Rate Regime Make a Difference? **AU** Borensztein, Eduardo; Zettelmeyer, Jeromin; Philippon, Thomas.

#### **Zingales, Luigi**

**TI** The Role of Social Capital in Financial Development. **AU** Guiso, Luigi; Zingales, Luigi; Sapienza, Paola.

**PD** May 2000. **TI** In Search of New Foundations. **AA** University of Chicago and NBER. **SR** National Bureau of Economic Research Working Paper: 7706; National Bureau of Economic Research, 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 the U.S.). **JE** G32, G34. **KW** Corporate Finance. Firm Theory.

**AB** In this paper I argue that corporate finance theory, empirical research, practical applications, and policy recommendations are deeply rooted in an underlying theory of the firm. I also argue that while the existing theories have delivered very important and useful insights, they seem to be quite ineffective in helping us cope with the new type of firms that are emerging. I outline the characteristics that a new theory of the firm should satisfy and how such a theory could change the way we do corporate finance, both theoretically and empirically.

#### **Zinman, Jonathan**

**TI** Youth Smoking in the U.S.: Evidence and Implications. **AU** Gruber, Jonathan; Zinman, Jonathan.

#### **Zoega, Gylfi**

**PD** January 2000. **TI** Three Symptoms and a Cure: A Contribution to the Economics of the Dutch Disease. **AU** Zoega, Gylfi; Herbertsson, Tryggvi Thor; Skuladottir, Marta. **AA** Zoega: Birkbeck College. Herbertsson and Skuladottir: University of Iceland. **SR** CEPR Discussion Paper: 2364; Centre for Economic Policy Research, Discussion Paper Orders, 90-98 Goswell Road, London EC1V 7RR, United Kingdom. Website: www.cepr.org. **PG** 36. **PR** 5 pounds,

\$8 or 8 euros. **JE** F41, O23, Q33. **KW** Dutch Disease. Exchange-Rate Volatility.

**AB** This paper presents a dynamic model that gives an account of some of the forms that the Dutch Disease can take through both product and labor markets. These involve an effect of primary sector output -- through real wages and the level and volatility of real-exchange rates -- on secondary sector employment, output, and investment. We then look at data from Iceland -- which is probably the only OECD country that may have a serious problem of this sort -- and look for evidence supporting our hypotheses. We find a clear effect of primary sector output and its volatility on real wages but not on the real exchange rate, defined as a ratio of the prices of traded and non-traded goods. Moreover, real wages are shown to impede output, investment and employment in the secondary sector.

**TI** Iceland's Natural Experiment in Supply-Side Economics.  
**AU** Bianchi, Marco; Zoega, Gylfi; Gudmundsson, Bjorn R.

**Zweimuller, Josef**

**TI** The Impact of Active Labor Market Policies and Benefit Entitlement Rules on the Duration of Unemployment.  
**AU** van Ours, Jan C.; Zweimuller, Josef; Lalive, Rafael.